

The School Board of Broward County, Florida
AUDIT COMMITTEE

MINUTES OF AUDIT COMMITTEE MEETING

May 11, 2017

Ms. Mary Fertig, Chair, called the Audit Committee meeting to order at 12:30 p.m. at the Kathleen C. Wright Building in the 1st Floor Board Room. Members and guests were introduced.

Members Present:

Mr. Moses Barnes
Mr. Brendan Aloysius Barry, Esq.
Ms. Mary Fertig
Mr. Kirk Frohme
Ms. Susan Grant
Mr. John Herbst
Dr. Henry Mack (attended by phone)
Mr. Robert Mayersohn
Mr. Andrew Medvin
Mr. Daniel Traeger
Dr. Nathalie Lynch-Walsh

Staff Present:

Mr. Jeff Moquin, Chief of Staff
Dr. Valerie Wanza, Chief School Performance and Accountability Officer
Mr. Leo Bobadilla, Chief Facilities Officer
Mr. Sam Bays, PPO
Ms. Mary Coker, Procurement & Warehousing Services
Ms. Danielle Mamede, Procurement & Warehousing Services
Mr. Ron Eggenberger, PPO, Custodial Grounds
Mr. Patrick Reilly, Chief Auditor, Office of the Chief Auditor (OCA)
Ms. Ali Arcese, Manager, Property & Inventory Control, OCA
Ms. Ann Conway, Manager, Internal Fund Audits
Mr. Gerardo Usallan, Manager, Operational Audits
Ms. Patricia McLaughlin, Confidential Clerk Specialist C, OCA
Ms. Megan Gonzalez, Confidential Clerk Specialist B, OCA

Agenda

A motion was made to adopt the agenda. Motion carried.

Minutes

A motion was made to approve the minutes from the March 23, 2017 Audit Committee meeting. Motion carried.

Internal Audit Report – Audit of the Internal Funds of Selected Schools

Mr. Patrick Reilly stated “This report contains eighteen Internal Audit Fund reports. Seventeen schools complied with prescribed policies and procedures. One school had audit exceptions related to negative account balances totaling over \$73,000 (45,267 in the Athletics Account and \$28,530 in the Pro-Start account). There was only \$13,903 in the General Fund; therefore, the General Fund could not be used to cover these deficits. To date, the Athletic Account deficit has been reduced by \$7,225. The Pro-Start deficit has been reduced by \$4,248. Another exception was a transfer of \$3,657 from the Student Government Account to the Staff Appreciation Account, in order to keep the Staff Appreciation Account from closing with a negative balance. The Staff Appreciation Account already received 23% of the school’s vending machine commissions, amounting to \$7,685 for 2015 and \$3,606 in 2016. Staff appreciation account disbursements were mainly for food, parties and personal items for the school’s employees. The Student Government account should be reimbursed for the \$3,657.

Mr. Andrew Medvin asked “If you don’t have funds in the account, how can you operate?”

Mr. Reilly stated “Basically, it’s borrowing from other accounts. Our basic policies and procedures prohibit spending funds that you don’t have.”

Mr. Medvin stated “It seems there’s not much control.”

Ms. Susan Grant stated “I saw they were putting a plan together to repay. How long will that take? That’s a lot of money to fundraise, when they are fundraising for the current activities, as well.”

Mr. Reilly stated “A couple of years ago, we had this situation with two other schools. It usually takes longer than a year to recover. Fundraising is the only real way to do it. With the one account, they are providing food. They need to make sure that their customers are paying ahead of time and not financing the activities.”

Mr. Kirk Frohme stated “The other disturbing part is when you look at the compared balances on page 53, there were also negative balances in 2015. They’ve been out of control for a long period of time.”

Dr. Valerie Wanza stated “We certainly are very concerned about this. As I’ve demonstrated with past audits that have given us concern, we are looking into following the appropriate HR processes and depending on what we find, we will take the appropriate action at that time. The significant loss of revenue from vending machines has really hit some of the schools quite hard; specifically,

when you have schools with successful programs where they make it to national competitions. How do you tell the students they can't go? Also, there are schools that do not have the ability to fundraise as other schools do. If you're a school without a football stadium, you don't have the ability to generate revenue like some high schools. This audit gives us the opportunity to look at two things; obviously, this situation individually, and also organizationally to ensure that we don't fine schools who are trying to do all they can and what's right for kids, but at the same time, making sure that they are following District policies and protocol. How do we ensure that schools continue to support students as they are successful in many of the academic and extra-curricular activities, clubs and competitions?"

Mr. Frohme stated "I think it would be appropriate if we could have a follow up at the next meeting in terms of what strides have been taken to correct these deficiencies."

Mr. Medvin asked "Was there any indication of malfeasance by employees?"

Mr. Reilly stated "I think they were trying to continue what they normally would do under the athletic program of the school, but they didn't have the funds. You have to have the funds before making the expenditures."

Mr. Traeger stated "As a former Principal in the District, when you lose almost \$100,000 from your discretionary money for the healthy food initiative, and schools are expected to maintain the same level of excellence, whether it be robotics, track meets, baseball teams that have to go to a State tournament, and you're paying a lot of money, it's difficult when you lose that discretionary money. I'm not making an excuse, but we have to look at the severity of losing between \$700,000 to \$800,000 in the last few years of discretionary funds. It is difficult to maintain the level to support children in programs and not have the funding. For example, Taravella is playing Coral Springs in football and the rains come and you've gone from a potential crowd of 4,000 to 200 people. That's a huge hit in your athletic budget."

Ms. Fertig stated "This is one of the values of the Audit Committee when you discover that the source of funding may not be there and has created a problem, it raises an important issue. In this case, whether athletics or other extra-curricular activities, those are activities that are critical to the education of the students. I think the District had the funding through these sources to keep those programs going. I'm pleased to see that Dr. Wanza is pro-active to find other sources of funding, so we don't cut other critical programs. Once again, Pat, you have raised an issue that needs to be discussed and that's a great thing."

Mr. Robert Mayersohn stated "On page 54, there was a similar concern regarding a deficit balance in the Pro-Start account in 2014, which was discussed with the Principal. What was the outcome of that?"

Mr. Reilly replied "You cannot continue to provide the service and not collect on it. It was a food service program and should be paid in advance."

Mr. Mayersohn stated "We all know we're short of funds. How do we go about being fiscally responsible yet at the same time, going to the State or other funding sources and saying 'we need money because some of these other sources have dried up'."

Mr. Jeff Moquin stated “Prior to today’s Audit Committee meeting, I had a preliminary conversation with the Superintendent. This particular school was severely impacted with the loss of concession revenues from the vending machines and I know that in aggregation of the high schools, it’s approaching seven figures a year. We acknowledge the fact that with the loss of that revenue stream, we will have to make some difficult decisions in how we provide that level of support to schools, in order to maintain a level of programming of extra-curricular events. That is not to dismiss this behavior. I credit Dr. Wanza with her consistency in dealing with these issues on an individual basis, and she’s already begun that process with this particular school and individual. We know the situation going into next year with the current budget that was passed by the legislature. I think we will have to have some difficult conversations as an organization.”

Mr. Mayersohn stated “The deficit should not impact the current students. We don’t want to put the burden of this deficit on the backs of the current students to raise funds for double the amount to cover the previous deficit. I’m wondering if there’s a way to transfer the funds from somewhere and then repay it.”

Dr. Wanza stated “We are exploring those options.”

Mr. Moses Barnes stated that the school should reimburse the Student Government Account for the \$3,657 that was transferred to the Staff Appreciation Account to prevent closing the account with a negative balance.

Mr. Reilly stated “I would agree that should be repaid.”

Dr. Nathalie Lynch-Walsh stated “This audit does not pertain to the new Principal. It would have been interesting to get a response from the prior Principal, Shawn Cerra, since all of this happened on his watch. Now, he’s in charge of the entire Athletic Department for the District. On page 53, is that cumulative? They added an additional \$23,000 from 2014-15?”

Mr. Reilly stated “Yes.”

Dr. Lynch-Walsh stated “So, it’s the \$23,000 deficit, which they failed to correct, and then compounded that by almost doubling it. On page 56, you can see that they have receipts of \$76,000, so at what point was the Athletic Director going to learn that you can’t spend more than you receive? I can see one year going over your budget, but wouldn’t you figure out how not to repeat that? Also, on page 56, as for the notion that the schools are not taking in money, the Athletic Department may not be, but if you look at the beginning balance in 2014-15 for the clubs, they raised over a half million dollars. They are certainly not suffering from a deficit, which makes the Pro-Start deficit even more interesting. Have you audited the club activity to see which ones used Pro-Start as a caterer? Chances are the monies needed to reimburse Pro-Start would be sitting in those club accounts, unless none of them did, which would then be more mysterious. Who would Pro-Start be doing catering for, if not the clubs?”

Mr. Reilly stated “I think most of the Pro-Start transactions were for outside groups. I don’t know exactly who all their customers were.”

Dr. Lynch-Walsh stated “So, that’s being examined. This isn’t a matter of fundraising to reimburse Pro-Start. It sounds like you need to become a collection agency. If they fed people, they should be paid. I understand moving forward they will be getting written agreements, but surely they had something in writing that they could use to collect. As far as Athletics, how are they able to spend? If they have a \$45,000 deficit, how are they able to buy things without money?”

Mr. Reilly stated “They are technically using money from other accounts.”

Dr. Lynch-Walsh stated “So, that means that on page 56, some of these disbursements are not the disbursements of these particular line items, but money being funneled to Athletics to continue the bleeding?”

Mr. Reilly stated “They were just accumulating a negative balance. A couple of years ago, we had a similar situation, where the school was moving money from one account into Athletics and then spending it, causing improper loans. In this case, they were not taking money from another account; they were just overdrawing the Athletic account.”

Dr. Lynch-Walsh stated “So, there’s a \$45,000 float, so if everyone said ‘pay up’ on the same day, they would really be in trouble.”

Mr. Reilly stated “Absolutely.”

Dr. Lynch-Walsh stated “I do appreciate, Dr. Wanza, that you are here at every meeting and that you always provide letters, so that it’s clear that you’re very ‘hands on’ in trying to address these issues.”

Mr. Brendan Barry stated “I agree, Dr. Wanza. At what point, does this become criminal or something other than just an audit finding?”

Mr. Reilly stated “The expenditures were related to the school; it wasn’t someone personally using the funds. It goes against all policies. You can’t expend funds if you don’t have the funds. You’re spending other people’s money.”

Mr. Barry stated “This is a good report. Thanks for your work. At what level would you start to dig deeper? There are eighteen schools here and seventeen with no irregularities. When a report like this comes up, it’s really troubling. There seems to be missing information. There are overages. Maybe there should be an audit on what they’ve been spending money on. Even the teacher appreciation, there have been some parties and personal expenses.”

Mr. Reilly stated “The auditors analyze the financials and look for changes from one year to another. When you see a deficit balance, you have to investigate the charges.”

Mr. Barry asked “When payments are disbursed, who actually does that? Does the Principal authorize the Bookkeeper to make payments?”

Mr. Reilly stated “Yes, there is a process. The individual submits a purchase request, then it is approved, and then processed by the Bookkeeper. There should be a funds verification and should be questioned if funds are not available. For example, if the Bookkeeper stated she had an invoice

for \$500 but there were no funds available in the account, the Principal could say ‘let’s pay this anyway’.”

Mr. Barry stated “So, it’s basically those two people?”

Mr. Reilly said “Yes. Sometimes, they have access to the General Fund where the Principal could transfer money, but the General Fund did not have the funds.”

Mr. Barry stated “So, the Principal during the audit is no longer the Principal at this school. Is it the same Bookkeeper?”

Ms. Ann Conway stated “There are two signers on the purchase request. The Athletic Director and the Principal. The Bookkeeper simply processes the check requests. The Athletic Director is the initiator for all athletic expenditures.”

Mr. Barry stated “The Principal during the audit period is still with the District? What is his name?”

Dr. Wanza stated “Shawn Cerra.”

Mr. Barry added “Is there any action being taken resulting from this audit relating to that Principal?”

Dr. Wanza stated “I have been working with HR to implement the appropriate District protocols and processes to address these actions with this individual.”

Mr. Barry asked “Is there any investigation being conducted with the Bookkeeper?”

Dr. Wanza stated “Not at this time.”

Mr. Barry asked “What is the Bookkeeper’s name?”

Dr. Wanza replied “Denise Daley.”

Mr. Barry stated “I would like a follow up report and I would like the monies reimbursed into the accounts they were taken from.”

Ms. Grant stated “Do we require that the Principal review the General Accounts monthly?”

Mr. Reilly stated “There is a monthly financial report that the Principal is given for review.”

Ms. Fertig stated “This is the only high school in this report with an exception. Years ago, we started to see this happening where money was being taken from Student Government for staff functions and it started at one high school. Then it became apparent that it was happening District-wide. The reason it started was a similar issue about funding changes in the way the District was allocating funding. As an Audit Committee, we said Student Government should not be pressured to give money for faculty issues. We’ve seen some real changes in our audit reports concerning this. I’d like to differentiate what happened with food from what’s happening with athletics. I’m wondering if we are going to see other high schools coming forward with this issue. If you’re a Principal and your funding sources dry up, you may find yourself in a difficult position. Certainly,

the money should go back to the accounts. Students should not be paying for faculty events. I'm glad Mr. Reilly's audits bring these items forward, so management can address these issues."

Mr. Frohme asked "Is the Pro-Start a fund or an account?"

Mr. Reilly replied "It's an account that is part of the club funds."

Dr. Lynch-Walsh stated "When a Principal is being considered for a promotion or leadership position, does the District look to see if they have any outstanding items that have not been addressed? The problem was never addressed, but he was given a promotion to a leadership position. Is there a way to factor in when it pertains to a Principal's performance in these audits? I would have to think that these audits go unnoticed, unaddressed with no consequences. If a Principal does not correct their actions subsequently, it doesn't seem right that they get promoted to a leadership position, and in this case, left this steaming pile of mess for the new Principal. It's the new Principal that everyone is going to associate with this, because the prior Principal is gone."

Dr. Wanza stated "I think I've shown through the actions over the past year that we do take these things seriously and they are reflected in the annual performance appraisals and other measures that are deemed appropriate through our HR processes. I cannot speak to the process used in the hiring process when Mr. Cerra transitioned to his new role, because I was not involved in that process."

Mr. Mayersohn stated "When a new Principal takes over, is there a process to make the Principal aware of any prior deficiencies or things that need to be corrected?"

Dr. Wanza stated "There is a transition process. The Cadre Director will speak of operational issues that need to be addressed. That's one of the things you will notice, even prior to this, the school did start working to reduce the deficit. Some things are definitely discussed. With regard to Athletics, the District funds so much for transportation, and depending on how large your football team, band, cheerleaders, etc. are, that cost may differ at each school."

A motion was made to transmit with a caveat that the Student Government monies be reimbursed that were transferred to the Staff Appreciation Account for faculty events. Motion carried.

Internal Audit Report – Property and Inventory Audit of Selected Locations – 2016-2017

Mr. Reilly stated "This report contains seventeen property and inventory audits. A total of thirteen locations complied with prescribed policies and procedures. There were four locations in the report that contained some audit exceptions consisting of unaccounted for property and failure to follow some prescribed procedures. The findings were due to non-compliance with Business Practice Bulletin O-100. For the seventeen locations, 13,472 items were listed in the property records at a historical cost of \$12,820,878. For the seventeen locations included in this report, 64 items could not be accounted for with a historical cost of \$104,342. For the four schools with exceptions, specifically surplus equipment procedures were not followed to ensure that the items were properly surplus and removed from the Master File Database. We are emphasizing the importance of performing the semi-annual self inventories to ensure that the District's property records are accurately maintained and up to date."

Ms. Grant asked “With the schools that had exceptions, have you considered sending reminders to locations to perform the semi-annual physical inventories?”

Dr. Wanza stated “We are setting up a database where we will be able to physically see that the locations have performed their semi-annual inventories.”

Mr. Frohme asked if the schools with exceptions had prior audit exceptions.

Mr. Reilly stated “That would be listed on the cover page of each audit report. These did not have prior audit exceptions.”

Dr. Lynch-Walsh asked “Regarding Manatee Bay on pages 18-20, the Microtech was surplussing 600 items, but didn’t fill out the proper form that would have prevented this entire audit exception. Is it realistic to think that one person could accurately account for 600 items and not assign a second person to check their work. On page 20, this poor guy was compelled to write a letter explaining how the mistake happened and said he was the person solely responsible for this unfortunate inventory error, which I disagree with. If no one checked his work, then there are others who are responsible, mainly the Assistant Principal or the Principal. It seems unrealistic to expect someone not to make a mistake. He was trying to get rid of these computers prior to the SMART delivery. That’s precisely when mistakes happen when you are in a rush. I did not appreciate the Principal throwing the guy under the bus and not taking any responsibility for this error, and saying he was overwhelmed and neglected to prepare the 3290 form for one box of non-working computers. There was an easy way to avoid that mistake from happening, Ms. DeV Vaughn, by having someone check the Microtech’s work.”

Dr. Wanza stated “In my response, the very first bullet talks about a team. The Cadre Director has already been to the school to explain what a team needs to look like.”

Mr. Jeff Moquin stated “Based on conversations about inventory at the last Board meeting, I know Dr. Wanza is formulating a group to review the surplussing process, in light of the SMART program’s ability to provide additional devices at our schools. We’ve started to see these large scale surpluses of the older, more obsolete technology. We will be looking at the entire surplus process to identify how we can make it more effective and efficient for the Principals. One of the recommendations was trying to create a check and balance with the vendor who picks up the equipment to ensure all paperwork is completed.”

Dr. Lynch-Walsh stated “The other audit was about ESE equipment missing. I’m confused as to how that could be missing and how they thought they could file a police report for something that they lost. I’ll leave that one alone unless the equipment has been found.”

Ms. Ali Arcese stated “I confirmed today that it has not.”

Mr. Reilly stated “I do feel that there are enough checks and balances. Let’s say that you had 500 computers to surplus, and you had three more for which you did not do a 3290. There’s a whole trail of steps that will bring that to your attention, if you think you got rid of 503 items and only 500 were removed from your inventory. The person who removes the item from the school’s inventory is not the school; it’s Accounting and Financial Reporting. The school needs to be able

to see, by multiple methods, that they no longer have an item that is listed on their inventory. They can take corrective action. When an auditor sees an item listed on the school's inventory, they expect to see that item. That's the key. There are several opportunities for schools to check the accuracy of their inventory. The school does not call for the outside vendor to schedule a pickup until the school is ready, so there is no need to rush through the process. We added additional controls, so we have another group looking at stuff, but I don't want to rely on an outside group. Their concern is for the reimbursement they get for computers; they have no interest or knowledge to know which computer goes with which serial number. I think if we follow the system that we have, which most locations do, I think that's all the training that needs to be done."

Mr. Moquin stated "My comments were not intended to suggest that the process is the reason why these exceptions exist. We know that the current process can be done, as evidenced by all the schools who don't have this issue. I didn't say that we were definitively going to be having a vendor do the checks and balances. I said that was one recommendation that was being brought forward or raised and that the intent of my comment was to say that we're looking at the process to see if it can be enhanced."

Dr. Lynch-Walsh asked "Was that the Board meeting where Board members questioned whether Pat Reilly understood auditing, where Board members were questioning what audits were, or was that a different Board meeting? They were taking the reins and thinking they were going to reinvent auditing. I'm satisfied that Dr. Wanza is, again, on top of the situation."

Mr. Mayersohn asked "Dr. Wanza is responsible for the schools. Who is responsible for the departments?"

Mr. Reilly stated "Their direct supervisors."

Mr. Mayersohn stated "I noted there were no exceptions for the departments. Kudos to whoever is responsible."

A motion was made to transmit. Motion carried.

Internal Audit Report – Audit of Asphalt Paving and Athletic Track Maintenance, Resurfacing and Striping Contracts for the Period from October 1, 2010 through February 9, 2017

Mr. Reilly stated "In accordance with the 2016-2017 Audit Plan, the Office of the Chief Auditor (OCA) performed an audit of Asphalt Paving and Athletic Track Maintenance, Resurfacing and Striping Contracts for the Period from October 1, 2010 through February 9, 2017 for compliance with contract terms and conditions. We reviewed 20 athletic track replacement projects. The primary objectives of this audit were to determine whether the Physical Plant Operations Department and contractors complied with contract terms and conditions and to identify opportunities for greater efficiencies and improvement to the process. The report contains four findings and recommendations relating to the contracts we reviewed. The first two findings were due to the PPO Department not ensuring that the required building permits were obtained and the mandatory inspections were performed by the District's Building Department in order to ensure that the construction of the athletic tracks met all applicable building codes and contract

specifications. For Finding No. 3, we identified 47 invoices that contained excessive hourly labor rates and materials mark-up percentages. In comparison with other Districts, these labor rates and mark-up percentages were excessive. For example, the mark-up for materials for other District contracts was 10%, while our District paid up to 150% mark-up. Hourly rates were between \$15 and \$45 for other Districts for laborers. Hourly rates for our District ranged from \$150 - \$300 for laborers. For Finding No. 4, Contract Administrators did not comply with School Board Policy 7003.1 and State Requirements for Educational Facilities (SREF) regarding enforcement of contractor's per project and aggregate limits. The Board approves the pre-qualification of contractors, based on Qualification Selection Evaluation Committee (QSEC)'s recommendations, which establishes the dollar value of work that the contractors are permitted to have under contract at any one time. The maximum value should not exceed the contractor's bonding capacity. The District requires pre-qualification in order to determine the contractor's competence, past experience, past performance, financial resources and capability, as well as the contractor's bonding capacity, history of projects completed within the past five years, list of pending litigation and insurance requirements, etc. Issuing work to a contractor that exceeds their approved per project and/or aggregate dollar limits places the District at risk that the contractor may not have the financial resources to complete projects in a timely manner and respond to damages in case of default."

Mr. Medvin stated "I would like a brief synopsis on the procedures pertaining to this audit."

Mr. Reilly stated "The District has a Chief Building Official. There is work that can be performed under an annual permit for PPO. When we have an outside contractor performing work, they are required to obtain a permit through our Building Department. I believe management is making some changes on what needs to be inspected. We have documents showing that the Building Official believes if work is being performed by an outside contractor, a permit needs to be obtained. There will be changes, as management stated in their response."

Mr. Sam Bays stated "I asked my colleague, Ron Eggenberger, to distribute the 2017 PPO Annual Facility Permit description. You can see the changes underlined. This is a working document that precedes a business protocol that will be coming out in the Building Department that gives details, but the essence of this describes work that PPO or an outside contractor can do under this annual permit. What's in the audit report is most acutely addressed on the final page in yellow on your copy. Remember, the items listed here do not require a specific permit. This is covered under the District's annual permit. The District gives me essentially a license to do certain low risk activities that are largely maintenance in nature in order to take care of this enormous District with only the small number of Building Inspectors that they have. Under that license, that annual permit, the bullet points that are highlighted should be small limited asphalt paving repairs and replacement totaling less than 2,000 square feet per paved area, surfacing poured in place and asphalt seal coating. Those items are of such low impact and low risk that the Building Department allows them to be done by the contractor under our supervision as a sub-contractor. Lastly, on paragraph 3 on page 128, the underlined section on the annual facility permit will be completed by PPO staff or by vendors or contractors acting under the direction of qualified PPO staff. That's where those folks doing sealcoating, for example, would be under our jurisdiction."

Mr. Medvin asked “Do you have the ability to hire these outside contractors to do this type of work?”

Mr. Bays stated “We work through our partners in procurement through the bidding process to get those vendors and then those vendors work for us under the terms and conditions of those bids.”

Mr. Medvin asked “Are there similar requirements for smaller jobs for other types of small construction?”

Mr. Bays replied “There are and they are described herein. This is actually an exclusive list, meaning if it’s not here, I’m probably not permitted to do so.”

Mr. Frohme stated “I’m confused by Exhibit O, in terms of these various rates. You mentioned rates that sounded unreasonable to me, the \$250 and \$150 per hour. On pages 82 and 83, what are these different rates? We have \$30 per hour for supervisors on page 82, and then \$250. I don’t understand these different rate structures. Are we paying the lower rates on page 82, and the rates on page 83 are just in the contract?”

Mr. Reilly stated “In Exhibit O, we included all vendors that submitted pricing for this contract to show their prices, but those are not necessarily the vendors who won the bid. The vendors who won the bid under this special additional required information; they’re not using a line item that makes up most of the work in the contract. These are the supervisor rates, the installer rates, the labor rates that they are submitting. At the bottom of the page, you can see what their mark-up will be on the materials. You have them all. If you go to page 83, you can see that this vendor had significantly higher rates under this additional required information section, that were used periodically under these contracts. In this set, we’re talking specifically about Contract 11-007R. These are all the proposers. These prices were significantly higher at \$300 for supervisor, \$200 for installer, etc. The following contract went up a little higher. It was very expensive to use this part of the contract.”

Dr. Mack stated “I’ve never seen a contract where the supervisors make the same hourly rate as the laborers. It doesn’t make sense.”

Mr. Reilly stated “The exhibits are supplementary. In the audit report on pages 3 and 12, it explains the four contracts that we reviewed. We are pointing out that those rates did not seem reasonable for this portion of the contract. I think management agreed.”

Mr. Frohme asked “These amounts were actually paid?”

Mr. Reilly stated “Yes.”

Mr. Frohme asked “Is that because Pence won the bid, even though their rates were far in excess of all other bidders?”

Mr. Reilly stated “Yes. For example, page 99 shows an invoice that we paid. The material mark-up is part of that additional section where they are allowed, under this contract, to add 125% mark-up. We are trying to show here that when they did work that was not already included in the line

items of the contract, it fell under this additional area, where they have prices of \$300 per hour for laborers and mark-ups of 125% in one contract and 150% in another contract.”

Mr. Frohme stated “And everyone else has mark-ups of 10-15%.”

Dr. Lynch-Walsh asked “Can we go finding by finding? This report is rich with shocking details. The idea that other bidders submitted lower bids, but were not the chosen bidders . . .”

Mr. Reilly stated “One of our recommendations was that you’re competitively bidding all line items. We think if you have an additional labor and materials section, that should become part of the basket to be included in the competitive bid evaluation and selection process. That piece is not in the bid evaluation section for award for these contracts.”

Dr. Lynch-Walsh asked “On Finding No. 1, Mr. Hamberger stated ‘when maintenance work is being performed, we understand that would be recorded under an annual permit. If the scope work represents new work or an addition to the existing condition, a standard permit is required. If PPO employs a sub-contractor, I’m pretty sure Pence would fit that bill ‘to perform work again, that sub-contractor has to pull a permit.’ The first exhibit referenced is on page 16 and that’s where this letter from Bob Hamberger is coming from. Also, some of these track resurfacing projects fall under the bond, so this actually should go to the Bond Oversight Committee, and they will ask why we are paying so much more per hour for labor and mark-up. I checked the 2014-15 DEFP and all schools on page 6 fall under the GOB. The budgeted amounts are also listed. The budget for the high schools was \$300,000. Are we within budget? Can we afford to pay that much more? The rates for Palm Beach and another county are in line with the bids that were submitted by the firms that were not selected. We awarded contracts for all these schools. Each finding is more shocking than the one before. All these schools have years when this work was supposed to be performed. The work should be getting performed, so who’s minding the store? This is like a Pandora’s box of problems that stretches far beyond PPO. Coincidentally, they all seem to fall under Mr. Bobadilla. On Finding No. 1, management is responding that they will comply with all Building Department requirements in the future.”

Dr. Mack stated “Anything from Bob Hamberger is suspect and I don’t believe it.”

Mr. Reilly stated “We have four supporting documents that state when you are using an outside contractor, they need to obtain a separate permit. I think that’s a good control.”

Dr. Lynch-Walsh stated “Permits were required but not pulled. This is not the first time this has been a problem.”

Mr. Bays stated “The reason I furnished the Annual Facility Permit was that is a work product from the Building Department subsequent to this audit. It was created with the express purpose of clarifying, not correcting, the Building Department’s position relative to work that is not required to be inspected by the Florida Building Code. I have followed this up with Mr. Hamberger. His position is very clear on the last page, which is surfacing poured in place, whether in playgrounds, playcourts or grounds, are not items requiring a specific permit. They are under the annual permit. Management’s position is that the work under 11-023R did not require a site-specific permit.”

Dr. Lynch-Walsh stated “You’re saying since this audit, the letter that has Mr. Hamberger’s signature, on page 16, states that everything was done correctly because no permits were required for these tracks.”

Mr. Bays stated “Mr. Hamberger told me that he had a conversation with Mr. Reilly, Mr. Usallan, and he explained to them that the Annual Facilities Permit clarified the Building Department’s position relevant to resilient surfaces.”

Ms. Grant asked “If something is covered under the Annual Facilities Permit, is it still required to have an inspection?”

Mr. Bays replied “This is a great question. The Building Department makes those determinations based on its review of all the work we are doing in PPO. PPO keeps the Building Department apprised of all its activities and work orders. The Building Department selects from that list the items that they will inspect.”

Ms. Grant stated “I’m looking at Hollywood Hills High and it says ‘no permit issued’, but then it goes on to say ‘or inspections performed’. A track replacement, would that require an inspection or not?”

Mr. Bays stated “A complete track replacement would be in two elements under the old bills. There would be an asphalt replacement, where you would resurface the asphalt and then lay the resilient surface over that. That would be two different bids, both bids are in this audit, two different contractors and one process, the resilient process would not require an inspection or a specific permit, but paving would.”

Ms. Grant asked “In the case of Hollywood Hills where it says ‘no inspections performed’ I’m assuming that meant there was no inspection of the under surface.”

Mr. Bays stated “We do have on Finding No. 2 issues where we did not have specific permits in place for work that required them.”

Ms. Grant asked “In this case, the inspection was not performed when it should have been.”

Mr. Bays stated “That would apply to the paving. Yes.”

Mr. Reilly stated “When we spoke to Mr. Hamberger, there are changes being made. At one time, as my auditor pointed out, for inspections, asphalt replacement and repairs greater than 20 square feet needed inspections. Mr. Hamberger is revising that on page 41. On page 131, they are going to increase that to 2,000 square feet. When we first looked at it, we looked at a random sampling of 52 projects that were over 200 square feet. Our scope mainly was to look at the tracks. A track is over 5,000 square yards. That’s a big project being performed by an outside contractor and a permit should be obtained. I think it’s important to have the contractor’s name on the permit and the Building Department should be aware of that permit where inspections will be scheduled. There’s a letter in the report that states the Building Department was not aware of projects that needed inspections.”

Mr. Frohme stated “The email to Gerry on page 16 seems to indicate that Mr. Hamberger recognizes that inspections are appropriate. Then he says in the last sentence of the second paragraph that the standard permits for the other two facilities are just inexplicable. What does that mean?”

Mr. Reilly stated “I think we have the two permits that were from 2006 and 2009 that didn’t pertain to the current project that we were referring to. On pages 25 and 26, we identified in our report that those were not for the work issued in 2016 that we noted in our report.”

Mr. Frohme stated “It seems to me that the inspections are a quality control and also a financial oversight. I’m assuming that there’s retainage over these contracts and before paying the retainage, I would think there would be a final inspection.”

Mr. Reilly stated “You want to make sure it’s inspected by another group, the Building Inspector, for another check and balance.”

Mr. Frohme stated “You would expect an inspection done with the vendor representative who is going to sign for any deficiencies, flaws, weaknesses that you see on the product, and acknowledge, per the contract, that he will be responsible for fixing these flaws and not process a change order, for example.”

Dr. Lynch-Walsh stated “For Finding No. 3, on page 12, the paragraph above the Criteria states the auditors obtained asphalt paving contracts from the School Districts of Palm Beach and Orange counties. In comparison to Broward, they saw hourly labor rates of \$15-45 and the maximum materials mark-up allowed was 10%. That’s in Exhibit U on page 120. Orange County showed a maximum 10% mark-up for materials. In Exhibit O, are these all the bids that were submitted for different asphalt contracts?”

Mr. Reilly replied “Yes, there were four, I believe for the last three, only Pence was the contractor. The first one contained multiple contractors.”

Mr. Moquin stated “This particular bid contains certain line items that we are requesting services from, right?”

Mr. Reilly replied “Right.”

Mr. Moquin stated “Then there’s this catch all that’s other services, that we may not be thinking about right now, but we may need. What is the frequency with which we are accessing these ancillary services that are not covered under the line items?”

Mr. Reilly stated “In our sample, there was 47 invoices that belonged to that special section.”

Mr. Moquin stated “Give me an example of something that would not be included in those line items?”

Mr. Bays stated “A great example would be to patch a playcourt, where the playcourt could be salvaged. We would replace with fiber mesh the sub base and the asphalt in the area where the playcourt has failed, and then reseal the entire area.”

Mr. Moquin stated “The consideration of the rates under the additional services, was that considered in the evaluation of the RFP proposals?”

Ms. Mary Coker stated “We’ve been analyzing all different bids from 2010 through 2017. As Mr. Reilly mentioned, in 2010 we had 3 vendors who were awarded. They are awarded by category. In each category, there are very specific work that is related and pricing that is attached to that work. When we award vendors, we do not award on time and material. This is added emergencies that are not included in those awarded categories that are awarded, based on price, to the different vendors.”

Mr. Moquin stated “I would not want to provide work to someone where their rates would be significantly higher, because that was not a consideration of the award.

Ms. Coker stated “We concur. Basically, as we analyze these bids that were done in 2010 and even currently, we found those time and materials are being used in the sealcoating. That is currently not a category or part of a line item of a category. We have a recommendation that we would like to propose other alternatives as to how we intend to ensure that those time and material prices are not used for the sealcoating. Moving forward for the next bid in 2018, we will include that line item related to sealcoating.”

Mr. Frohme stated “So, we have another year . . .”

Ms. Coker stated “No, we have solutions in place per the bid and specifications in the bid, which are stated on page 13 in management’s response. Per our agreement, we are allowed to use a piggyback. The other option is to issue an ITQ (Invitation to Quote) where we would have that existing quotation available for the time that PPO requires to just sealcoat an existing playcourt.”

Ms. Grant asked “Have we quantified how much we paid in excess of the Palm Beach County prices?”

Ms. Coker stated “The pricing difference is not related to the categories. I believe the pricing differences were related to the time and material.”

Mr. Reilly stated “You would have to go through each invoice. If you added all 47 invoices, I believe it was approximately \$361,000. If you replaced the \$300 hourly labor rate and recalculated using a lower rate, you could calculate the difference. That’s not something that we did. We were just making the point that we should not be using that portion of the contract with those rates. It could be done.”

Mr. Mayersohn stated “I’m looking at the invoice on page 99. What was actually paid?”

Mr. Reilly replied “The amount was \$38,881.46.”

Discussion followed regarding the interpretation of cost plus mark-up calculations.

Mr. Frohme stated “I’ve never seen a mark-up anywhere close to this and I’ve done a lot of construction auditing. I assume that Exhibit R is a summary of the 47 invoices.”

Mr. Reilly stated “Yes, it is. On pages 132-136, they provided a list of all invoices where they used that additional labor and materials section of the contract. For example, their total was \$361,014.63 for Contract No. 11-007R.”

Mr. Moquin stated “We feel confident that the current bid allows us to not have to utilize that portion for services going forward, and we are not going to. In the next bid, we will restructure it so we will not have this anymore. Is there a point where this becomes inappropriate like price gouging?”

Mr. Bays stated “The sealcoating is all for the technical colleges and they self contracted those. We should go back and have it bid competitively; you can’t wind back the clock, but just to see if it was inordinately high compared to the going rate. The going rate would have been a composite of machine time, labor and material. There’s no machine time in here at all, no weekend rates, so you’d have to look at that in order to determine if it’s inordinate.”

Mr. Frohme stated “As part of that, on page 83, I interpret 125% to mean \$17,000 plus 25% totaling around \$21,000. I think it’s in violation of the contract as a CPA; I’m not an attorney, but I think we overpaid.”

Mr. Mayersohn asked “Does Pence do business with any other governmental agencies?”

Mr. Reilly replied “We would not have that information.”

Mr. Barry stated “If you sent us audit reports with no exceptions, this would be a really boring committee. It’s audits like this that are really interesting. You can see by the questions brought up there are just wormholes on every page. There’s more and more crap here. We’ve got the head of the PPO Department here. You’ve been with the School Board for over a decade. This is scathing. Finding after finding, things you did wrong. As per the previous report, Principals have no money. You’re allowing this to go on. Pat, do you lock your door at night? Do you remotely start your car? This is awful.”

Dr. Lynch-Walsh stated “Regarding Finding No. 4, a couple of times a month, staff meets with QSEC, the Facilities Task Force. If you look on page 14, staff meticulously pre-qualifies vendors and their thought process is that this would never happen, because you have per project limits and aggregate limits, and that speaks to bonding with a concern on page 15, the potential impact is that you don’t want to issue work to a contractor that exceeds their approved per project and aggregate limits. I realize that these are tracks we are talking about, but these contract award amounts are so far and above the per project and aggregate limits and the example given here was that the aggregate limit was \$100,000 but they were issued four work orders totaling \$500,000. This vendor, Pence is the luckiest vendor ever. They get the most for labor, mark-up, they get all the contracts and we don’t even care about the bonding limits. For the most recent one, March 2016, is there a pending contract that they are in danger of being awarded?”

Mr. Bays stated “It was awarded in February.”

Dr. Lynch-Walsh stated “The contract was awarded February 22, 2017. PPO has not been monitoring thresholds and has been awarding contracts that are close to 10 times the bonding

limits. There have been two constants, one as Mr. Barry pointed out is Mr. Bays. The other constant in terms of procurement has been Mr. Woods. I'll end it there."

Mr. Bays stated "The issue regarding pre-qualification limits, the relationship of spending authority on the bid and pre-qualification limits is not a direct linkage. The only direct linkage is the amount of work we would assign to a vendor at any given time. The \$500,000 was during a time when there were no pre-qualifications on that contractor at all. That's a matter of record in the audit. The fact is that under Bid 16-063C, we did have assignments that were greater than the \$300,000 aggregate in place. That was not the case in the prior or subsequent bid. We did not have any other issues. We are very sensitive to the pre-qualification limits now. We've put a process in place to ensure that this does not occur."

Ms. Coker stated "The Board awards contracts based on spend authority. When vendors are identified, and there's a contract bid in place, spend authority is what the Board gives us; \$7 or 8 million. When we place a purchase order for \$350,000, it seems as though PPO awarded a project to Pence for \$350,000, which may have been over their pre-qualified limit in the case from 2010-2014 there were no pre-qualification requirements. Should there have been one, we still would not have gone over the limit, because the \$350,000 purchase order that you see is a framework purchase order, which is an open blanket purchase order, which has hundreds of invoices that go with that purchase order. When you look at the amount, there is not one that goes over \$100,000, which would have been their pre-qualified limit and or aggregated limit. We were not in jeopardy of risk at all; these are work assignments in a work-order system that PPO manages. It adds up to \$350,000. It may look like we're issuing construction projects, but it's not a project. It's several hundred different little work orders."

Ms. Grant stated "I understand that, so why didn't you give that as the explanation in your response?"

Ms. Coker stated "With the new system, these work orders are not linked to SAP. With the new system being implemented as we speak, it has an interface with SAP and will automate that process. The controls that they put in place in PPO will ensure that as they are assigning work, not necessarily projects, they are looking to verify that these pre-qualification amounts are in accordance with the projects."

Dr. Lynch-Walsh stated "If there was a follow up, we would not find Pence having a purchase order, invoice or something written on a napkin, none of it at the same time would add up to the \$350,000?"

Ms. Coker stated "We did that analysis and can provide that if you need it."

Dr. Lynch-Walsh stated "There are plenty of other asphalt and paving vendors available now like some of the other ones that submitted bids, but were not chosen, so we have a lot of pre-qualified ones, so you wouldn't run the risk of going over Pence's limit?"

Ms. Coker stated "I have actually spent a lot of time on asphalt. We are one of the only Districts that requires pre-qualification for this type of work. We get responses from many vendors, but they are not pre-qualified. When we try to do outreach to get them to get pre-qualified, the requirement

of licensing and bonding does not attract them to do business with us. Unfortunately, Pence is the only vendor that is pre-qualified with Broward County. It is in our best interest to have other vendors.”

Mr. Barnes asked “Do we award bids to vendors who are not certified, based on the M/WBE?”

Ms. Coker stated “It is not a mandate to have an M/WBE awardee.”

Ms. Grant stated “Is Finding No. 4 still in place?”

Mr. Reilly stated “I will have to check that. There were four contracts. I’d have to go back and see when those were paid. I think management agrees with the finding. We have a new contract now.”

Ms. Coker stated “You mentioned four contracts. These are not awarded contracts. They are the creation of purchase orders that are blanket purchase orders that have many invoices.”

Mr. Reilly stated “Some are tracks, some are bigger. I will look back, but I know in 3 days, they were issued over \$700,000 and that was all was used up. You have to look at the work orders, not the payments.”

Mr. Barnes asked “When the auditors complete a report before the auditor leaves the site, he leaves a general review with the Principal. When your staff finished this audit, was there discussion with these folks. It seems like these discussions we’re having today should have taken place prior to this meeting.”

Mr. Reilly stated “Management’s responses agreed with the findings. We issued the report, we asked if management wanted to meet or call to discuss anything in the report. I think their responses were good.”

Mr. Mayersohn stated “I’d like to make a motion to transmit with the recommendation that Legal looks at this to see if we can recover any funds and to obtain a report from the Chief Facilities Officer regarding the findings and what actions are being taken.” Motion carried.

Dr. Lynch-Walsh stated “Mary Coker is over Procurement. Sitting behind Mr. Bays is Mr. Bobadilla, the Chief Facilities Officer and Mr. Bay’s boss. The Chief Facilities Officer is ultimately responsible for PPO and as Mr. Barry pointed out, this audit has been scathing.”

Mr. Leo Bobadilla added “We’d be happy to follow up with the next steps and whatever comes from the review with Legal.”

Meeting adjourned at 3:30 p.m.