

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

MINUTES OF AUDIT COMMITTEE MEETING

October 22, 2009

Mr. Duane Wolter, Chair, called the Audit Committee meeting to order at 12:30 p.m. at the Kathleen C. Wright Building in the 1<sup>st</sup> Floor Board Room. Members and guests were introduced.

Members Present:

Mr. Anthony De Meo, CPA  
Ms. Mary Fertig  
Ms. Charlotte Greenberg  
Mr. Ted Perrella, CPA  
Mr. Neal Shapiro  
Mr. Duane Wolter

Staff Present:

Mr. James Notter, Superintendent of Schools  
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. 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. Sharon Airaghi, North Area Superintendent  
Ms. Valerie Wanza, South Area Director  
Dr. Leontine Butler, Central Area Superintendent  
Mr. Robert Hamberger, Chief Building Official, Building Department  
Mr. Jeff Moquin, Support Operations  
Mr. Ruben Parker, Director, Transportation Services  
Mr. Michael Garretson, Facilities & Construction Management (F&CM)  
Mr. Juana Romaniuk, Project Manager, F&CM

Guests Present:

Mr. Dan O'Keefe, Engagement Partner, Moore Stephens Lovelace, P.A.  
Mr. Manuel Garcia, CPA, GLSC & Company, PLLC  
Mr. Ronald Thompkins, CPA, TCBA Watson Rice, LLP  
Ms. Patricia Mazzei, Miami Herald  
Ms. Kathy Bushouse, Sun Sentinel  
Mr. Buddy Nevins, Retiree  
Mr. Nick Sakhnovsky, Facilities Task Force Chair

## **Old Business**

A motion was made to approve the minutes for the September 3, 2009 Audit Committee meeting. Motion carried.

## **Follow-Up #1 PBS&J Audit**

Mr. Wolter stated that a hand-out was distributed to the Audit Committee members before the meeting related to this follow-up and asked the Committee if there were any questions.

Ms. Charlotte Greenbarg asked Mr. Pat Reilly if the auditors were satisfied with the PBS&J report received.

Mr. Reilly referred to the matrix schedules (beginning on page 50). "The Audit identified inspections that were done by licensed individuals. There were a significant number of those and there were issues where there were failed inspections that weren't re-inspected and inspections that should have been done that were not done. It seems a little misleading that it states in the right hand column that the UBCI licenses were valid and the PBS&J employees were performing these inspections. I disagree, because in many cases they did not have the licenses that they should have had at the time. Also, there were a couple of other things found on the three issues you noted, relating to two roofs and the data wiring issues. I'd like you to elaborate on what's being done on those; I think it's great that you found those issues. In the conclusion on page 6, the last line indicates that the inspections were done by licensed individuals and that there were no failed inspections. I think the line regarding the 30 TPM projects constructed in 2004 and 2005 inspected by PBS&J needs to be clarified that some inspections were done by unlicensed PBS&J staff, resulting in inspections not performed, or failed inspections that were never re-inspected. It sounds like there was never an issue; that's my concern. I believe that a lot of progress has been made."

Mr. Robert Hamberger addressed the concerns. "On page 2 of the Opinion, I discussed the fact that the UBCI's were not considered valid inspections. I went through the logical steps, and mentioned how they could have had licensure; they had enough of a professional and educational background, but because they did not work for a public institution, the law would not have allowed them to simply make an application to the Department of Business and Professional Regulation (DBPR). If not for that, their work would have been valid; however, they were not. I considered their work and the exercising of their contract invalid. We could not consider those as proper inspections. That is why we went after them and performed approximately 2,500 - 3,000 inspections on these 30 projects. That's why we went after the fact and identified; we looked above ceilings, we identified problem areas that we felt needed remediation and we did these

with our licensed inspectors. There are items that have been shown in the spreadsheets and on the individual inspection tickets. There are latent areas of any building that are finished; you can't see what's behind the drywall; you can't see what's underneath the buildings, the slab; you can't see what's within the concrete walls without truly tearing the buildings apart. That type of destructive process is not advantageous, so we were left with all other alternatives, the logic, the experience of a group of inspectors that I value highly, with my own experience as a building official, the experiences of the previous building official. I consulted a group of peers in the industry to see how they would approach such a problem and came up with the analysis that you see before you. In terms of what PBS&J had done, they had three actual professional engineers who performed inspections on the project, so not every inspection performed by PBS&J was invalid. We highlighted those on the spreadsheets as to the qualifications of the various inspectors. Yes, it is stated here that the original inspections were performed by a certified UBCI, in reference to State Statutes, but that was the original inspection. On the two columns to the left, we also show where we had a licensed inspector go back and review that."

Mr. Reilly stated, I understand that, but I think to say the original inspection was performed by a certified UBCI on every one of them is misleading, because the original inspector was the whole problem with one of the issues that occurred. They didn't have licenses. If you are supposed to have the license, it doesn't matter that you can do the job, you cannot practice without the license."

Mr. Hamberger stated "I see your point".

Mr. Jeff Moquin stated "The issue is over the language on the spreadsheet, not necessarily the process. We've clearly gone back and even on those where the language is an issue, those inspections were redone."

Mr. Reilly stated "I see very clearly that it's now passed, and who did the inspection, etc. I'm fine with that, but if someone were to look at the final document in the future, it would look like there was never an issue."

Ms. Greenbarg agreed that the final document should be accurate.

Mr. Donnie Carter asked for an agreement on how the language should be worded.

Mr. Wolter asked for Mr. Reilly's recommendation.

Mr. Reilly answered "I think the status comment should state that corrective inspections were performed by licensed inspectors. The original inspections were not performed by a certified UBCI."

Mr. Anthony De Meo stated "In the Scope and Methodology section, it states that the building services were performed by PBS&J's unlicensed inspectors. I think the bigger

question, and I agree with Pat, for Mr. Carter or the Superintendent, is whether these buildings are safe.”

Mr. Hamberger stated “They absolutely are safe. They are safe in terms of their structural stability; they’re safe in terms of life safety, as well.”

Mr. De Meo said “I don’t mean meeting standards. Do you feel that those buildings are going to protect the inhabitants under storm situations or any other stressful situations?”

“Yes I do, without hesitation” Mr. Hamberger replied.

Mr. Ted Perrella raised questions regarding the inspection process by offices, such as cities and counties, and whether these third party inspections were performed properly.

Discussion followed.

Mr. Perrella asked if they received a certificate of occupancy (c/o) before the inspections were done.

Mr. Hamberger stated “In terms of the chronology, the c/o’s (certificates of occupancy) were issued at the time the projects were completed. They were completed in 2005 and 2006, generally. The Building Official at the time had signed off on these buildings and felt, as I see them today, that they were substantially and structurally complete and meeting all the codes. The codes are very stringent in terms of hurricanes, wind loading, etc., as well as life safety features of the building.”

Ms. Greenberg asked “Who was the building official at the time who signed off?”

Mr. Hamberger replied “We had several officials; I think there was a transition from Mr. Martin to Mr. Morgan.”

Discussion followed regarding Mr. Morgan’s licensing at the time.

Mr. Wolter requested a response to Mr. Reilly’s recommendation for an addition to page 11, last paragraph.

Discussions followed regarding the wording of this paragraph. The recommendation was to add a phrase that would state that the reason for the re-inspections was a result of unlicensed initial inspections.

Mr. Hamberger stated he would be happy to make that change.

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

Mr. Reilly stated that it would be beneficial to bring this item to the next meeting, due to the fact that the scheduled workshop for October 13, 2009 had been rescheduled until November.

Mr. Carter followed up stating that between all staff/departments involved, there would not be new policies written; but they would simply be augmenting the current policies and procedures. After the Board's workshop, he stated they should have a final document and one District-wide single process to address schools and departments, incorporating any penalties for lost equipment, and whether to install security devices, based on cost, need, etc.

### **Follow-Up #3 - PPO Audit**

Mr. Wolter reminded the Committee that e-mails were sent related to this item.

Mr. Reilly pointed out that there were two separate and distinct issues. "One of the issues is the \$52,250, which our office believes should be reimbursed to the District. On the day the bid was awarded (December 16, 2003), it was clear that \$100,000 was set aside for Section 2.1 - Implementation, which consisted of assisting SBBC in the selection of an implementation contractor and implementation of the selected recommendations by participating in the preparation of an RFP for selection of a contractor, evaluation of proposals received and monitoring the implementation progress. These items were never performed because Grau & Company became the implementer; therefore, none of the requirements of Section 2.1 needed to be performed. We did not get a credit against the \$100,000 in the amount of \$52,250, before the vendor became the implementer. The second issue is a failure to comply with requests for documentation per the Right to Audit Clause in the contract. Grau & Company did not comply with requests per Sections 5.1 - 5.13 of the RFP; therefore, my office filed a complaint with the Department of Business & Professional Regulation (DBPR), based on Grau & Company's actions during the audit process. Regarding this complaint, in accordance with requirements and reporting standards in Government Auditing Standards, we are required to report any significant constraints imposed on the audit approach by information limitations or scope impairment, including denials of access to certain records or individuals. As we requested and were denied access to project records from the vendors, our scope was impaired and attempts were made to limit our ability to complete audit work. At the June 25, 2009 Audit Committee meeting, we received a memo from Mr. Marko stating that Grau & Company agreed to a settlement of \$10,000. On October 2, 2009, Grau & Company informed Mr. Marko that after they received the Notice of Complaint from the DBPR, they were no longer going to pay the \$10,000, unless the SBBC retracted the complaint from the DBPR. On October 15, 2009, Mr. Marko stated that he would not be requesting that we (the District) withdraw the complaint. The new offer stated that if SBBC withdrew its complaint, they (Grau & Company) would pay us the \$10,000 settlement previously agreed to. At this point, Mr. Marko has decided that based upon his review of the available evidence, there does not appear to be sufficient basis to institute suit against Grau & Company, and due to the anticipated cost of protracted litigation, he has decided not to pursue any further action with this vendor. To withdraw the complaint, a good analogy would be if a man received a parking ticket and then several days later received a speeding ticket, he tells

the judge now that he received the speeding ticket, he is no longer willing to pay the parking ticket. One issue has nothing to do with the other. I feel that the complaint that was sent to the DBPR was justified. In this case, the failure of Grau & Company to comply with official government audit requests was the basis of our complaint. We cannot set a precedent allowing vendors to disregard the right to audit records that are related to our contract agreements. This is the third time we are having a problem of this nature. This is where we are right now. I'll open this issue up for any questions." He added that the memo Mr. Marko had sent detailed the final status of this issue.

Ms. Fertig stated she did not see any connection between the complaint filed with the State and a settlement that had already been agreed to. "I really think we're setting a very dangerous precedent. If the department feels they have a right or a responsibility (to file a complaint), then they need to do that, but in this case where we were owed \$52,250 and we were going to get \$10,000, I think this is a waste of my money. Regarding the method that we're using to collect these fees, I'd like to ask Mr. Notter if we have a panel of collection attorneys."

Mr. James Notter replied "We have cadre attorneys that we've used as collection agents."

Ms. Fertig stated "This is a very slow process. It seems to take years to collect money owed to the School Board. I have to think that you could look for a model from other governmental entities to look for a more efficient process. Instead of pursuing these cases in-house, you could use outside contingency attorneys and ask them to pursue these cases. When this audit came out, for example, first we had to talk to them to see if they felt they (the vendor) owed the money; then it had to go to the attorney. I'm wondering why we don't just send a letter to the vendor stating 'we found you owe us money', please send a response or your check. At that point, if there is no response or a disagreement, then send it to an outside collection attorney on contingency. This way, if the auditors are wrong or the attorney loses, we're not out any money. If they win, you've recovered your money a lot faster than the way it's happening now. I certainly do not believe it's appropriate to ask the auditors to withdraw their complaint. I do think it's right for us to suggest to the Board, who asked for solutions the other day."

Ms. Greenberg agreed and stated "In my opinion, if someone, from whom I was owed money, asked me to withdraw a complaint to some entity, and stated 'if you will withdraw that complaint, I'll pay you a quarter of what I owe'; I would call this extortion. I cannot imagine why the School District would put up with that."

Mr. Reilly stated "Mr. Marko sent a letter to Grau's attorney, stating that the District would not withdraw the complaint."

Mr. Perrella asked for a clarification regarding the facts in the original audit.

Mr. Carter and Mr. Reilly explained the details.

Mr. Perrella stated "I don't think Mr. Marko was ever convinced that we didn't authorize monies being received, whether you call it for the purpose of the RFP or for other services."

Mr. Reilly replied that he didn't want to speak for Mr. Marko, but felt that he would not have pursued it further if he didn't think we had a case. He wouldn't have even tried to settle for the \$10,000, if he thought we didn't have a case. We settled, but now he's saying we didn't have a basis. I don't know what his original position was before we negotiated with a settlement, or after, but right now, it's done."

Ms. Fertig stated "It's not done, because they're not going to pay the \$10,000. Now you're back to the beginning. It seems to take years to resolve these matters. It should not take that long; that's why I think the District would benefit by sending these cases out. I'm suggesting that because the Board is looking for solutions. At least, you will have gotten a third opinion, and there would be no cost."

Mr. Notter stated that he would have no problem looking at this type of process, and wanted to review the current system. He stated "For example, we send the \$52,250 to the collections' attorney. We're requiring that the attorney go after the \$52,250. There is no legal expertise that he/she would apply to this, to state whether our chances of winning the case looked favorable, etc."

Ms. Fertig stated that sometimes our in-house people may be too close to the situation, whereas a set of eyes looking at it that are not so close to the situation may be able to give a neutral, non-biased view."

Mr. Notter stated "I thought at a past Audit Committee meeting, we were all critical about the point of only getting back \$10,000, so that same critical nature would obviously apply to the collection attorney, when the collection attorney brings it back and says 'I can only get you \$10,000, right?' My point is, I want to be sure that whatever we say in our audits, (\$52,250), that's what we go and get. That's not necessarily what I've been hearing and that's what I want to clarify."

Ms. Fertig stated "I think it's a more efficient process to go to someone who does this all the time, rather than doing this in-house, which is taking years."

Mr. Notter added "I'm OK with efficiency. My point is that there was a time with us, as an Audit Committee, that whatever the number was, there was a directive to pursue. I wanted to clarify that now when we go to a collection attorney, it's still a directive to get this; however, if you come back or investigate and you get less, then ultimately, it'll still come back here to either question, accept or reject."

Mr. Wolter stated "I don't think it will, because you'll have an independent third party dealing with it, making an allegedly informed decision. I'd like to clarify that we may be disappointed that we get \$10,000, instead of \$52,250, and I think the Committee agrees, we cannot say 'we could have done better' because we were not there. We can

only say we're disappointed that we didn't do better. My second comment is I'd like to move this forward into the form of two recommendations, two motions. I'll summarize it first and then we'll discuss. The first is: We the Committee recommend the School Board develop and implement a more aggressive, efficient and timely collection effort and in that process, consider all alternatives, including the use of contingency methods of collection."

Mr. De Meo said "I agree with the concept, but I don't think this Committee should try to get involved with those negotiations. I think the School Board attorney needs to make that decision. What is the most appropriate method for collection? That's hard for us to evaluate. In fact, I have a few questions for Mr. Reilly". He asked for a brief explanation of the audit dating back to before he was a Committee member.

Mr. Reilly explained the audit findings and recommendations. Discussion followed.

Mr. De Meo said "I think the Operations and Legal Counsel are the ones who should determine the methodology for collection. I think we should encourage more aggressive collection, but I don't think we should try to say "let's get a collection attorney", etc. You did your job, now it's up to Operations to pursue these cases."

Mr. Reilly stated "The next step after we come up with an issue in a report is for Mr. Marko to be able to look at it and decide if it's worth pursuing or not. He does that, and we actually met with the other side (vendor), but I think you're right; the process needs to be tightened. We hand it off to him, he needs to decide whether the District has a case or not."

Mr. De Meo asked why we filed the grievance.

Mr. Reilly stated "The vendor does some of the same type of work that we do, auditing. The contract contained a Right to Audit clause and they have a responsibility under the Board of Accountancy to abide by a contract that states that they have to provide requested information, if there is a Right to Audit clause. Their blatant point of stating they would not provide anything and not responding to our requests was the basis of the complaint. It's not about payment or anything like that."

Ms. Fertig added "I'd like to clarify that I'm not trying to tell Mr. Marko how to do his job, but the other day, the Board stated over and over that they were looking for solutions. I would like to see us give the Board some direction, because they asked for direction. I think it gives them more credibility to have an outside, unbiased person, who was not in any way involved with the contract."

Mr. Notter stated he totally agreed. "I think it is a correct recommendation."

Ms. Greenberg stated, "This is not the only collection problem we have seen. There was the firewall at South Broward High. They owed us \$750,000. Was that ever finalized?"



Mr. Reilly stated "Yes, that was settled."

Ms. Greenberg added "When these vendors get into the negotiations phase, things other than the bare facts enter into the negotiations, which make it very difficult for anybody who tries to negotiate on behalf of the District. It's a human problem; it's a political problem. I think this motion is suggesting that the Board take it outside the realm of politics."

Mr. Wolter requested a vote on the motion. Motion carried.

#### **Follow-Up Item #4 - Overtime Expenditures Desk Review**

Mr. Reilly commented "I am recommending that this item be brought to the next meeting. Ms. Lynn Strong and the Legal Department are still looking at this item and they haven't finalized the item. Ms. Strong also advised that she would not be available today."

Mr. Wolter stated "I would like to accept that, if the Committee agrees, but make a comment that I don't want them to wait for the Committee to meet again before they take action. If they come up with a plan, which I hope they do earlier, I'd rather get a report back to us, stating they've already done it, rather than they're going to do it."

A motion was made and seconded to transmit the report.

#### **Internal Audit Reports - Audits of the Internal Funds of Selected Schools in the North, Central and South Areas**

Mr. Reilly stated "There were twelve schools audited; eight of them complied with all prescribed policies and procedures and there were four schools that had exceptions related to improper procedures for payroll processing, cash receipting, cash depositing, p-card purchases and cash disbursements. We had an issue regarding the use of vending revenues. There are specific Standard Practice Bulletins on how to handle donations and vending commissions and the use of those dollars."

Ms. Greenberg commented regarding the North Area, (page 30). "I like the response, how detailed it is. That is important, due to the serious situation there."

Ms. Sharon Airaghi replied "I heard what you said about responses and am trying to incorporate that. The Principal has already been trained; we have a part time Bookkeeper on site, who is from a school that has had no exceptions and there may be some charges against the person who left."

Ms. Greenberg asked about the Central Area's response, on page 33.

Mr. Reilly replied "The issue began several years ago; the Audit Committee was very involved regarding the Principal's Discretionary Account. Eventually, a Committee was implemented and it was decided to eliminate the account, with some caveats on how to handle luncheons for staff, etc." Discussion followed.

Ms. Greenberg stated she was happy with the South Area's response also.

Mr. De Meo asked about the training and hiring of the Bookkeepers.

Mr. Reilly stated that it was the responsibility of each school/location and that the Office of the Chief Auditor assists the Internal Accounting Department and the Bookkeepers with training.

Ms. Airaghi stated that the Area Office also assists with the training and interview process.

Mr. Wolter added "As commented on by Dr. Mack, there has been substantial improvement over the last couple of years. Congratulations!"

Mr. Wolter asked for a motion to transmit. Motion carried.

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

Mr. Reilly stated "There were twenty-three audits of District locations and we have fourteen locations without audit exceptions. As you can see, the amount of unlocated items has decreased significantly, which is great."

Ms. Greenberg asked if the Audit Department could list where the former Principals have gone.

Dr. Butler stated that the former Principal from New River was now at McArthur High.

Mr. Reilly stated that we could list that information in the future.

Ms. Fertig stated "I noticed in the Everglades report, there seems to be quite a bit of lost equipment. It seems that for a new school, it might be beneficial to look at the newer schools and if they are having large numbers of items missing, figure out why. In that case, it's most likely not a paperwork problem."

Mr. Mark Magli stated "We give support and training to the new schools and assist with the preparation to purchase and record new equipment. In some cases, we have found that some items were not delivered; unfortunately that type of error is not easy to identify, but we have had situations where we have recovered items that were missing for three years. We continue to address that concern." Discussion followed.

Mr. De Meo asked if we are self insured.

Mr. Moquin replied "Our property insurance does cover contents; however, our self insured retention is \$300,000, so the loss would have to be substantial before we could recover, so they are self insured losses."

Mr. De Meo asked "Would each one of these instances be considered a separate claim or would they be combined?"

Mr. Moquin replied "It would be based on the event and the policies are on a per campus basis."

Mr. Neal Shapiro asked "Is there some sort of formalized training for the people accountable for the inventory function to ensure that they are receiving the right type of training?"

Mr. Magli replied "The Area has Technology Specialists who are constantly trained on those issues. If they are monitoring their inventory on a quarterly basis and doing the things that are mandated by the Areas, they will be successful." Discussion followed.

Dr. Butler stated "I think the training is there more than it's ever been. The support and the Area offices are there. Mark is very available to our Area Directors and Principals. I think as we clarify the processes with the Committee, that will help us, particularly with the tracking; however, at the end of the day, it's about ownership, clearly. When you look at the number of schools that are doing it correctly, I don't think there are a lot of excuses out there."

Ms. Greenberg asked "On the Everglades report, the Principal said that the technology equipment wasn't taken from the Annex, at the direction of the Deputy for Facilities. He was specific about that. Did anyone figure out what happened there?"

Dr. Butler replied "I believe that conversation is still ongoing to determine who actually authorized the equipment to be moved".

Mr. Magli stated "I knew they were vacating the Annex, we sent out some directives to ensure the correct follow-up on the transfer of ownership, etc. For Everglades, we expressed that regardless of who was going to take ownership, it was not going to be the Everglades Principal who would maintain this site as his own. A decision had to be made as to what equipment would go where. If it was not going to be in his possession, then he needed to migrate those records to the person who would be assuming ownership. There was never any clarification to establish who that was supposed to be. After several months, it was determined that the exchange never took place. When we did the audit, there were a number of items still remaining in his asset record associated with that location that had never been transferred and there was no shift of ownership. What I kept receiving was the statement that 'I was informed that I'm to be off this site and this equipment is not mine'. We still needed to transfer that ownership, and since we never did, there was no one to hold accountable."

Ms. Greenberg added "When the Principal did not take ownership, we needed to do something to indicate who did."

Mr. Magli replied "We did go back to the site with the Instructional Technology group from the South Area, who did a great job reallocating that equipment. Most importantly, we had equipment that could be used for schools in need. Unfortunately, we were not able to recover some of the items or identify the location, and consequently, they are shown as unaccounted for in this report."

Mr. Wolter made a motion to transmit the report. Motion carried.

**Internal Audit Report - Current Status of the Review of the Southwest Area Bus Parking Facility, Pembroke Pines, Project No. 9335-91-01**

Mr. Wolter prefaced the report by stating "Basically, there were four items on this audit; two were closed and two remain open. I'd like to focus on the two open items for questions."

Mr. Reilly stated "This audit was originally performed in March 2008. There were four issues relating to contract administration and contract compliance. Two of the items have been corrected. The other two items were corrected but still need to be addressed; those are the Payment and Performance Bond Riders. The Payment and Performance Bond Riders and evidence of Builders' Risk Insurance were there in most cases, but some were not consistently signed. For the Builder's Risk, I dealt with Brown and Brown, the insurance carrier, and they had all the documents. The Facilities and Construction Management Division had some of the documents and our Risk Management area had most of them (evidence of Builders' Risk Insurance documentation). We just need to tweak the insurance documentation procedures a little bit, and I think that area will in good shape. The current status dealt with those items, but I think the timing and the fact that the project is still ongoing should be the focus."

Mr. Michael Garretson asked if Mr. Reilly had a chance to review the newly proposed procedures.

Mr. Reilly replied "I plan to meet with Mr. Rick Ragland to discuss a couple of things related to this audit."

Ms. Greenberg stated "I hope you will be dealing with the change orders, half a million, \$300,000, that have been added."

Mr. Wolter answered "The Board asked if there should be tighter controls over changes in scope, amendments to projects, etc. Dr. Mack's comments were that we would like more written procedures, a checklist, etc. That was our recommendation."

Mr. Reilly stated "That is correct. The only other thing was that there is a document that Mr. Marko gave us stating that 'you have to take each increase in scope on a case-by-

case basis'. We talked about several issues, but the rule is \$250,000. Another key point is whether the change order is incidental to the project. For example, the project is an athletic track, but you decide to put a couple of extra lights around the track, that's one thing; but if you decide to build a concession stand, that's a different scenario. I think that's an important issue. In this case, the project has been escalated a lot and originally, what was going to be a \$4 million project, is now, over \$11 million. This is a good example of scope creep."

Mr. Wolter stated "For the record, we are in no way trying to write the procedures for determining whether to rebid or do an amendment, etc. We would like it documented more closely, perhaps a checklist, so that staff and the Board are comfortable".

Ms. Fertig stated "I know we've heard a million explanations of how that decision is made to spend more than \$250,000 and whether to increase the scope or use a change order, but I still feel there was support from the Board the other day, but I'm not sure if they understood clearly enough just how many times we've asked for that. I would really like to reiterate, since they're having a workshop soon, that there have been many requests and it's been in our minutes numerous times asking for written procedures and guidelines. I would like to let the Board know that we are not happy with the case-by-case basis."

Mr. Perrella stated "On page 2, the March 14<sup>th</sup> response states that the construction contract will be revised to require proof from the contractor that increased insurance coverage will be obtained for each payment requisition. Shouldn't that be before the payment requisition?"

Mr. Garretson replied "The change order would be approved before the payment requisition, but before we would pay the payment request, we would have to see a copy of the updated bond or insurance policy."

Mr. Perrella added "I thought you would see the proof before the change order."

Mr. Garretson replied "No, because they won't write it; they write it based on the value of the contract, unless you approve the change order."

Mr. Perrella replied "So, it's OK the way it's written, that's fine."

Mr. De Meo stated "It seems there's no commonality with many of these issues; the \$52,000, the \$72,000 that we recently got back, Ashbritt. The School Board has a duty to the public, so we have to balance the cost effectiveness of procedures and probably, there will be a bit more involved, because we have a duty to the public. I'm concerned that this Committee and the excellent work that this Internal Audit group does (I'm very impressed) we shouldn't allow ourselves to be complacent and let the Internal Audit staff be the backstop for all of these issues. IBM, for example, and many other large corporations have adopted this business unit concept, and they have a member of each discipline involved in every contract, and one person is responsible for

administrative contracts. In this case, we would have the Building Department, Legal Counsel, but there would be a business manager, and before it got to Internal Audits to even be looked at, all these checklists would be filled out and before a payment was made, they'd make sure that the bonds and change orders were correct. These are very complicated matters and I think there's a very good capable group here that's doing very good work, but without that kind of overview, relying on Internal Audit function, I think is a very inefficient way to conduct business. I'm not advising Operations, but it seems like we're represented in this School District by very capable people and certainly, we can muster the resources to apply some kind of process that will detect these things before they get to the Audit Department."

Mr. Garretson stated "Some time ago, the Superintendent put together a group that does this and no Board item comes out of the Facilities Department unless it has gone through APG; every week we meet, often with Pat, usually with Dave Rhodes, all three attorneys, Omar Shim from Capital Budget and my staff. We go over every single project; nothing goes forward without the consent of those key people."

Mr. Wolter stated "This process went in place 6-9 months ago?"

Mr. Garretson answered "It's been quite a while; it dates back to the arrival of Mr. Cooney".

Ms. Greenberg stated "Staff needs to be comfortable that the change order has a close relevance to the project. I'm looking at change orders here that obviously have no close relevance, but apparently Staff was comfortable. So I think stating that 'if staff is comfortable', is not really going to solve the problem. I think it has to be spelled out. I'm not comfortable with a half million dollars for two generators. Also, I'm not sure what the reason was for changing vendors in the middle of a job."

I think, if agreed, as a Committee, we'd recommend that it be codified, or a checklist be undertaken."

A motion was made and seconded to transmit the report.

Meeting adjourned at 2:30 p.m.

The Committee met after to discuss proposed changes to the by-laws and procedural items for the Audit Committee.