

The School Board of Broward County, Florida
AUDIT COMMITTEE

MINUTES OF AUDIT COMMITTEE MEETING

November 16, 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 staff were introduced.

Members Present:

Mr. Moses Barnes
Mr. Brendan Aloysius Barry, Esq.
Ms. Mary Fertig
Mr. Kirk Frohme
Mr. John Herbst
Dr. Nathalie Lynch-Walsh
Dr. Henry Mack
Mr. Robert Mayersohn
Mr. Andrew Medvin
Ms. Phyllis Shaw
Mr. Daniel Traeger

Staff Present:

Mr. Jeff Moquin, Chief of Staff
Dr. Valerie Wanza, Chief Officer, School Performance and Accountability
Mr. Ivan Perrone, Treasurer's Office
Ms. Mary Coker, Director, Procurement & Warehousing Services
Ms. Erum Motiwala, Accounting & Financial Reporting
Ms. Gerrilyn Arlotta, Accounting & Financial Reporting
Mr. Dave Norman, Board Office
Mr. Chris Akagbosu, Director, Facility Planning & Real Estate
Mr. Patrick Reilly, Chief Auditor, Office of the Chief Auditor (OCA)
Ms. Ali Arcese, Manager, Property & Inventory Control, OCA
Ms. Ann Conway, Manager, Internal Audits, OCA
Mr. Gerardo Usallan, Manager, Operational Audits, OCA
Mr. Jonathan Tolentino, Internal Audit Specialist, OCA
Ms. Patricia McLaughlin, Confidential Clerk Specialist C, OCA
Ms. Megan Gonzalez, Confidential Clerk Specialist B, OCA

Guests Present:

Mr. Dan O'Keefe, Moore Stephens Lovelace, P.A.
Mr. Eduardo Castaneda, Moore Stephens Lovelace, P.A.
Mr. Shaun Davis, S. Davis & Associates
Mr. Kevin Adderley, S. Davis & Associates
Mr. Scott Travis, Sun Sentinel

Agenda

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

Minutes

A motion was made to approve the minutes from the October 19, 2017 Audit Committee meeting. Motion carried.

Note: Due to a recording equipment failure, most of the Audit Committee meeting was not recorded; therefore, a detailed set of minutes could not be prepared.

Moore Stephens Lovelace, P.A. – Comprehensive Annual Financial Report (CAFR) – June 30, 2017

Mr. Patrick Reilly introduced Mr. Daniel O’Keefe and Mr. Eduardo Castaneda from Moore Stephens Lovelace, P.A, who completed the CAFR for the year ended June 30, 2017. He noted that this was the first year of their engagement.

Mr. O’Keefe, partner with Moore Stephens Lovelace, P.A. gave a brief summary on the audited financial statements for the year ended June 30, 2017. He stated that there were no significant issues on the financial statements. He stated that S. Davis & Associates was working on the Single Audit and Management Letter, which will be presented at the February 1, 2018 Audit Committee meeting.

Mr. Robert Mayersohn asked if the management representation letter had been completed.

Mr. O’Keefe stated “Yes.”

Mr. Kirk Frohme referred to page 2 and asked if there were any misstatements.

Mr. Eduardo Castaneda stated that there were no misstatements.

Mr. John Herbst asked what procedures were performed regarding the District’s capital projects.

Mr. Castaneda stated that they were not considered high risk for this audit period and that they would rotate their audit scope in upcoming years.

Mr. Herbst stated “With the District’s history of capital projects, that should be considered a high risk area.”

Mr. Castaneda stated that during the first year, they made sure the basic areas were covered, such as cash and investments, payroll and debt service payments. They also relied on the internal audit function to review some of those areas.

Mr. Frohme asked if any violations were noted on spend-down requirements.

Mr. Castaneda said “No.”

Dr. Nathalie Lynch-Walsh was concerned about the capital projects not being considered high risk, especially when the Auditing Department is missing a Facilities Audit Manager. She stated that only PPO projects were being audited.

Mr. O’Keefe said that the debt service expenditures on capital projects was tested.

Mr. Castaneda stated that they did go back and test capital project funds that were linked to debt service expenses. He stated that any dealings with debt were high risk.

Ms. Phyllis Shaw asked if there would be any changes for the next year.

Mr. Castaneda stated there were new post-employment benefit requirements that would impact the District’s bottom line.

Other discussion followed.

A motion was made to transmit. Motion carried.

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

Mr. Reilly stated “This report contains 10 Internal Audit Fund reports. All schools complied with policies and procedures governing internal funds.”

A motion was made to transmit. Motion carried.

Internal Audit Report – Property and Inventory Audits of Selected Locations

Mr. Reilly stated “This report contains 14 property and inventory audits. There were 13 locations complied with prescribed policies and procedures. There was 1 location that contained some audit exceptions consisting of unaccounted for property and the failure to follow Business Practice Bulletin O-100. For the 14 locations included in this report, the historical cost was \$10,652,869. For the 14 locations, 44 items could not be accounted for with a historical cost of \$65,327.

A motion was made to transmit. Motion carried.

Internal Audit Report – Audit of the Parking Lot Agreement Between The School Board of Broward County, Florida and the City of Fort Lauderdale for the 2014-15 and 2015-16 Fiscal Years

Mr. Reilly stated “At the request of the Superintendent, we performed an audit investigation related to the parking lot revenues. We were advised that at the time of renewing the contract with the City of Fort Lauderdale, which was presented and approved by the School Board on June 13, 2017, an Executive Summary was prepared that noted for fiscal year 2015-16, the District reported \$178,864 in net revenues, according to the General Ledger Parking Lot Revenue account. The parking lot operations were handled by the Facility Planning and Real Estate Department. The Director of the Facility Planning and Real Estate Department requested that the Treasurer’s Office reconcile the

General Ledger Parking Lot Revenue account. The Treasurer's Office attempted to reconcile the General Ledger net revenue amount of \$178,864 with the Global Parking Solutions, USA's Revenue Summary Report from the two pay stations. Global is the company providing revenue information from the pay stations. The Treasurer's Office discovered a difference between cash collections reported on the Global Revenue Summary Report and the General Ledger Parking Lot Revenue account for fiscal year 2015-16 in the amount of \$14,500. The \$14,500 in missing cash collections had not been deposited to the bank, and represents only a two-month period for July and August 2015. Beginning September 1, 2015, cash was no longer accepted as a payment method. The two pay stations were re-programmed to accept credit cards only. The reason for discontinuing cash collections was determined to be based on the alleged request by the former Chief of Police, who told us this was not true. After confirming that \$14,500 in cash collections was missing for the 2015-16 fiscal year, we expanded our audit to include the 2014-15 fiscal year. The 2014-15 fiscal year was the initial year of implementation of the contract with the City of Fort Lauderdale using the two new pay stations, installed in November 2014. We discovered that \$43,103.55 in cash collections had not been deposited to the bank for the entire 10 month period between November 5, 2014 and September 1, 2015. For this 10 month period where cash was collected, only six deposits totaling \$13,690.30 were made at the Bank of America into the District's main operating account. We audited credit card sales related to the parking lot revenues and did not note any discrepancies. Upon request for all parking related documentation from District staff, we were told that all documentation was missing, such as deposit slips, bank records, Global's EziCom revenue reports and pay station cash removal receipts from Global. We noted weaknesses in internal controls over the parking lot revenues. For the period reviewed, there were no checks and balances over the parking lot operations and no segregation of duties. The Operations Specialist IV was assigned to receive, count, reconcile and deposit cash, and monitor all transactions. The department's minimal written procedures for the receipting of cash collections were not followed. There was no management oversight of the parking lot operations. In addition, none of the daily Revenue By Day reports furnished by Global, which provided real time information on the amount of monies collected and/or removed from the pay stations, were being reviewed by the Operations Specialist IV, the staff of the Treasurer's Office, or the Director of the Facility Planning and Real Estate Department. We also noted that non-parking lot revenues were commingled in the General Ledger Parking Lot Revenue account, for items such as fingerprinting fees and monthly parking garage space rentals. Also, credit card merchant fees were not posted to an expense account; rather, they were recorded in the General Ledger Parking Lot Revenue account as a reduction of revenues. The incorrect revenues posted to the General Ledger Parking Lot Revenue account overstated the revenues of the parking lot operations. In addition, the recording of credit card merchant fees within the General Ledger Parking Lot Revenue account understated the actual revenues of the parking lot operations. There is an ongoing investigation being performed by the BSO's Public Corruption Unit as of the date of this report."

Mr. Andrew Medvin asked if the EziCom reports were accurate.

Mr. Reilly replied "Yes. We met with the vendor and we tested the cash and credit sales. The EziCom software provides very comprehensive and accurate data. When cash or coin canisters are removed, the system generates a receipt that prints out of the machine showing the total amount taken in. The City of Fort Lauderdale has multiple machines throughout the City of Fort Lauderdale. The vendor

provided us access to their computer dashboard that identifies transactions in real time. It is a very accurate system.”

Mr. Medvin stated he was shocked at how comfortable the Operations Specialist IV was to make deposits right here at the Bright Star Credit Union in the KCW Building.

Mr. Reilly stated “The District’s bank account is at Bank of America. Only six deposits were ever made there during the 10 month period. There should have been between 40 and 80 deposits, depending on if deposits were made weekly or twice weekly, as required by their procedures. The District does not have any bank accounts with the Bright Star Credit Union. The Broward Sheriff’s Office, Public Corruption Unit, is now investigating the case.

Mr. Moses Barnes asked about the responses.

Mr. Reilly stated “There were two responses. One was from the Treasurer’s Office and the other was from the Facility Planning & Real Estate Management Department.

Mr. Barnes asked for the title of the person responding from the Facility Planning & Real Estate Department. He stated that he did not see the same accountability for departments as for schools.

Mr. Reilly stated “There are no more cash collections.”

Mr. Barnes asked who had the responsibility for overseeing the collection of the parking fees.

Mr. Reilly stated “The Director of the Facility Planning & Real Estate Department was responsible for the parking fees.”

Mr. Frohme stated “I am assuming there is further investigation being done.”

Mr. Reilly said Yes, by BSO.”

Mr. Frohme commented about the missing documentation for the entire period of the audit. He also asked about the missing deposit tickets.

Mr. Reilly stated “We did get copies of the six deposits that were made from Bank of America.”

Mr. Daniel Traeger asked why the Operations Specialist IV was allowed to transport money to the bank and asked if there were similar operations in the building.

Ms. Shaw asked about the Treasurer’s Office’s procedures for reconciling the parking fee account.

Mr. Reilly stated “Controls were bypassed. It is not the Treasurer’s responsibility to reconcile each department’s accounts. It’s the responsibility of the Facility Planning & Real Estate Department to reconcile their revenues and expenditures for the parking operations. Each department needs to reconcile its own activities.

Dr. Lynch-Walsh stated “This is a clear cut violation of accounting principles. Who wrote the department’s procedures? Who failed to notice that one person was receiving, recording, reconciling and reporting? There was an over reliance on lay people to perform accounting functions.”

Mr. Brendan Barry stated that we should go back and look at other District activities.

Ms. Fertig stated that BSO was investigating and that Pat Reilly contacted the correct authorities.

Mr. Barry asked if the employee handled other cash collections while employed.

Mr. Reilly stated “All other transactions were checks.”

Mr. Barry asked for the names of the employees involved in the cash collections.

Mr. Reilly stated “The Operations Specialist IV was Ms. Bette Ray. The Security Specialist was Mr. Jerry Archie. The Manager II was Mr. Israel Canales.”

Dr. Lynch-Walsh asked for information on who was in charge in the Facility Planning & Real Estate Department.

Mr. Chris Akagbosu stated that he took over for Mr. Tom Coates, who passed away.

Dr. Lynch-Walsh stated that in 2011, Mr. Akagbosu was listed as the Director along with Bette, Linda and Valerie. She asked if this was correct.

Mr. Akagbosu stated that the previous parking pay stations were losing money. “When I took over, procedures were developed. Moving forward, we are now reconciling to the bank.”

Ms. Fertig stated that we should determine whether other departments are collecting cash, accepting credit and checks. She stated there could be problems with checks also. The District should ensure that a process is in place similar to the money collection processes at the schools. She asked if sales tax was due on the parking lot revenues.

Mr. Reilly stated “The General Counsel’s Office is looking at that issue.”

Ms. Fertig stated that the Treasurer’s Office’s Business Practice Bulletin A-514 Collection of Monies – Departments Only did not get posted to the District’s website for two years. “I think there needs to be an effort made to quantify how many departments are handling money and ensure that each area has received the training.”

Ms. Shaw stated “I understand that one department is responsible for reconciling and there should have been a comparison from budget to actual revenues for this activity. There should be an expectation of what the revenues should be. If during one month, no revenue comes in, someone should be noticing that. There could be issues with credit cards also.”

Dr. Lynch-Walsh stated “I understand that the Director provided new procedures to Mr. Reilly. We have throughout the District non-accountants writing internal control procedures. That seems to be very dangerous and that’s how this happened. It sounded like a good idea to have one person doing all these functions, which violates the most basic principles of financial accounting, that anyone that took financial accounting in college, would know not to do. How many other departments have non-degreed accountants writing internal control procedures without the assistance and oversight of someone with an accounting background?”

Mr. Jeff Moquin stated “We are making a list of all departments that are involved in any kind of cash or revenue collections. To the point, even though there was a presence of a procedure on how to do this, there shouldn’t be individual departments writing procedures, because we have a Business

Practice Bulletin to address collections. Cash collections should be handled in accordance with District protocols. We asked for this audit, but that doesn't excuse that it was allowed to happen. As soon as we noted this lack of reconciliation, the Superintendent requested that Pat get involved. The question was whether there was potential criminal activity or just an accounting issue, where monies could have been deposited into the wrong accounts. Clearly, the audit has shown that there's the appearance of criminal activity and that's why BSO is investigating. The Superintendent has the same expectation for District administration as for schools' administration. This audit, now that it has been completed, the individuals involved, along with their supervisors, will be reviewing it. If there's the need for progressive discipline, it will occur. I think this issue of cash collections relative to this parking lot became a new function. Even if it was a new function for the department or individual, the Business Practice Bulletin should have been followed. The Security Specialist and other individuals were not involved in cash collections. They were trying to provide support and security for the transporting of funds. We will look at some of these issues and learn from it. If there's a need to expand or introduce additional audits, we will ask the Audit Department to do that."

Mr. Barry stated "Chris, your hokey story about taking over because someone died was designed to tell me that you are not responsible and that you were not here when it happened."

A motion was made to transmit. Motion carried.

Other Business

Audit Committee Elections

Ms. Fertig stated "Regarding the elections held on October 19, 2017, I would like to read a statement for the record. The Audit Committee works closely with the Chief Auditor and the Audit Department to promote strong fiscal management of the School Board of Broward County. The Committee provides an important, independent community perspective. During the ten years I have served on the Committee, it has been recognized for its independent, impartial review of audits. The credibility of the Committee, in my opinion, rests on its ability to be impartial and to focus on business practices that can be improved, rather than on personalities. The Audit Department, and by extension, the Audit Committee, has saved the District millions of dollars by identifying misuse and waste, recommending changes to promote better business practices. Over the years, some instances of intentional, inappropriate or illegal acts on the part of an individual or individuals have been identified. Those cases have been turned over to the appropriate authorities or department to deal with. Even in those cases, the matters have not been personalized. Increasingly, during the past year, I feel that some of the discussions in this room have become focused on the personal and the issues have been politicized. This is solely my opinion. For the past three meetings, the issue of my eligibility to be Chair has been questioned. When I offered to just step down in June and let someone else be nominated, it was stated that we needed a Nominating Committee. When I agreed to accept the nomination at our last meeting, it was with the understanding that we were operating under our current bylaws. Until the Board votes on the new bylaws, the current bylaws do not prohibit me from being Chair; however, it has been brought up again, and the rhetoric has become more threatening. Rather than distract from the mission of this Committee, I'm going to resign as Chair, effective at the end of today's meeting and request that Dr. Mack take my place until the elections can be held at our next meeting. I'm going to form a Nominating Committee before we leave today, so that we are in compliance with our current

bylaws. For those of you who don't understand, we have current bylaws, we also have proposed bylaws that the Board has not voted on. I'm not going to get into interpretations, because, quite frankly, I think this is a distraction from what we do. I'd like to make one last personal comment. I've known School Board Attorney, Barbara Myrick for longer than some people in this room have been alive. I've known her to be an honest and ethical person. I personally resent the attacks of threatening people and raising personal attacks in an effort to have someone removed as Chair. I am going to remove myself as Chair. I thank you so much for the privilege of serving. I recognize and appreciate the time and commitment that everyone puts into this. More than you know, I appreciate everything that Pat and his department have done to save this District millions of dollars and redirect those dollars into the classroom. I'd like to have a Nominating Committee discussion and Mr. Medvin, I was hoping you would consider serving on the Nominating Committee, since you've been here a long time. Is there someone else who would like to serve?"

Mr. Barry agreed to serve on the Nominating Committee.

Ms. Fertig stated "Let us know when you would like to meet and we will advise people, in case they want to attend."

Other discussion followed.

Ms. Fertig clarified "The School District changed Policy 1.7. Part of that required changes in bylaws. Our bylaws, for example, don't have any term limits on Chairs; however, the School District never got to Step 2, which is to approve the bylaws. Generally, in any organization, your bylaws govern what you do.

Dr. Lynch-Walsh stated "Back in May or June, Policy 1.7 states that no members may serve as Chair or Vice-Chair of an Advisory Committee for more than 2 consecutive years. This is the Audit Committee. This is not personal. If the Audit Committee, of all committees, is not abiding by 1.7, then what message are you sending to all other Advisory Committees?"

Ms. Fertig stated that Dr. Mack would be replacing her as Chair until elections are held.

Discussion of Job Descriptions and Hiring of Chief Auditor

Discussion was held about the Audit Committee having input on the hiring of the Chief Auditor and input on the job description.

Mr. Moquin stated he was unaware of any changes to the Chief Auditor's job description. He also stated that the vacancy has been posted.

Meeting adjourned at 2:30 p.m.