

The School Board of Broward County, Florida  
**AUDIT COMMITTEE**

MINUTES OF AUDIT COMMITTEE MEETING

September 3, 2009

Mr. Duane Wolter, Vice Chair, called the Audit Committee meeting to order at 12:30 p.m. at the Kathleen C. Wright Building in the 10<sup>th</sup> Floor Conference Room. Members and guests were introduced.

Members Present: Ms. Ada F. Bravo  
Mr. Anthony DeMeo  
Mr. Joey Epstein  
Ms. Charlotte Greenbarg  
Mr. Steve Hurst, CFP  
Mr. Roy Karlsen  
Mr. Ted Perrella, CPA  
Mr. Neal Shapiro  
Mr. Duane Wolter

Staff Present: Mr. Donnie Carter, Chief Operations Officer  
Mr. Patrick Reilly, Chief Auditor, Office of the Chief Auditor (OCA)  
Ms. Delores McKinley, Director, Internal Accounts, OCA  
Mr. Dave Rhodes, Director, Facility Audits, OCA  
Mr. Joe Wright, Facility Auditor, OCA  
Ms. Vicki Hill, OCA  
Mr. Mark Magli, Property Audit Supervisor, OCA  
Ms. Patricia McLaughlin, Confidential Clerk Specialist C, OCA  
Ms. Megan Gonzalez, Confidential Clerk Specialist B, OCA  
Ms. Ivette Lima, OCA  
Ms. Sharon Airaghi, North Area Superintendent  
Dr. Joel Herbst, South Area Superintendent  
Dr. Leontine Butler, Central Area Superintendent  
Ms. Melissa Grimm, Director, ERP Project Management  
Mr. Robert Hamberger, Chief Building Official, Building Department  
Mr. Jeff Moquin, Support Operations  
Ms. Victoria Kaufman, Director, Non-Instructional Staffing

Guests Present: Mr. Dan O'Keefe, Engagement Partner, Moore Stephens Lovelace, P.A.  
Mr. Manuel Garcia, CPA, BKR Garcia & Company, PLLC  
Mr. Ronald Thompkins, CPA, Watson Rice, LLP  
Ms. Patricia Mazzei, Miami Herald  
H. William Hunter, Public Citizen

## **Old Business**

### **Minutes**

A motion was made to approve the Minutes from the July 23, 2009 Audit Committee Meeting. Motion carried.

Ms. Charlotte Greenbarg added the following comments:

“The minutes were approved as presented. I mentioned this in my email re: S. Kraft’s statement that “You know, just the word unprofessional was used by at least two Audit Committee members.” The minutes reflect that Mr. DeMeo said: ‘...I am struck with the professionalism of your group; you do good work. We are auditors in my firm and I think your audit is very high quality and very well thought out.’ The minutes were verbatim, and nothing in them had anyone saying the audit was unprofessional. I asked if anyone on the Committee had used the word “unprofessional” referring to the internal auditors on July 23, 2009 and no one had.

I think it’s also important to reiterate that in the material I passed out at the July 23, 2009 special meeting, the Role of Auditing in Public Sector Governance states: ‘Oversight, which addresses whether government entities are doing what they’re supposed to do and serves to detect and deter public corruption.’ It goes on to say that the Audit Committee provides independent oversight of the internal and external audit work plans and results...and ensuring that audit results are aired and any recommended improvements or corrective actions are addressed or resolved. This subject was also covered by the external auditors’ report, see below.

I know we don’t like to hear that the auditors see indicators of fraud, collusion or falsification of documents; they are, however, obligated to state it when they see it.”

### **Follow-up Items**

#### **#1 Follow-Up Item – Drivers’ Education Audit**

Mr. Reilly stated “The first item is an update regarding the insuring of the Drivers’ Education vehicles”.

Mr. Jeff Moquin stated “It’s been invoiced, the budget transfer’s been completed, the vehicles are on the schedule. The cost was approximately \$38,000 and the monies were drawn from the Drivers’ Education fund.

Mr. Wolter stated “This item is now closed”.

#### **#2 Follow-Up Item - Property and Inventory Audit Report**

Mr. Reilly stated that this was an item from the June 25, 2009 Audit Committee meeting. He asked Mr. Carter for an update.

Mr. Donnie Carter stated that he would address the issue in two parts. “First, the Board has directed staff through the Superintendent to look at this item as a project management project item. We would establish committees, look at the budget part of it and run it through that process. We will do that and we’ve already begun to put the format together. We want to add a component for accountability to mirror what

we do in schools, so that everybody is held accountable for whatever issues they have with property and inventory controls. The other piece is to look at security for laptops and the cost for that security. The other side of my response is the nine recommendations that the Committee, appointed by the Superintendent, has developed. What we were planning to do is have Mr. Reilly look at those and advise which of those nine we had disagreements with. Of those four, three “were taken off the table”, as they were policy and/or procedurally related and the other one has to do with development of a Committee. There is one that we can reach an agreement on, which has to do with expanding the issues of concern as identified by the Principals and that extension of items would be added to the already established list from Mr. Magli. We’re basically on the same page and are moving in that direction as we use the project management process to address this. I’ll come back to you at the next meeting to give you a timeline on this, because we have to develop a charter on this item. Before we do that, we can use this as a guideline, and I think working with Pat and the Committee, we can resolve this issue.”

Ms. Greenberg asked if we could discuss the items which the Auditors disagreed with. Discussions followed.

Mr. Steve Hurst asked about the security issue.

Mr. Carter replied “The Board was looking at securing laptops, placing them in a secure location in each school, or attaching a device that would act as a “LoJack” style locator or a program that would disarm the laptop once it’s identified as stolen.”

Mr. Hurst added “That is called a timebomb”.

Mr. Carter stated “We did an initial survey and found that it would be cost prohibitive”. Discussions followed. He stated he would provide an update at the next meeting.

Mr. Ted Perrella asked about the Auditor General’s comments regarding Property and Inventory. Discussions followed.

### **#3 Follow-Up Item - PBS&J**

Mr. Hamberger provided an update on the status of the building inspections related to the PBS&J audit. He stated “The 3,000 inspections we’ve been researching over the summer are now down to two items, which were backordered items. We discovered in our investigation that was outside the scope of our work, and that is, we have some data lines that were put in our schools after the fact. We’ve contacted the appropriate department to make sure that work gets done. We found from our investigation that three roofs needed to be looked at by a forensic roofing inspector. We expect to have a full report at the next Committee meeting. There were two other schools that were inspected by the State of Florida, Department of Community Affairs, which provided an insignia, which certifies that these schools were factory built according to the Florida Building Code. The School Board and the Contractor are at an impasse as far as these correction items and are in the process of working it out”. The two schools are Morrow Elementary and Forest Hills Elementary. In my opinion, the way the schools are now, there is no posing threat to occupancy in terms of safety.

#### **#4 Follow Up –RFP Procurement Practices**

At the June 25, 2009 meeting, the Superintendent requested that the Supply and Logistics Department staff provide the Audit Committee an explanation of the RFP process. Mr. Carter provided a flowchart, which included a 15 step process, which the District uses to procure goods and services. The Committee discussed that the key point was that the contract administration is an area that needs to be better monitored, to ensure that the scope of services that are spelled out in the RFP are followed, according to the terms of the contract. Discussions followed.

#### **#5 Follow-Up Item - PPO Audit**

Mr. Reilly stated that the status of the Grau/Portolan reimbursement is still under review and discussion by the Office of General Counsel. This will be addressed at the next meeting by the Office of the General Counsel.

#### **Internal Audit Report – Audit of the Internal Funds of Selected Schools in the North Area**

Mr. Reilly presented audit reports for ten North Area schools. The audits indicated that each school complied with prescribed policies and procedures.

The Committee was pleased to see that none of the ten schools had audit exceptions. The Committee congratulated the Principals, Bookkeepers and the Area Superintendent for their commitment to fiscal accountability and adherence to School Board Policies.

The Committee made a motion to transmit. Motion carried.

#### **Internal Audit Report – Audit of the Internal Funds of Selected Schools in the Central Area**

Mr. Reilly presented audit reports for six Central Area schools. The audits indicated that each school complied with prescribed policies and procedures.

The Committee was pleased to see that none of the six schools had audit exceptions. The Committee congratulated the Principals, Bookkeepers and the Area Superintendent for their commitment to fiscal accountability and adherence to School Board Policies.

The Committee made a motion to transmit. Motion carried.

#### **Internal Audit Report – Audit of the Internal Funds of Selected Schools in the South Area**

Mr. Reilly presented audit reports for fourteen South Area schools. The audits indicated that thirteen schools complied with prescribed policies and procedures and one school had audit exceptions related to the improper purchases made from vending commissions and un-earmarked donations. The Area Superintendent reported that corrective action has taken place at the one school.

The Committee was pleased to see that thirteen schools had no audit exceptions. The Committee congratulated the Principal, Bookkeeper and the Area Superintendent for their commitment to fiscal accountability and adherence to School Board Policies.

The Committee made a motion to transmit. Motion carried.

Ms. Greenbarg stated “The internal audit reports were good, and we were delighted. The Area Superintendents emphasized that they are making sure training and oversight continue, and when a principal has an exception and moves to another school, they’re watching. We’ve come a long way on these audits. As always, we send letters of congratulations to Principals of those schools with no exceptions.

The Committee recommended that congratulatory letters be sent by the Superintendent to all schools that did not have audit exceptions.

### **Internal Audit Report – Property and Inventory Audits of Selected Locations**

Mr. Reilly presented audit reports for thirty-one locations. The audit reports indicated that twenty locations complied with prescribed policies and procedures. There were eleven locations that contained audit exceptions consisting of unaccounted for property and the failure to follow some prescribed rules.

The Committee was pleased to see that more locations are complying with the prescribed policies and procedures related to Property and Inventory. The Committee was glad to see that management is improving on the adherence of internal controls over Property and Inventory.

The Committee agreed with the Chief Auditor that training District staff on how to manage their Property and Inventory is essential. Providing District staff the ability to periodically download their locations’ Property and Inventory reports has improved accountability.

The Committee was pleased to see that the number of locations with audit exceptions and unaccounted for items is decreasing, as noted with the reports presented at the last couple of meetings.

Mr. Ted Perrella stated that the Auditor General noted that the Auditors were doing what the schools/locations should be doing. Discussions followed.

Mr. Mark Magli stated that the Auditors are not functioning as management, but are trying to train the schools/locations to perform quarterly inventory checks, keep track of surplus equipment and make sure to put serial numbers on equipment for proper recordkeeping.

The Area Superintendents assured us that they were tracking which schools were functioning properly, using the methods Mr. Magli had provided. They stated that many schools were not having problems accounting for inventory regularly. They said that all schools/locations needed to manage their inventory properly.

The Committee made a motion to transmit. Motion carried.

### **Internal Desk Review – Desk Review of Overtime Expenditures for the Period January 1, 2009 through March 31, 2009**

Mr. Reilly presented an overview of the Desk Review of Overtime Expenditures for the 3<sup>rd</sup> quarter of fiscal year 2008-09, which was originally discussed at the June 25, 2009 Audit Committee meeting. At

the request of the Superintendent and the Audit Committee, the report is being presented again with responses to the nine audit findings/recommendations.

The Desk Review included a review of the data file provided by the Payroll Department which contained all overtime premium (OTP) payments for primary and secondary positions. After a review of the overtime data, a sample of the ten employees with the highest OTP payments for the 3<sup>rd</sup> quarter was analyzed to determine number of hours worked, OTP rates paid for all primary and/or secondary positions. The Desk Review included nine recommendations intended to reduce overtime costs and improve payroll reports in the District.

Mr. Wolter asked the Committee if there were any questions related to management's responses.

Ms. Greenberg asked what the Auditors thought of the responses.

Mr. Reilly discussed two issues that needed to be addressed immediately. One of these items is that certain individuals, on their secondary position, were using an hourly rate in line with the salary schedules; for example, a bus operator or custodial position, or after care position. Once those hours reached 40 hours, the hourly rates used to compute the overtime reverted back to their higher primary position hourly rate (calculated at one and one-half times the hourly rate). There were some individuals whose primary rate was used for the secondary position when calculating straight time and overtime. All the situations were that the job requirements of the secondary positions were totally different than the job requirements of the primary positions. "Those are two areas that should be looked at for cost savings", Mr. Reilly added.

Ms. Greenberg was not pleased with the responses made by the Human Resource (HR) Department, which stated that the audit concerns would not be addressed in a timely manner.

Mr. Wolter requested that management of the HR Department submit a revised response to present a substantially heightened sense of urgency in order to make changes to reduce excessive overtime payments now, not after November 1<sup>st</sup>.

Mr. Wolter asked about the training of payroll processors to ensure that they are inputting employee hours in the current payroll period, so that employees are paid on a timely basis.

Ms. Melissa Grimm stated "We have a decentralized payroll system and certain payroll processors who are not making entries in a timely manner need to be identified and given additional training to emphasize the need for entering the hours in the payroll period earned. This will avoid excessive retro payments."

The Committee questioned how the decision was made to use the primary position hourly rate in the overtime calculations. Discussions followed regarding the current configuration of the current payroll system.

Mr. Wolter reiterated that he rejected the unreasonable responses and recommended that management revise their responses to address those issues with a higher level of urgency.

Mr. DeMeo suggested that management address the top 4 or 5 recommendations now. "The other items may require additional resources", he added.

Mr. Wolter made a motion to transmit with the following conditions. He stated “I’d like a motion to transmit, with a request that the response from HR be adjusted to show a sense of urgency.”

Motion carried.

**Moore Stephens Lovelace, P.A. – Communication with the Audit Committee on Audit Planning 2009 – Year Ended June 30, 2009**

Mr. Dan O’Keefe, Engagement Partner, Moore Stephens Lovelace, P.A., presented their 2008-09 Audit Plan which identified the audit firm’s approach, scope of work, the audit team, and the timetable for completion of the 2008-09 audit. The presentation provided a discussion on the new changes in accounting principles and auditing standards that will impact the District. Mr. O’Keefe spoke about management’s responsibility for the design and implementation of programs and controls to prevent and detect fraud, and for informing the audit team about all known or suspected fraud or illegal acts affecting the government involving (1) management (2) employees who have significant roles in internal controls and (3) others where the fraud or illegal acts could have a material effect on the financial statements.

The Committee thanked Mr. O’Keefe for his presentation. They also appreciated his comments on the American Recovery and Reinvestment Act of 2009, which will have an impact on the 2009-10 fiscal year. The American Recovery & Reinvestment Act of 2009 has major programs with lots of accountability. They expected billions, but so far, only \$6 million has been received by the State of Florida.

MSL will among other things, opine as to whether the district’s basic financial statements are fairly presented, in conformity with U.S. generally accepted accounting principles and report on internal control related to financial statements and compliance with laws, regulations, contracts, agreements and grants.

Mr. O’Keefe discussed the quality of the Internal Audit Department and stated that it saves the District a lot of money in audit fees, because they can rely so much on the work of the Internal Audit Department.

MSL will perform the external audit and the results will be reported to the Audit Committee in December, 2009.

Elections were held. Dr. Henry W. Mack was elected Chair Emeritus. Duane Wolter was elected Chair. Steve Hurst was elected Vice-Chair.

Meeting adjourned at 2:45 p.m.