

The School Board of Broward County, Florida
AUDIT COMMITTEE

MINUTES OF AUDIT COMMITTEE MEETING

November 15, 2018

Mr. Moses Barnes, Audit Committee Chair, called the Audit Committee meeting to Order at 11:40 A.M. at the Kathleen C. Wright Building in the 1st Floor Board Room. Members and Staff were introduced.

Members Present:

Mr. Moses Barnes, Chair
Mr. Robert Mayersohn, Vice Chair
Mr. Brendan Aloysius Barry, Esq.
Ms. Rebecca Dahl
Mr. Anthony De Meo, CPA
Ms. Stacey Kotzen, Esq.
Dr. Nathalie Lynch-Walsh
Mr. Andrew R. Medvin, CPA
Ms. Phyllis Shaw

Staff Present:

Mr. Joris Jabouin, Chief Auditor, Office of the Chief Auditor (OCA)
Ms. Erum Motiwala, Director, Accounting & Financial Reporting
Ms. Mary Coker, Director, Procurement & Warehousing Services
Mr. Alan Strauss, Director, School Performance & Accountability
Dr. MaryAnn May, Chief Fire Official
Mr. Ivan Perrone, Treasurer
Mr. Omar Shim, Director, Capital Budget
Ms. Gerri Arlotta, Associate Director, Accounting & Financial Reporting
Ms. Ali Arcese, Manager, Property and Inventory Audits, OCA
Ms. Ann Conway, Manager, Internal Funds Audits, OCA
Mr. Gerardo Usallan, Manager, Facility Audits, OCA
Mr. Al Shelton, Purchasing Agent, Procurement & Warehousing Services
Ms. Megan Gonzalez, Confidential Clerk Specialist B, OCA
Ms. Michele Marquardt, Confidential Department Secretary, OCA

Guests Present:

Mr. Dan O' Keefe, Shareholder, Moore Stephens Lovelace (MSL)
Ms. Tanya Davis, Partner, S. Davis & Associates, P.A. (SDA)
Mr. Eddie Castaneda, Audit Manager, Moore Stephens Lovelace
Mr. Kevin Adderley, S. Davis & Associates

A moment of silence was observed for Dr. Valerie Wanza's husband, Charles Henry Wanza, Jr.

Mr. Jabouin discussed non-agenda administrative matters with the Committee regarding the absence of key District leaders from the meeting as well as documentary forms.

Mr. Jabouin announced that some District members were unable to make the meeting. Mr. Robert Runcie, Superintendent, Mr. Jeff Moquin, Chief of Staff, and Ms. Judith Marte, Chief Financial Officer, were all attending the Marjory Stoneman Douglas Commission Meeting and are unable to attend. Mr. Robert Vignola, Deputy General Counsel, will attend later. Mr. Leo Bobadilla, Chief Facilities Officer, will not be attending as he is out ill, and Dr. May attended on his behalf. Mr. Maurice Woods, Chief Strategy & Operations Officer, is unable to attend, and Ms. Coker attended on his behalf. Dr. Valerie Wanza, Chief School Performance & Accountability Officer, is out on bereavement, and Mr. Strauss attended on her behalf.

Mr. Jabouin thanked the Committee members who have completed the online “Committee Training Program” and reminded the members who had not yet completed the training to do so as soon as reasonably possible.

Mr. Jabouin stated that the “Conflict of Interest Form for School Board Advisory Committees” document was copied and is available for the Audit Committee members that had not yet completed them. A copy of the form was left for the Committee members at their seat to fill out and return.

Mr. Jabouin also stated that copies of the “Form 8B, Memorandum of Voting Conflict for County, Municipal, and Other Local Public Officers” document was available to the Committee, if needed, and would be made available during future meetings, if needed.

A motion was made by Ms. Shaw and seconded by Mr. Medvin to approve the Agenda for the current meeting. Motion carried.

Old Business

Follow-Up Discussion: Internal Audit Report – Current Status Updates of the Audit of Termite Extermination Contracts No. 15-109T and No. 28-137T

Mr. Jabouin reported on the follow-up steps that were discussed at the last Audit Committee meeting with respect to the Termite Extermination Contracts audit from 2016. Mr. Jabouin discussed that there were two outstanding issues. The first issue was the requirement that the contract be re-bid and include language that allowed the District to take advantage of the cumulative square footage so that the District can get some more favorable pricing and discounts. The second issue was that the District had not taken the new contract out to bid. There was a component of it that called for portables to have extermination fumigation at \$425 per portable.

At the last meeting, the OCA had not completed its independent testing. Since that time, the OCA tested invoices as it pertains to the contract that was in place. Thirteen invoices for 63 portables in the amount of \$26,775 were audited and all were charged the correct amount. Twenty-one invoices for non-portable buildings in the amount of \$310,492 were audited and showed no exceptions. A new re-bid contract as of July 1, 2018 is now in place with the appropriate language, and three invoices in the amount of \$7,495 were audited without exceptions.

These issues are now closed.

Follow-Up Discussion: Internal Audit Report – Audit of Asphalt Paving and Athletic Track Maintenance, Resurfacing and Striping Contracts

Mr. Jabouin reported on the follow-up steps that were discussed at the last Audit Committee meeting with respect to the Asphalt audit from 2017. Mr. Jabouin discussed there are four issues regarding this audit. Issue one is pre-qualifications of the vendors, and issue two is about vendor limits. Mr. Jabouin discussed these two issues at the last Audit Committee meeting and considered them closed because the OCA had previously performed sufficient follow-up testing at the prior meeting. Issue three is regarding the use of annual facilities permits versus standard building permits. This was also discussed at the last meeting. However, at the last meeting, the OCA had not yet confirmed that with the Chief Building Official. Since then, it has been confirmed with the Chief Building Official, and he agreed with the new strategy as to when a permit would be required. The fourth issue refers to billing rates the District was being charged for asphalt work. The OCA performed follow-up testing on 200 recent invoices in the amount of \$901,000 in billings. Of the 200 invoices, 198 had no exceptions and were billed correctly. Of the remaining two invoices, one invoice was in compliance with the bid documents, and the vendor was contacted for clarification. The last invoice was shown to be overbilled \$200. The vendor was contacted and refunded the District the overcharged amount. Memos were sent to the employees responsible for reviewing the invoices. Mr. Jabouin did not view this as a systemic issue. There were only two invoices that were less than 1% of the amount audited. From an audit standpoint, Mr. Jabouin doesn't deem this to be an issue for further concern. Mr. Jabouin also mentioned that during conversations with Mr. Woods, they looked at the bidding documents, and Mr. Woods would consider having some limits within some of the categories.

The Committee had questions and discussions related to whether this issue would happen again. One of the concerns is the people approving the invoices are continually approving incorrect amounts. Dr. May indicated that there is now an additional control in PPO as all invoices are also going through the Finance Manager. Mr. Jabouin stated that he would note these instances in case future exceptions were noted with the same individuals. Mr. Jabouin also confirmed that he was provided with copies of the memorandums that were sent to those who committed the errors.

A Committee member then discussed the concern that the department in question has committed errors in the past. Mr. Jabouin noted that the PPO department, who is responsible for those errors, would be subject to future audits and repeat issues would be noted. In those cases, the issues would also be discussed with the appropriate division chiefs and treated differently.

Although these issues are now closed, the OCA will proceed with the audit program with the knowledge from the Committee's discussion. Mr. Jabouin stated that he noted the concerns of the Committee.

Audit Committee By-Laws

Mr. Jabouin discussed the draft By-Laws document. This document was discussed at the prior Committee meeting. The members previously discussed adjustments to the draft By-Laws that were previously presented. Mr. Jabouin reported that most of the Committee's requested changes were made. Previously-proposed changes that were not accepted by the Committee were re-adjusted back to the wording of the previously-approved By-Laws. Mr. Jabouin also made other cosmetic comments that addressed grammar, capitalization, consistency and redundancy issues. Some wording from Policy 1.7 was added but making reference to comply with Policy 1.7 was not deemed necessary because the By-Laws stated that they would comply with School Board policies.

The paragraphs in the By-Laws discussing the different conflict of interest forms were discussed. The Committee commented on the District's form and the voting conflict form. Although the Committee is aware of the requirements of the voting conflict of interest form, it was noted that the District's form should

be evaluated, and discussion occurred as to whether the form was necessary or duplicative or needed to be updated.

The Committee discussed the paragraph about being absent from a meeting. Various thoughts were discussed about the appropriate number of absences and whether they would be excused. The Committee requested that Mr. Jabouin research neighboring municipalities treatment of absences. Mr. Jabouin will look at both items then seek Mr. Vignola and Mr. Moquin in an effort to changing the form and By-Laws, and also look at other municipality conflict of interest forms.

Seeing that Mr. Vignola is not in attendance, Ms. Shaw motioned to delay until January. Seconded by Ms. Dahl. Motion passed.

New Business

Minutes

Mr. Jabouin discussed the two sets of minutes presented at this meeting. He chose to bring both sets to note the preferences of the Committee on the content of future minutes. One set is a typical set of minutes showing motions, what was passed/approved and summaries of significant discussion points. The other set of minutes is a verbatim transcript. Mr. Jabouin discussed that the verbatim transcripts were compiled by a third-party transcription company, and then staff corrected them for content and added the names of each speaker which took days of editing.

The minutes were discussed between the Committee members and Mr. Jabouin as to what was preferred. Mr. Jabouin noted that going forward the minutes would be a compromise of the various points discussed by the Committee: some members preferred the verbatim minutes and others preferred the minutes that were a summary and captured the essence of the meeting and the decisions reached by the Committee. Mr. Jabouin noted that the general preference of the Committee was to have the summary minutes but ensure that they are more robust than the version presented at the current meeting. Given that the detailed minutes take a significant amount of staff time, the minutes that will be presented at the January 31, 2019 meeting and future meetings will be a blend of the Committee's comments but will primarily be in a summary and not a verbatim transcript.

Mr. Jabouin noted that the verbatim transcripts would be kept by the OCA as the transcription company compiled them but not presented for Committee approval.

Motion to approve the minutes as presented and seconded by Mr. Mayersohn. The motion passed.

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

Mr. Jabouin presented the Internal Funds audit report. Forty schools were reviewed with no exceptions. Mr. Jabouin was asked whether a schedule existed of the schools that would be reviewed. He responded that all 227 schools are to be audited each year by June 30th. He also indicated that OCA is currently behind on internal funds audits and are performing them one-by-one. A strategy has been prepared that will allow the OCA to catch up. A Committee member noted that some schools seem to be sitting on money but noted that it seems to be more operational than financial. A Committee member had observations on whether the schools were using their funds effectively. The member stated that she will get with Ms. Conway to ask further questions. Mr. Strauss stated that you need to separate the internal account from the school's general budget. The school's general budget is the generated funds from the state, and internal accounts is external dollars that come in to the school and it could be from clubs, e-store payments, paid for a specific activity, etc. Mr. Jabouin indicated that more detail can be given as to the type of activity that goes through some of these accounts. For example, departments, general and trusts.

Additional internal fund audit questions were asked later by the Committee during the Chief Auditor's Report presentation.

Mr. Mayersohn motioned to transmit. Ms. Shaw seconded the motion. Motion passed.

Internal Audit Report – Property and Inventory Audits of Selected Locations

Mr. Jabouin presented the Property and Inventory audit report. A total of nine locations were audited and eight had no exceptions. Banyan Elementary had one exception. One mobility cart and one folding table could not be located. It was discussed that more follow up needs to happen. Also, more accountability for the semi-annual audits. Mr. Strauss spoke to reassure the Committee that the Cadre Directors are always bringing it up to the Principals to make sure the semi-annual audits are completed and followed through. It was of general consensus to have a follow-up report to determine outstanding and pending items. Mr. Jabouin spoke about the improvement initiative started in the District. The initiative is looking at the property and inventory process from beginning to end. Mr. Jabouin would eventually like to look at higher-risk items with high-dollar items. As a member of that committee, Mr. Jabouin indicated that good reporting is needed to determine anomalies. Also, to build the processes and controls, he will look to have those reports or communicate that to the group so that they can put controls in place.

Mr. Mayersohn motioned to transmit. Motion was seconded. Motion passed.

Comprehensive Annual Financial Report – June 30, 2018

Ms. Motiwala presented and discussed the Comprehensive Annual Financial Report, CAFR.

Ms. Motiwala referenced the memorandum compiled by Ms. Marte to the Committee regarding the CAFR. She noted that there were two sets of financial statements: the government-wide financial statements and the fund financial statements along with the detail and supplementary schedules as well. Ms. Motiwala noted that one of the key highlights this year was the implementation of the new accounting standard, GASB 75, which requires the reporting for post-employment benefits other than pensions. That required the District to restate the prior year's statement on that position, so there was a negative impact on the net position but that only applied to the government-wide financial statements. She also stated that the District had some refunds of tax this year which was also presented in the summary. The District also issued a tax anticipation note.

The CAFR also includes the charter schools' financials, the audited financial statements and the component units of the financial statements. Ms. Motiwala also reported that the Broward Education Foundation is also presented in the component unit section. She stated that we have not received their audited financial statements to date. She thanked the external auditors for their partnership and also helping the District complete the audit timely. Finally, she thanked the finance team and District staff for providing information in a timely basis.

Mr. O'Keefe then discussed the audit of the CAFR. He referenced a three-page letter to the Committee of MSL's required communications. He referenced the actual financial statements themselves. He noted that the CAFR is being presented to the Committee at this meeting in order to be consistent with a timeline in order to get it to the School Board and file for the Government Finance Officers Association before December 31st. He noted that the Committee will be receiving the internal control reports and management letter and the rest of the documents at a future Committee meeting.

Mr. O'Keefe noted that the Auditor General is doing the Single Audit this year. He noted that MSL has already provided their work and work papers to the Auditor General. He was unaware of the timing of the

Auditor General's report but believe they have a nine-month time period to get the reports issued. Mr. O'Keefe noted that Broward Educational Foundation is the only area which surprised them. Not getting the Foundation's financial statements was a surprise. He referenced page 36 of the CAFR where MSL has appropriately disclosed the fact that those financial statements were not provided to the District. Regarding the District's accounts, with regard to the District's funds, with regard to the District's disclosures in this financial statement, MSL will be issuing an unmodified report on that information.

Mr. O'Keefe noted that he thinks the way staff has presented it right now is probably best. He stated that he believes that the disclosures made adequately covers what the School District needs to provide. He complemented the staff on summarizing the highlights through the document. He noted that they picked up on some of the key items that might be of interest to the Committee.

Mr. O'Keefe complemented Tanya Davis and the SDA team. He noted that they really did not have any audit issues. They were able to do an in-depth review this year of the District's information technology systems.

Mr. O'Keefe then answered questions from the Committee regarding the timing of the financials. He responded that he anticipated that the CAFR would be ready for approval at the December 4th meeting but noted that MSL had not yet received the financials from the Broward Educational Foundation. Mr. O'Keefe noted no concerns with the District's financials but stated that the firm would not be able to opine on the component units.

Mr. O'Keefe was asked by the Committee about significant estimates that were considered. Mr. O'Keefe responded that post-employment benefits, the useful life of capital assets, the length of time for depreciation, claims for liabilities and insurance were some of the most significant estimates.

This CAFR will be presented at the December 4th Board Meeting. Ms. Shaw motioned to transmit, seconded by Mr. Mayersohn. Motion passed.

Chief Auditor's Report

Mr. Jabouin discussed the Chief Auditor's Report on some of the key activities of the OCA since the prior Audit Committee meeting. He began by recognizing the hire of Mr. Usallan as the new Facilities Audit Manager. Mr. Usallan was previously with the OCA as an Operational Manager. Mr. Usallan was previously a Facility Audit Manager. Mr. Usallan is currently finishing up a PCard audit. After that he will be handling higher risk steps of the OCA's future facility audits, and a new staff member, who will report to Mr. Usallan, will conduct lower risk step audits of such audits.

At the October 30th School Board Workshop, Mr. Jabouin presented an assessment of adding four additional positions to the OCA. Mr. Jabouin discussed how the four new Auditor III's would be aligned. First, new auditors will immediately go to work on internal funds. When they are caught up on the internal funds backlog, one auditor will be assigned to the technology area, one auditor will be assigned to Mr. Usallan for the facilities area, one auditor will be assigned to the charter school's area and one auditor will be assigned to the operational/discipline audit area. The hire and onboarding and timing of when these new potential team members can contribute to the OCA is important to the OCA's ability to further develop our strategy and address the key audit areas.

As part of the staffing strategy discussed at the October 30th School Board Workshop, Mr. Usallan's previous Operations Manager position would be changed to an IT Audit Manager. With that change comes the process of changing the job description, so filling this open position may take some time.

Mr. Jabouin also discussed the two open Property & Inventory analyst positions that report to Ms. Arcese have been filled. One position is being filled by an existing employee of the District, while the other is new to the District. Both individuals should be in place in December.

Mr. Jabouin noted and thanked Chair Barnes and former Chair Mary Fertig for their support at the workshop. He reported that Ms. Fertig spoke to the School Board about the importance of the OCA's work and reminded them of the cost savings provided by the OCA throughout the decades.

Mr. Jabouin reported that the OCA has been assigned to manage the engagement for RSM McGladrey. Mr. Jabouin stated he had his first meeting with Atkins and CBRE regarding the eBuilder software, but future meetings will address comments noted by RSM in their review of the SMART bond initiatives.

Mr. Jabouin reported that he was involved in meetings and the ultimate presentation the District's pay practices at a recent School Board Workshop and that the OCA has participated on the District's payroll process improvement initiative. A Committee member had concerns about the District's pay practices and provided documents to Mr. Jabouin that would be reviewed during a potential future audit of that area after the IT Audit Manager commences his or her employment.

Mr. Jabouin was asked about the engagement with SDA with respect to internal funds audits. He reported that because the OCA is behind on these audits, a catch-up strategy was put in place using SDA. Mr. Jabouin noted that they were hired to assist with the backlog of audits. They were assigned schools and would report on their work at a future Committee meeting.

The Committee asked questions about the testing performed on internal funds audits. Ms. Conway was asked and reported on the steps performed during the internal funds audits. She reported that the OCA samples receiving documents and collections and traces money to the bank account. Disbursements and compliance are also part of the scope of the audits. Mr. Jabouin will provide an email as a follow up to the questions that were asked on some of the testing categories. Ms. Conway and Mr. Jabouin will work on an email with some more clarity as to what goes through those accounts.

Mr. Jabouin discussed that he is part of the initiative that is looking at controls on property and inventory from top to bottom. Mr. Jabouin reported that he is currently working on the inventory process improvement project which is supposed to be in place in July of 2019.

Regarding operational auditing, Mr. Jabouin reported that the OCA has started its preliminary procedures for future audits of compliance with the District's discipline policies and adherence with the Student Code of Conduct. Mr. Jabouin stated that the process will be to make sure that discipline is applied within the District's procedures and reported to the state correctly and whether documentation of school discipline is in accordance with the Student Code of Conduct and the District's discipline matrix. Currently, OCA has visited four different schools for preliminary audit fieldwork and observing their discipline practices and the quality of their discipline documentation practices. The OCA is in the process of creating the discipline audit program and audit strategy. Committee members asked about whether the audits would include under reporting. Mr. Jabouin responded that the strategy will include steps to try to identify under reporting. Given the size of this audit, the OCA will likely have a strategy that audits components of the discipline process every year.

Mr. Jabouin was asked and responded that the discipline documentation and how discipline is applied and reporting to the State would be part of the scope. Mr. Jabouin noted that the eventual hire of the IT Audit Manager will be part of the discipline audit strategy. A substantial amount of discipline data is stored and managed on systems and those would need to be audited. He stated that the IT Audit Manager would also

audit the payroll process and systems and the pay practices. The hire of that position and the Auditor III that would work on discipline are important to achieving this audit goal.

Mr. Jabouin was asked about the follow-up process from the Committee. Mr. Jabouin stated that he is currently taking notes on the areas of follow up and is including them in the last pages of the Chief Auditor's Report. The Committee's requests and observations are part of the reporting. Additionally, Mr. Jabouin will create a risk assessment process as the basis for next year's plan. He is going to identify the high-risk areas. Going forward, proceeding with the hiring process of the audit team members and building the different areas is a top priority.

Mr. Barnes requested a motion to adjourn. Motion made by Dr. Walsh and seconded by Ms. Shaw. Motion carried.

Meeting Adjourned: 1:55 P.M.