

The School Board of Broward County, Florida
AUDIT COMMITTEE

MINUTES OF AUDIT COMMITTEE MEETING

June 22, 2017

Dr. Henry Mack, Vice 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. Ms. Mary Fertig, Chair, continued at 12:40 p.m. Members and guests were introduced.

Members Present:

Mr. Moses Barnes
Ms. Mary Fertig
Mr. Kirk Frohme
Ms. Susan Grant
Mr. John Herbst
Dr. Henry Mack
Mr. Robert Mayersohn
Mr. Daniel Traeger
Dr. Nathalie Lynch-Walsh

Staff Present:

Mr. Robert W. Runcie, Superintendent of Schools
Dr. Valerie Wanza, Chief Officer, School Performance and Accountability
Mr. Leo Bobadilla, Chief Facilities & Construction Officer, (OFC)
Ms. Shelley Meloni, Director, Pre-Construction, (OFC)
Mr. Robert Hamberger, Chief Building Official
Mr. Maurice Woods, Chief Strategy & Operations Officer
Mr. Sam Bays, Director, Physical Plant Operations (PPO)
Ms. Mary Coker, Director, Procurement & Warehousing Services
Mr. Patrick Reilly, Chief Auditor, Office of the Chief Auditor (OCA)
Ms. Ali Arcese, Manager, Property & Inventory Control, OCA
Mr. Gerardo Usallan, Manager, Operational Audits, OCA
Ms. Patricia McLaughlin, Confidential Clerk Specialist C, OCA
Ms. Megan Gonzalez, Confidential Clerk Specialist B, OCA
Ms. Cecilia Guerrero, Auditor III, OCA
Ms. Meredith Filcman, Manager, Operational Audits, OCA

Guests Present:

Mr. Shaun Davis, S. Davis & Associates, P.A.

Minutes

A motion was made to approve the minutes from the May 11, 2017 Audit Committee meeting. Motion carried.

Follow Up #1 – Internal Audit Report – Audit of the Internal Funds of Selected Schools – May 11, 2017

Mr. Patrick Reilly stated “This follow-up was to address the corrective action taken regarding the negative account balances at Taravella High School for the Athletic and Pro-Start Internal accounts. The Athletic account began the school year with a deficit balance of \$45,267, which has now been reduced by \$9,782. The Pro-Start account began the school year with a deficit balance of \$28,530, which has been reduced by \$10,459. In addition, the Committee requested that the monies taken from the Student Government account be reimbursed. Dr. Wanza provided a revised response that included a plan to reimburse the Student Government account.”

Mr. Moses Barnes inquired regarding the repayment process.

Dr. Valerie Wanza stated that all monies should be repaid in the 2017-18 school year and that she would be monitoring the accounts during the 2017-18 school year.

Follow Up No. 2 - 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 – May 11, 2017

Mr. Reilly stated “The Audit Committee requested a legal opinion to determine if the District was overcharged, or if the vendor charges complied with the contract terms. The General Counsel’s Office confirmed that the charges for materials mark-up percentages on the invoices were correct and in compliance with the contract. In addition, the General Counsel’s Office stated that the District has several options with respect to assigning future work with the vendor pursuant to the agreement. We had the option to renegotiate unit prices for labor and/or mark-up percentages for materials, discontinue the use of the agreement related to time and material pricing or terminate the agreement for convenience.”

Follow Up No. 3 - 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 – May 11, 2017

Mr. Reilly stated “The Audit Committee requested a comparison of the additional labor costs and services between Pence Sealcoating Corporation and other Districts. Before we discuss that item, due to the article in the Sun Sentinel pertaining to the Asphalt audit, I’d like to clarify one item that was a finding in the report regarding building permits and whether tracks were built to code.

I stated in my report that we were referring to the District’s Business Practice Bulletin O-102 that outlines the procedures for permits and inspections, which is more stringent than the Building

Code. The Building Code did not specifically address the asphalt paving and repair required inspections. The District's Business Practice Bulletin is more stringent.

Going forward, I am providing you with the revised Business Practice Bulletin issued by the Building Department and PPO's work order execution matrix and their document that outlines what items require permits and inspections. There were changes made on how PPO will be handling asphalt paving projects and what types of work will now be under the Annual Facilities Permit."

Mr. Robert Runcie stated "The net around this particular item is that the real finding here is the fact that the Business Practice Bulletin was last updated in 2012. In addition to the Business Practice Bulletin, there's an annual facility permits set of procedures that are actually developed and worked through with the Building Department who oversees permitting and inspections for PPO. That document that they were actually using to govern their work was not aligned with the 2012 Business Practice Bulletin. They didn't go back and update it, but they were operating on their procedures. We've now updated the 2012 Business Practice Bulletin to ensure that it references the working document, which is the Annual Facilities Permit and the Physical Plant Operations document that they have. That was the essence of it. They weren't code violations that occurred as a result of this work being done in the District."

Mr. Reilly stated "Also, appropriate District staff will be trained on the new Standard Operating Procedures and the revised Business Practice Bulletin."

Mr. Leo Bobadilla stated "Besides these documents, some of the work that PPO has been doing over the last several months is also updating a lot of outdated Standard Operating Procedures that we have within the department. This is certainly an example of one of those."

Mr. Reilly stated "Getting back to Follow Up No. 3, the Audit Committee requested a comparison of the additional labor costs and services between Pence Sealcoating Corporation and other Districts. I provided a "what if" scenario based on 84 invoices that PPO provided that used Time and Materials rates when the work was performed where a specific unit price line item was not in the contract. We performed an audit of athletic tracks; however, many of these invoices were utilizing the Time and Materials method. We did not audit these invoices, such as asphalt sealcoating. Our audit reviewed 47 Time and Materials invoices. PPO, in their response to the audit, provided 37 additional invoices, totaling 84 invoices. My task was to show a "what if" comparison using the contract's hourly labor rates of \$150 - \$300 and materials mark-up percentages of 125-150%. The schedule that you received with your Audit Committee package shows \$403,540.67 difference for labor and materials, based on the comparison with other Districts' rates. At the June 13, 2017 School Board meeting, I was asked how much the District overpaid. I explained it was not an overpayment because the District agreed to those rates. It was a "what if" comparison using labor rates and materials mark-up rates and the Sun Sentinel stated that the District wasted \$400,000, which is not correct. Subsequently, I was asked to review multiple invoices that were not part of our audit and determined that there were three types of work performed that were not able to be compared to the other Districts; therefore, I removed those from the schedule. The three areas were related to asphalt sealcoating work, use of a subcontractor

providing milling equipment and a bundled package of 12 play court repairs. The result was \$276,000 that should not have been on the schedule, since it was not possible to compare those invoices with other Districts. You also need to look at the total cost of the completed project to determine if the prices were comparable. Most of the remaining amount on the schedule were related to labor costs. The schedule shows the differences where the vendor was charging an hourly labor rate of between \$150 and \$300 and other Districts were charging between \$25 and \$50 per hour. During our subsequent review of invoices related to sealcoating, we determined that there was no line item in the contract for sealcoating. Rather than bidding the work out, the District used the asphalt paving contract under the Time and Materials section; however, the way the \$69,902.40 estimate was prepared for the Atlantic Tech job was by using a unit price, which was based on a 466,016 square foot price of \$.15. The invoice, however, was manipulated to show Time and Materials costs to conform with the contract, since there was no line item in the contract for sealcoating. That is an example of why we could not compare these invoices with other Districts. At the end of the day, the invoice amounted to \$68,481.46. PPO felt that they received value for this job. Last week, PPO provided three estimates dated May 2017 that were recently obtained to support the \$68,481.46 for work performed in 2011. Those estimates did not support that they received a good price since the work was performed 6 years ago. Ironically, one of the estimates was \$45,597.00, a \$22,884.46 difference. The other estimates were approximately \$90,000 and \$89,000. In another example regarding milling costs, when an outside vendor charged Pence Sealcoating Corp. \$5,000 per day for rental of milling equipment/labor, the invoice was manipulated using a 150% mark-up multiplied on an assigned \$2,000 cost to arrive at the \$5,000 actual expense. The \$5,000 milling cost was considered a pass through cost by Pence Sealcoating Corp's management. This is another example where comparing materials mark ups of 150% to other District rates was not comparable, due to the unusual method used to handle pass through expenses. In regard to the one time bundled package of 12 play court repairs, we reviewed the Time and Materials invoices and determined that hourly labor costs were not included. Instead, the 150% materials mark-up was said to include installation labor costs and any equipment costs for those 12 invoices. Again, these invoices were not comparable to other district's hourly labor rates and materials mark-up percentages, due to the unusual way that the Time and Materials method was used by PPO. Management originally responded to the audit stating that they were not aware that they could use other contracts and stated they would use other contracts in the future. Their original response never mentioned how they handled sealcoating and again, we did not audit the sealcoating projects. After the May 30, 2017 School Board Agenda Planning Session for the June 13, 2017 School Board meeting, PPO responded to the Board's questions regarding the asphalt paving audit; however, these responses were different than the responses provided in the audit. In addition, I was not copied on these new responses. These new responses were discussed at the June 13, 2017 School Board meeting. Going back to the schedule, that's why there are issues with preparing a comparison without performing additional audit work."

Mr. Runcie stated "I met with staff from multiple departments including Procurement, PPO, Facilities and the Audit Department after this audit was released to get to the bottom of it. We met for over 4 hours and PPO and the Audit Department reviewed additional documentation. Basically, this was a failure of staff to spend the appropriate time to respond to the auditor to give them sufficient information, so that they could present a different set of facts, because what's out there

is not the actual reality of what is occurring under this contract. The audit pointed out one finding, which was the fact that the Business Practice Bulletin was not updated, but in terms of the actual workings going on between the Building Department and PPO, they have a set of documents that they actually use to govern their work, so that was fine. The second issue is that the contract was being used in a very unorthodox way. Essentially, if you knew that the market price for a job was \$10,000, but the only terms that they had to use were hourly rates and materials vs. other line items that were not part of the contract, they used this hourly rate method to get to the numbers. They were reverse engineering into the hourly rate to actually get the value of the project. If we are going to compare apples to apples for the work, one company vs. another or comparing with another District, you ultimately are going to look at the value of the work. One analogy, if I'm going to paint a wall, and I get estimates from two different vendors, and it's \$10,000 to paint the wall; one vendor is charging \$100 per hour and some material costs and the other vendor is \$300 per hour, I can get it done faster and I include everything in that rate. At the end of the day, as a customer, the value is what I ultimately pay for the project at the end. When you look at it from that perspective, we weren't paying anything outside market rates to get the work done. The issue is how this contract was structured. We've actually gone back now and worked with Procurement to restructure this contract, so it will be in line with what you would normally see for the work that was being done. One example that Pat mentioned was sealcoating at Atlantic Tech and Sheridan. If you were to compare market prices such as \$.17 per square foot and multiply that by the work area, you would get market value for doing the work. Once they arrived at that final number, they weren't using square feet, they were using the hourly rate, and they were using the hourly rate to get to basically the same number. That's not what you would use as a standard industry practice. The issues here are how that contract was actually used; the updating and alignment of the Business Practice Bulletin with the Annual Facilities Permit, and staff's response and the timing of their response. Doing this on the back end is not appropriate. This was upsetting to me and I certainly let staff know that we're not doing this again. When audits come out, staff needs to spend sufficient time up front and invest the time and due diligence to ensure that the Audit Department has all the facts that they need, so we're not going on the back end and realizing that it's a little different than what we've heard and we've seen."

Mr. John Herbst stated "I would add two comments to your analysis. I have seen in other jurisdictions, as well as here, a feeling by folks on the construction side, that we are going to get this done and we're going to find a way to do it. If the contract doesn't allow us to do it, we'll game the contract, which is wrong. Engineering departments have an idea like just tell me where to build the bridge and I'll find a way to get it done, regardless of whether I have the budget, the contract or the authority to do it. That's true for every engineering department in every city I've worked with and it's true for the Facilities Department here. Regarding how they responded to the Audit Department unfortunately and frighteningly, it reminds me of how Facilities has responded to the Audit Department in the past. They are not showing proper deference to the Audit Department or the Audit Committee. As I'm sure you pointed out to them, this is an obligation on their part; this is not a 'I feel like answering the question today in a straight forward and transparent manner'. I'm glad to hear that you made that known to them and hope you will continue to advance that."

Mr. Runcie stated “If this happens again, we will absolutely be taking disciplinary action, because I’m not going to sit through this process of trying to clean things up on the back end and then find out it’s a little different. Again, it’s not Mr. Reilly’s issue; it’s how collectively the departments respond. I know they’ve got lots of work on their plate, but it’s more work trying to address this on the back end.”

Ms. Grant thanked Mr. Reilly and his staff for bringing the issue to the forefront. “Had it not been addressed, this process would continue. I think the situation caused records that were impossible for you to audit, because you didn’t have all the information and that’s certainly not a good position to be in. You mentioned how the invoices lacked transparency. The invoice was showing one thing, but it was paying for another. I’m glad in the end it looks like the District didn’t overpay, but again, I think transparency is paramount and it looks like that wasn’t there at all.”

Mr. Kirk Frohme asked “On Follow Up No. 2, in terms of these various alternatives that Mr. Cooney has outlined, do we know yet which of these options will be the most viable for implementation?”

Mr. Reilly replied “Actually, the Procurement Department went ahead with Option No. 1 and renegotiated with the contractor and now our rates are \$38.42 for a supervisor, \$25.52 for an installer and \$23.96 for a laborer and the materials mark-up percentage will now be 8%.”

Ms. Grant asked “Is there something specifically for sealcoating, which wasn’t in the bid before?”

Mr. Reilly stated “I understand that we will have a separate sealcoating contract.”

Mr. Frohme asked “And what about the milling? Will that be a separate contract also?”

Mr. Reilly stated “The contractor will now have the equipment shown as a separate item, as well as the labor and materials prices.”

Mr. Frohme stated “That way, we can compare apples with apples.”

Mr. Runcie stated “So, now when we see labor, it will be just labor, not sometimes including materials or sometimes equipment. The invoice will show the true costs, submitted by each line item on the contract.”

Mr. Frohme asked “Is this the only Pence contract with the School Board?”

Mr. Reilly stated “I believe this is the only contract they have with the District.”

Mr. Bobadilla stated “Beyond this contract, we want to look at other contracts to see if we have anything similar to this. We are working with Procurement to do this.”

Mr. Frohme asked “Have you noticed any that need to be corrected yet?”

Mr. Bobadilla stated “We are still working on them.”

Ms. Mary Coker stated “We are going through a series of contracts that are valid and going through the process of identifying specific terms of those contracts. I don’t have a definite response, but I’d be happy to update you at a future Audit Committee meeting.”

It was agreed that an update would be provided at the next Audit Committee meeting in September.

Mr. Daniel Traeger stated “Mr. Reilly, I’d like to compliment you and your team. Well done. The taxpayers will benefit from this, as well as the students. Mr. Runcie, you should never be in this position where you have to catch this type of material on the back side, Sir. You’ve done a wonderful job since you’ve been here and I appreciate your transparency. I’d like to compliment you on coming forward and making changes that need to be made.”

Mr. Barnes asked “Now that we’ve got some clarity on what went on before, moving forward, who has the responsibility of providing audit responses?”

Mr. Runcie stated “The person who is responsible is Mr. Bobadilla, Chief Facilities Officer, and he will be held accountable to ensure that his team is responding in a comprehensive, accurate and timely manner.”

Mr. Bobadilla stated “I think in this case, there was a lack of time to be able to thoroughly respond, so in the future, we will request additional time.”

Note from OCA: The draft audit was issued to PPO on April 7, 2017 and the responses were due on April 26, 2017 and were received on May 1, 2017. Routinely, there is a two-week timeframe to respond to audit reports.

Mr. Bobadilla stated “Also, we will take Mr. Reilly up on his offer to meet for an exit interview so we can discuss the report with the auditors.”

Mr. Barnes stated “So going forward, no matter what happens, you will submit a response?”

Mr. Bobadilla stated “Yes.”

Dr. Nathalie Lynch-Walsh stated “The document we were given today is in response to which of the four findings?”

Mr. Reilly stated “It was a response to an Audit Committee follow up request related to Finding No. 3 of the audit.”

Dr. Lynch-Walsh stated “What does or doesn’t require a permit or inspection?”

Mr. Runcie stated “What we discussed today was three things. One was the concerns around permitting and code. Again, the Building Department shared their practices with us relative to the need to do inspections and they are very clear cases, in which they need to do inspections, such as building a new track or changing the track, the actual structure, those clearly need inspections. Outside of that, they have some work you would call general operating procedures with PPO. That document has been updated. We’ve turned it into a matrix for PPO staff. They will have training and will know very clearly when inspections are required and when they’re not. Also, we were trying to address the code piece. The second part of the conversation, Ms. Walsh, was around this whole issue of the hypothetical overpayment.”

Dr. Lynch-Walsh stated “The reason I asked is that it was pretty clear to the Audit Committee that the nature of the work that was being performed was not a small project. Additionally, if you look

at the DEFP from 2015, there's a number of tracks at both Middle and High schools that are part of the SMART Program; yet there was an attempt to try to characterize or respond as though they would fit under the Annual Permit, as opposed to pulling a separate permit. I am not clear on whether this actually clarifies whether they should have, because Findings No. 1 and 4 speak to things like permits and inspections. Are we saying Findings No. 1 and 4 no longer apply? I've also been looking at these tracks. If I'm understanding it correctly, the high school tracks are not in compliance with current code. They have to be widened or the banking is changing because they have to comply with the new standards. That seems to suggest that they should have been pulling permits. Also, most of them are \$300,000. The Middle schools are around \$70,000 and there are a number of them. I am no clearer on this now than I was before. I'm clear on the audit finding."

Mr. Robert Hamberger stated "In the case of a track, where we have to change the configuration to a ninth lane or something of that nature, that would require what we would require from any contractor, which means we would need a standard permit. In the case where we are simply resurfacing a track greater than 2,000 square feet, PPO can do this under the standard permit, but it still requires inspections. In all cases, inspections are required. I hope that clarifies the difference between the two types of tracks, going forward."

Dr. Lynch-Walsh stated "Yes, it basically sounds like what I already thought, but it was coming across a little gray, making it sound as though nobody did anything wrong, there was just a misunderstanding and now we've updated a document and all is well. There were findings that found that they were not following procedures and policies, as far as inspections and permits. This would not be the first time we were having permit issues in this District."

Mr. Hamberger stated "In 2012, when we drafted the Business Practice Bulletin, there was not much asphalt paving being done. Now, there is a considerable amount of asphalt paving being done. The original Business Practice Bulletin called for inspections for anything over 20 square feet. When you understand the volume of asphalt patches and paving done in this District now, we would need 20 inspectors following Sam's crews around, so it becomes impractical. We raised that 20 square feet to 2,000 square feet, which is about the equivalent of 10 car spaces. When you think of that with regard to an entire track, it pales by comparison. I thought it was a good compromise on how we are still able to provide the service to the District. Generally speaking, the quality of the work has been very good. That certainly does not excuse not calling for inspections. The good news is even when we go out and inspect months later, the work seems to be done quite well."

Ms. Fertig stated "I don't think anyone is saying there was nothing wrong. I think the auditors identified issues and corrective action has taken place."

Dr. Lynch-Walsh stated "It's Finding's No. 1 and 2 that this applies to. Finding No. 4 has to do with pre-qualifications. On page 14 of the audit, it states that Pence was not pre-qualified between June 16, 2010 and June 23, 2014 and then they got pre-qualified on June 24th, which expired June 25, 2015 and they were awarded a contract on October 21, 2014. On that date, there were other bidders and those two other bidders were disqualified for not being pre-qualified. Does that mean on page 14 that Pence was not pre-qualified during those years? I bring this up because lack of

pre-qualification was the reason that the last time we had additional bidders, they were disqualified for not being pre-qualified, and then Pence now is the sole bidder every time this goes out. The Facilities Task Force received a letter from another potential vendor complaining about the pre-qualification process related to asphalt. A lot of what was noted in the letter is consistent with what came out of this audit.”

Mr. Bobadilla stated “My understanding is that there was a period of time where these services did not require pre-qualified vendors. There was a change to that. When that change happened, it was a change for everyone who would bid on the work to be pre-qualified. Originally, this was not a vendor that was asked to be pre-qualified. When that happened, all vendors who proposed were asked to be pre-qualified.”

Mr. Maurice Woods stated “I would like to gather that information and review it before responding.”

Ms. Fertig stated that Mr. Woods could give an update at the September Audit Committee meeting.

Dr. Lynch-Walsh stated “As far as the timing of when that change took place, both M & M and Sports Surfaces were disqualified and this is in the back up to October 21, 2014. It looks a little strange to me, or a little convenient, that Pence is last man standing and the only one to get pre-qualified in June, immediately before the bid opening date in July. The big thing that occurred at last week’s meeting was that all of a sudden those ridiculous prices of \$300 included equipment, which, if I’m remembering our last meeting correctly, I don’t remember equipment being in that number. During that entire meeting, nobody even suggested that equipment rental fees were in those numbers making them so high. Yet, all of a sudden, we have another set of responses, where people are claiming that equipment is in there. Why didn’t you mention that before? That’s a huge problem for me. Also, on page 26 of 56 in the bid No. 14-080F, Section 6, Bid Specification shows ‘prices must be reflective of all material, equipment and supervision required to complete all work. How is it that people are reviewing these bids, and there are people who sign off saying that they reviewed them, the bids have been evaluated by specific people, it’s in our own document, and yet the bid that we accepted, the contract, doesn’t break out equipment rental, which is now being touted as the reason for those rates being so high. Additional management responses were presented at the June 13, 2017 Board meeting. One Board member characterized them as ‘circling the wagons’. In my years of experience, sometimes the cover-up is worse than the crime. You end up with people looking like something criminal is happening, when, in fact, there may not be. Instead of simply saying ‘yes, policies and procedures were not followed; we didn’t give you enough information.’”

Ms. Fertig stated “I don’t think we can speak to the Board meeting. Our scope here is the audit in front of us. We heard earlier that some of the original responses were not correct and that they have been corrected at this time. Is that correct, Mr. Bobadilla?”

Mr. Bobadilla stated “I think this conversation really speaks to what we mentioned earlier that we need to do a better job when responding to these audits to ensure we provide all the information during that review process, which is a change in our own procedures.”

Dr. Lynch-Walsh stated “So, can we get the additional follow-up responses? I have a copy; it doesn’t resemble the original responses at all. This is where the comments about it including equipment is coming from. Staff has a tendency to not answer the question being asked. It’s lovely that you saved money elsewhere, but that isn’t the question at hand. The question is why did we overpay?”

Ms. Fertig stated “I think Mr. Herbst covered the issue of responses from staff, which hopefully have been corrected at this point. Hopefully, we now have a process in place where the buck will stop with the head of each department, and we will have a different outcome.”

Dr. Lynch-Walsh stated “There’s only one job description under PPO. Only one of them is responsible for reviewing contracts and that would be the Director of PPO. There are two managers under that position, but neither of them reference contracts. I was trying to see who else, besides Mr. Bays, reviews contracts.”

Ms. Fertig stated “These are issues that we will have to let Mr. Runcie and Mr. Bobadilla sort out. I don’t know that it is in the purview of the Audit Committee to review their job descriptions.”

Dr. Lynch-Walsh stated “On page 12 of 56, Section 4, Special Conditions, line 26, price reductions states ‘if from the date of bid opening, the awardee either bids the same product at a lower price than offered to SBBC or reduces the price of the bid product, the lowest of these reduced prices will be extended to SBBC.’ Did that ever happen? It seems as though we could recoup some money there.”

Ms. Fertig stated “We have an opinion from Mr. Cooney that we cannot; that they have complied with the contract.”

Dr. Lynch-Walsh stated “The question would be whether Pence is charging only the Broward County School Board those rates, or do they charge everybody those rates?”

Mr. Bobadilla stated “I don’t know what they are charging other people. I’ll do my best to follow up on that.”

Dr. Mack stated “This is the first time in eighteen years that I feel comfortable that we do in fact have a team. I am very impressed with the level of cooperation that I’m seeing among the group. I’d like to commend Mr. Runcie for being an outstanding leader. I’d also like to congratulate the new members of the Audit Committee. I have seen a level of sophistication among you that I’m impressed with. I’d like to let you know that my health has improved and I should be able to attend more meetings in the future.”

Ms. Fertig stated “I’d like to commend Pat and his staff for doing a thorough job and I’d like to commend all the people who have responded to the audit and have come up with ways to resolve the issues. I know this subject has gotten a lot of conversation, but I think it’s been worthwhile since we’ve been able to make improvements in contracts and policies. I personally think this was a successful audit and a successful conclusion on the part of all your staff in your different departments.”

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

Mr. Reilly stated “This report contains 33 internal audit fund reports. All schools complied with policies and procedures governing internal fund accounts.”

Mr. Barnes gave recognition to the two high schools in the report for having clean audits.

Dr. Wanza stated that congratulatory letters are sent to all schools having no audit exceptions.

Mr. Mayersohn was concerned about the turnover in bookkeepers at the schools.

Mr. Reilly stated it was the Business Support Center’s choice to rotate staff.

A motion was made to transmit. Motion carried.

Internal Audit Report – Property and Inventory Audits of Selected Locations

Mr. Reilly stated “This report contains 15 property and inventory audits. All locations complied with prescribed policies and procedures outlined in Business Practice Bulletin O-100. There were 8 locations that had no missing items. For the 15 locations included in this report, the historical cost was \$7,130,512. For the 15 locations, 22 items could not be accounted for with a historical cost of \$28,050.

A motion was made to transmit. Motion carried.

Mr. Mayersohn commended Dr. Wanza for the improvements made to the property and inventory audits.

Internal Audit Report – Current Status Update of the McGladrey, LLP Operational Review of the Office of Facilities and Construction

Mr. Reilly stated “This is a current status of the original report that was performed in 2012 by McGladrey, which was a review of the Office of Facilities and Construction. There were originally 43 observations and recommendations. There were three previous current status reports dealing with each of the 43 items. This report concludes all the current status items. There were sixteen items remaining. Fourteen were awaiting the completion and rewriting and Board approval of the CM at Risk contract. We now have that in place. The contract was awarded in November 2016, after it was finalized. We verified all items related to the CM at Risk are included in the contract. I included excerpts of the contract and the General Conditions showing where changes have been made. The only thing that both McGladrey and the Audit Department thought would have been a better change was the General Conditions as a reimbursable, as opposed to the lump sum method. That’s fine. That’s management’s decision. As I mentioned, all items have been completed.”

Dr. Lynch-Walsh stated “Regarding the lump sum method, we discussed this when it first came up at the Facilities Task Force. We didn’t get a satisfactory answer. Are you saying that this is the final word on this?”

Mr. Reilly stated “We make recommendations. Management has a choice on what method they want to use. From an audit standpoint, you really can’t audit the lump sum. If you negotiate it to the best for our benefit, it’s a workable method.”

Dr. Lynch-Walsh stated “We also have Atkins in place.”

Ms. Fertig stated “We spent a lot of time in the last year and a half on this particular report and contract, which went to the Board last summer. We wrote to the Board. The attorneys came to us to discuss our opinions. The Board has taken a vote and we are at a point where we have all the information from this Audit Committee going to the Board. We had a very rich conversation on this matter. Now we have a contract. As the years go by, just as we saw what happened with the change in contracts for asphalt, we’ll see how that works or doesn’t work.”

Dr. Lynch-Walsh asked “Why did management feel the District would be better with the lump sum method?”

Mr. Mayersohn stated “From a follow up Audit Committee standpoint, I agree with Dr. Walsh. On June 2012, FCM agrees with the recommendation. Now, they don’t agree with the recommendation. They are providing lump sum, as opposed to actual cost. In that follow up, where it says June 2017, as far as the Chief Auditor’s comment showing ‘complete’, that response is not sufficient, because there is no explanation of why they’re doing what they are doing. I think that’s what she’s asking.”

Mr. Bobadilla stated “We hired Heery to manage this work. One of their assignments was to look at this CM at Risk contract and to capture the issues raised in the past. They’ve worked with outside counsel, inside counsel, our auditors and McGladrey. That’s why we brought Heery, to give us expertise on things like this. That’s the point of having a Program Manager, to bring that expertise to the table regarding the most effective way to move this work forward. We can go back to Heery and ask them to provide additional information and clarification regarding Observation No. 21. I will send that additional information to Mr. Reilly.”

Mr. Mayersohn asked “Are you saying that management’s response is based upon the recommendation of Heery?”

Mr. Runcie stated “There were lots of experts at the table to ensure that we were going by best practices, which were explained to the Board in detail. They accepted it and we’re moving on from there.”

Ms. Fertig asked “And one of those firms was McGladrey, correct?”

Mr. Runcie said “Yes.”

Mr. Bobadilla stated “This is an industry norm. This is not out of the normal. In addition to lump sum, as the response indicated, we’re also asking for a breakdown to support the lump sum, so that can be reviewed. That way, we can be comfortable before we enter into the lump sum, which is usually the concern.”

Mr. Rob Chomiak (by phone) stated “In our opinion, it’s almost six of one, half dozen of the other. You can develop the General Conditions up front and thoroughly review the proposed lump sum cost of those General Conditions and come to an agreement. From there, you just monitor to ensure you are getting everything that you paid for in that lump sum General Conditions agreement. The alternative is you treat it as a cost plus and the contractor turns in their invoices with all the back up documentation and each month, you have to review, analyze, and usually end up sending things back for re-submittal. It’s a tremendous effort to maintain that review and it’s also a tremendous burden on the contractor. In our opinion, it’s more cost effective for the contractor, which should translate into better costs and more savings for the District. It’s less review time on the management side, from our side, and anyone else who is reviewing invoices, so it eliminates that monthly review of all that detailed information. Again, at the end of the day, it gets you to the same point and we always have the ability to review or audit what’s taken place against the lump sum. We’re always going to make sure we’re getting what’s promised and what we’re paying for. It’s more a matter of doing a detailed review up front, or doing it every month as the costs come in, and we feel that doing it up front once is a better and more cost effective approach.”

Mr. Frohme asked “On page 31, Observation No. 39, there seems to be a disconnect between the conclusion from your office as being not applicable, whereas, the management response seems to indicate that it’s still under review.”

Mr. Reilly stated “It’s really not an issue any longer, because they’ve got the system in place. We no longer have management teams doing that. We’re having the outside company handling it and we’re doing everything under E-Builder. The original finding was that the people out in the field lacked the proper site information, but they don’t do that anymore, so it’s not applicable.”

Mr. Bobadilla stated “At one time, we were looking at the potential use of tablets for our staff in the field, but now that we’ve gone away from the model of managing this work using our staff and we’ve hired Heery, it would be up to them to determine if it is something they want to implement.”

Dr. Lynch-Walsh stated “In response to Mr. Chomiak, if they are doing it once up front, what happens after about a year or a period of time? Will it be reviewed to make sure that what we’re paying is competitive. I get not wanting to do it every month, but I hope that would mean that they are being audited for reasonableness.”

Mr. Bobadilla stated “Again, that review is being done up front when there’s a breakdown provided to ensure it makes sense and is competitive. Then once it’s agreed to, they are tracking those billings against what was agreed to up front.”

Dr. Lynch-Walsh stated “On Observation No. 40, regarding E-Builder, the management response says that E-Builder has been implemented as the management information system for the current program. Is there a definition of current program?”

Mr. Bobadilla stated “We’re speaking of the SMART Program.”

Dr. Lynch-Walsh stated “In the RFPs for Heery, the word Program pertains to the entire capital program, and yet, if you’re on the Facilities Task Force, it’s been made clear that not all the projects are in E-Builder. They started with the big three projects. The non-SMART projects are not in E-

Builder. If you add the word SMART, that wouldn't help clarify, because then it would be consistent with what we have been told and what we've seen, that non-SMART projects, of which there are about \$36 million currently, are not in E-Builder, so if you're trying to track the status, you'd have to do it manually. I believe Ms. Meloni can verify that those projects are not in E-Builder."

Ms. Fertig asked Mr. Bobadilla if he would add the words for the current SMART program."

Dr. Lynch-Walsh stated "I'm not sure that the word BOND shouldn't be added, because there are projects in the SMART Program that are not bond."

Mr. Bobadilla stated "We do want to have one system that's managing our work. I'll go back and verify with Ms. Meloni how we're tracking these other projects that are not in the SMART Program. If they are not in the E-Builder system, then we'll need to look at how to incorporate that into E-Builder."

A motion was made to transmit. Motion carried.

Internal Audit Report – Summary of Audit Activities for 2016-2017 and Proposed Audit Plan for the 2017-2018 Fiscal Year

Mr. Reilly stated "This is our annual review of work performed and the planned audits for the 2017-18 fiscal year. As always, the Proposed Audit Plan is a living document, so some things may change, some things may be eliminated, and there may be requests to perform additional audits. We still need to complete our core audits, such as property and internal funds. We have a mix of trying to do some other things that the Board, Mr. Runcie and the Audit Committee would like to add. We have summarized the reports performed in our transmittal letter."

Dr. Lynch-Walsh asked about adding booster club audits, Title I spending, and the PPO budget. "There has been a concern about the co-mingling of funds to the point where we want to make sure that PPO is being reimbursed by each of the projects. Otherwise, PPO will keep asking for funding and if those budgets aren't reduced by the amounts that PPO is doing, you could have the spending happen twice, once on the PPO side and once on the project side with the contractors. The Parkland modular projects were funded by the City of Parkland. PPO was very clear that they would be doing some of the work. Was PPO reimbursed for the work? The Superintendent can spend up to \$50,000 without approval. I don't think that's ever been audited. I've never seen a report on it."

Mr. Mayersohn agreed regarding booster clubs.

Ms. Grant asked if PTAs were similar to booster clubs.

Mr. Reilly stated "Booster clubs and other outside organizations are not under the District's jurisdiction. For District purposes, Standard Practice Bulletin I-101 defines the fine line between an outside organization and a school activity. There are controls that have been added over the years. Sometimes booster clubs will cooperate with us if there's a problem and we have looked into those on occasion over the years, but again, we don't have jurisdiction."

Ms. Fertig stated “I’ve been thinking about how we, as an Audit Committee, can communicate some of these ideas. In the past year, we’ve seen Pat’s department overwhelmed with requests for additional audits. In the past, we have talked about how much money your department has saved the District. We have asked the Board repeatedly to give your department more resources. Before you take on too much more, you have to have the resources.”

Mr. Reilly stated “It’s at the point, if you’re going to add something, we would have to drop something from the Audit Plan. We have had a tremendous amount of involvement with Charter Schools closing this year. This affects our property team, our Charter people, I get involved. Sometimes, we have four or five people from our department who have to deal with an immediate closing to get property back, to look at their records, etc. That’s an issue. Last year, we got some additional audits for the SIU department, payroll, SRO’s. Workshops led to requesting that these audits be done right away. We might be able to do one or two of these, but I don’t know about doing everything.”

Ms. Fertig stated “We will be making a report to the Board with all your suggestions and recommendations.”

Dr. Mack made a motion to commend the Audit Department for the outstanding job and the quantity and quality of work in the 2016-17 school year and recommended that staff be added to the department.

Ms. Grant seconded the motion.

Mr. Frohme asked how our Audit Department’s budget compared with other Districts.

Dr. Mack stated “I’ve mentioned in previous annual reports the need to increase the staff and salaries of the Audit Department. I’ve pulled statistics from other school Districts. I served on the Dade County Audit Committee for 25 years. Our Chief Auditor and audit staff are paid less than any other District in the State. I always get the standard answer that we don’t have the money. Pat Reilly consistently does more with less, and it’s amazing to me how he gets stuff done. I think we should be persistent in asking the Board to increase the Audit Department more resources and better compensation. Let me remind you again that anytime you ask for something from the Audit Department, that increases their workload. I suggest you think about the impact when you ask the auditors to do additional work.”

A motion was made and seconded to recommend that the Board increase the staff and salaries of the Office of the Chief Auditor.

Mr. Mayersohn added that the Audit Department’s workload has increased due to Charter Schools.

Dr. Lynch-Walsh stated “Additional justification for the motion is that there is no Inspector General, Charter schools are taking up a lot of time, the Bond program, and the whole thing with PPO doing work related to the Bond program. We have events that have taken place that have increased the workload and would provide justification for increasing resources for the Audit Department.”

A motion was made to transmit. Motion carried.

Other Discussions

The dates for the 2017-18 Audit Committee meetings were presented and discussed.

Audit Committee Elections

The elections for the Chair and Vice Chair were rescheduled for the September 7, 2017 meeting.

Meeting adjourned at 3:30 p.m.