

The School Board of Broward County, Florida
AUDIT COMMITTEE

MINUTES OF AUDIT COMMITTEE MEETING

June 24, 2010

Mr. Duane Wolter, 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 guests were introduced.

Members Present: Ms. Mary Fertig
Ms. Charlotte Greenburg (attended by phone)
Mr. John Herbst, CPA
Mr. Steve Hurst, CFP, Vice Chair
Mr. Roy Karlsen
Dr. Henry Mack
Mr. Ted Perrella

Staff Present: Mr. James F. Notter, Superintendent of Schools
Mr. Robert Vignola, General Counsel
Mr. Donnie Carter, Chief Operations Officer
Mr. Henry Robinson, Treasurer
Mr. Patrick Reilly, Chief Auditor, Office of the Chief Auditor (OCA)
Mr. Dave Rhodes, Director Facility Audits, OCA
Mr. Joe Wright, Facility Auditor, OCA
Mr. Mark Magli, Supervisor, Property Audits, OCA
Ms. Vicki Hill, Facility Auditor, OCA
Ms. Patricia McLaughlin, Confidential Clerk Specialist C, OCA
Ms. Megan Gonzalez, Confidential Clerk Specialist B, OCA
Ms. Sharon Airaghi, North Area Superintendent
Mr. Desmond Blackburn, Central Area Director
Dr. Joel Herbst, South Area Superintendent
Mr. Jeff Moquin, Executive Director, Support Operations
Ms. Melissa Grimm, Director ERP Project Management
Mr. Robert Waremburg, Director, Supply Management & Logistics
Mr. Chuck Stanley, Director, Education Technology Services
Ms. Connie Feeney, Atlantic Technical Center
Mr. Oleg Gorokhovskiy, Director, Financial Reporting Department
Ms. Irma Duque, Financial Reporting Department
Ms. Sue Rockelman, BRITE - ERP Project Management/HR Systems
Ms. Becky McMahan, Assistant Director, School Budget Support
Ms. Nell Johnson, Director, Internal Accounts
Mr. Damian Huttenhoff, Director, Athletics & Student Activities
Mr. Michael Roland, Student Activities Liaison, Stadium Manager
Ms. Leah Kelly, Executive Director, Student Support Services

Guests Present: Mr. Manuel Garcia, CPA, GLSC & Company, PLLC

Approved 9/13/10

Old Business

A motion was made to approve the minutes for the May 6, 2010 Audit Committee meeting. Motion carried.

Current Status Report – Follow-Up Items

Follow-Up Item #1 - Other Comments –January 28, 2010

Mr. Duane Wolter stated “The first item is an update on lawsuits and collections. There was a handout regarding this item.

Ms. Charlotte Greenberg asked “On the handout from our attorney, this list beginning with Spillis and ending with #10 – Perkins & Will; is this it, in terms of what has been recovered?

Mr. Robert Vignola replied “I am not familiar with the list, to be able to respond to that. I was here on other matters today for the School Board Attorney’s Office.”

Dr. Henry Mack asked if someone else was present to speak on this issue.

Mr. Vignola replied “No, we don’t have anyone from our office who could respond to that today, but I will make a note and ask that we respond subsequent to the meeting.”

Dr. Mack stated “On your list to ask Mr. Marko, I noticed that there are only two attorneys from the cadre that have been used for errors and omissions recovery. How many cadre attorneys does he have and why is he only using these two? What are the others doing?”

Mr. Vignola stated that he would inquire and respond.

Ms. Mary Fertig asked if the Committee could get a copy of the handout that was presented at the last meeting, in order to compare both.

Mr. Reilly agreed.

Follow-Up Item #2 - Update on the Audit of the Ashbritt, Inc. and C&B Services Invoices for District Portable Repairs Related to Hurricane Wilma – July 23, 2009

Mr. Wolter stated that there was a letter from Mr. Marko, which he read aloud for Ms. Greenberg, since she had not received a copy. It stated “The firm of Berkowitz, Dick, Pollack & Brant, CPA’s and consultants, is continuing its efforts on this matter. The firm expects to provide a report to this office for review upon these matters in late July, 2010. I will meet with the Superintendent concerning the report after its issuance.” Mr. Wolter asked that this item be updated again at the September meeting.

Ms. Greenberg asked for an update on the charges to date for their services so far.

Dr. Mack stated “I don’t share Patrick’s patience in this matter. We’ve been waiting a long time for this. What puzzles me is ‘What are they doing? Do we have a contract with these people? Is there a statement of work, and more importantly, where are we getting the money to pay them? If they’ve been working on this for about 6 months, that’s going to be quite a bill. An organization

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of this size is not cheap. If we keep going at the rate we're going, we could possibly owe them more than we're trying to collect. Along with Charlotte, I'd like to know how they were officially selected. I've never before heard of Mr. Marko's office contracting with an outside firm, so this is a new one for me. Is there anyone here from management who can address this question?"

Mr. Vignola replied "Dr. Mack, I will indeed ask Mr. Marko to respond to all those questions."

Dr. Mack asked Mr. Reilly if he was aware of a purchase order for this firm.

Mr. Reilly replied that he was not aware if there was a purchase order and stated that the Purchasing Department would have that information.

Mr. Wolter added that this item would be reviewed again in September.

Follow-Up Item #3 - Internal Fund Audits – January 28, 2010

The Audit Committee requested an aging list of the schools with balances in excess of \$50,000 outstanding on their "Due From Internal Accounts." In addition, they requested a draft of the Business Practice Bulletin.

Ms. Fertig stated that it was disturbing that the schools listed were all located in the eastern portion of the county, and are under enrolled. "I was hoping to see balances indicating that every school had to borrow money for band uniforms, instead of schools that don't have the resources to do this in another way. I just wanted to make that comment. I don't need an answer."

Mr. Roy Karlsen stated "When I brought this up originally, we found one loan that wasn't being paid back. What is the likelihood of it being paid back and what detriment would it be to the school if it was not? We found that there were a number of small loans, but these were the only ones over \$50,000. What is being worked out to let them pay these off in a timely basis?"

Ms. Becky McMahan stated "The recommendation is to send out the memo, which I've enclosed along with a payment plan form. Schools will have a payment option for those balances they have this year; we are going to isolate them and pay them off up to a period of 10 years, if the balance is \$50,000 or more. We understand that seems to be a long period of time, but school budgets have been cut, so if they wanted to pay them out of their General Fund budget, that would give more time for fundraising efforts. We met with the Area Business Analysts the other day, and wrote a memo and created a form, which will be distributed to the schools' Principals for any schools having a balance as of June 30, 2010."

Mr. Wolter asked "If we were looking at this from a business standpoint, if I was on a Loan Committee, I would want to see your business plan, your methods for raising the money. We're talking about the year 2020; there will be high school students doing fundraisers to pay off the debt. Is there any other method, other than extending it over a 10 year period? What if they don't pay? What are the consequences?"

Ms. McMahan replied "With the options on the table today, they can use their Athletic Account funds within their General Fund budget; they can move that expense to their schools' operating

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budget, instead of the fundraising method. We would like to discuss with the Principals and Area Offices and set up a plan for exactly what they can handle and how long it would be.”

Ms. Greenburg asked “Won’t they have to borrow on an ongoing basis for uniforms or other items for the new students who need them?”

Mr. Wolter asked “What’s the life expectancy of a uniform?”

Ms. McMahan replied “I don’t know the answer to that question. I know we have other schools that have band uniform loans. These are not the only two schools on the list; however, they are under \$50,000; they have been making payments. Any school with a balance in this account, whether under or over \$50,000, will have a payment schedule set up.”

Ms. Greenburg asked “Won’t it be an ongoing problem, the constant borrowing?”

Ms. McMahan stated “I don’t know the answer to the longevity of band uniforms. I can talk to Purchasing.”

Mr. Karlson added “We’re not looking at just paying it off; we’re looking at the future and how it will be controlled in the future.”

Ms. McMahan replied “Part of the monitoring piece is that we are going to produce a formal notification process. When a school requests a loan, whether for band uniforms or another purpose, the Financial Reporting Department will be notified. We will provide the Area Superintendents with quarterly and year-end reports, so they can monitor the payments. We did not set up, as part of this process, what is needed to get the loan approved. I will get the group back together and look into that.”

Mr. Karlson commented “What we’re looking at is after the loan is done, after 10 years, students who are not even in the band yet, are going to be paying off something that these students used in prior years.”

Ms. Irma Duque stated “For example, one of the schools has a \$150,000 loan. If we set up this loan for less than 10 years, it will be difficult for the school to pay this amount. There are other schools that have minor balances and we are going to set up two accounts. If they require new loans, there will be another two accounts that will cover the money they receive every year. This is for the balance they have so far. As mentioned earlier, the schools that have a \$2,000 balance will not have 10 years to pay. The schools that owe \$160,000, considering the schools’ budgets that have been cut, it will be hard for them to pay more than \$15,000 per year.”

Dr. Mack stated “It’s not about how long the band uniform lasts; it’s the obvious absence of a policy to deal with this issue. I’m going to suggest that we bring this back as a follow-up item and the Superintendent has assured me that he will look into this himself.”

Mr. Ted Perrella stated “The memo we received, on page 4, addresses the process of setting up payment plans and monitoring them. Is this the beginning of that process that Dr. Mack is referring to? There’s a memo from Ben Leong, Chief Financial Officer, indicating that the current status must be submitted by August 10th. That would be a key date for existing dollars that are owed and we have to monitor whether it’s sufficient.”

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Mr. Wolter added “The point was raised as to whether there is a policy; it appears there is not. We need a policy with procedures. For future loans, I don’t see sign offs, limits; normal things you would see in the process. I agree with taking it forward and providing Mr. Notter and his staff time to review.”

Ms. Fertig stated “If the school is unable to pay from their fundraising efforts, where does the money come from?”

Mr. Wolter replied “There’s a note in here that states it would be taken from the General Fund.”

Ms. Fertig asked “I agree that a policy is needed, and it needs to state when it’s appropriate to make a loan and is it right to take money from the General Fund to repay a loan? Now, we’re finding out what happens in a tough budget year.”

Mr. Wolter recommended that this item be brought back at the next Audit Committee meeting for further discussion.

Follow-Up Item #4 - Internal Desk Review of Overtime Expenditures - June 25, 2009

Mr. Wolter stated that a report was provided and he asked Ms. Sue Rockelman to answer any questions that the Audit Committee members had on overtime expenditures.

Mr. Wolter stated that the package was well done, but he was disappointed in the results. “If I read this correctly, we can save about \$99,000 every six months (page 16 of the report) at a one-time cost of \$35,000. I realize there are many issues involved. On page 7 of the report, it shows that of the 12,000 secondary positions, 10,000 are similar. Can you comment on how those conclusions were reached?”

Ms. Rockelman replied “For example, by day, I may have a person who is a secretary, at night they are the Registrar at a Community School. The Fair Labor Standards Act considers that a “like” or similar position since they are both clerical jobs.”

Mr. Wolter asked “So the definition is that broad?”

Ms. Rockelman stated “Yes.”

Mr. Wolter asked “On page 11 of the report, regarding the suggestion of hiring others to do the secondary position work, it indicates there are issues with identifying, hiring and training individuals to perform the secondary positions. I think it says 907 of the temporary employees also have a secondary assignment.”

Ms. Rockelman answered “That is their assignment.”

Mr. Wolter continued “If I’m reading this correctly, we’re saying we’ve tried this and we’ve reached the end of our ability to add more secondary people.”

Ms. Rockelman replied “No, when possible, we do attempt to try to find a person not currently employed by the District; however, it is difficult at times when you need a person who has been very familiar with a grant, for example. Many of these people are working on grants. You need to have familiarity with using the SAP system. The people who work at the community schools,

which many of these positions are, need to be in the system doing payroll. We don't want a temporary person to come in and enter payroll data and information of that type. Some of the other positions do require some extensive training, which on their normal jobs, they get that training. For example, if some additional filing needs to be done, we do seek outside help for that type of position. Also, many of these additional positions are not 30 or 40 hours per month; they might be 2 to 10 hours a month. The majority of them, when I analyzed them, were not exceeding over 10 hours per month, so it's not a huge amount for a person who would accept something temporary."

Dr. Mack asked "On page 4 of the report, on the definitions and concepts, overtime on an additional position is authorized by a supervisor, and then you have a disclaimer. As I look on page 13 of the report, you do not address what I consider a systemic weakness; that is, when a supervisor may not be aware that they are paying overtime premium on an additional position. How are you planning to address that?"

Ms. Rockelman replied "That is on page 13 of the report, when we state 'a location manager will initiate a form for the employee to sign. On that form, we will outline the rate the person will be receiving. It is up to the employee and the manager to have a conversation, because the manager needs to be aware of what other assignments that person may have, and be prepared if they are going to have to pay the overtime premium for that. That is why we're having them both sign the form, so they are aware of what the requirements are of the position, how many hours a week the position will take and if it will put them in an overtime premium position."

Dr. Mack asked "When you say 'location manager', that's the receiving manager?"

Ms. Rockelman replied "That's the person hiring this person to do the additional position, yes."

Dr. Mack continued "I'm the person who's sending the person over there? How do I know what the pay is?"

Mr. Reilly commented "What needs to be pointed out is that the money for that secondary job is not going to be paid by the primary location, so they will not be approving that secondary job. In most cases, it's someone else. If it were overtime on the primary job, yes, but normally the secondary job could be at a totally different location."

Dr. Mack asked "Why the disclaimer on page 4?"

Ms. Melissa Grimm added "Yes, you're right. That's confusing."

Ms. Rockelman added "It should say that the supervisor of the additional position may not be aware that they are paying overtime."

Ms. Greenberg asked "Can we get a follow-up on the results on the changes you're making, so that we can see if we did, in fact, save money, how much?"

Ms. Rockelman answered "Yes".

Mr. Wolter asked Ms. Greenberg "To clarify, you would like a report on what the actual savings were for the implementation."

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Ms. Greenbarg stated “Yes.”

Mr. Wolter added “They are forecasting \$99,000 every six months, with a one-time cost of \$35,000 to implement. I’m not sure if it’s worth it. Are there any comments from the Committee?”

Ms. Fertig said “Fewer than 10% of these overtime jobs have been converted to permanent jobs, even though they are calling them temporary jobs. I understand it may be 5 hours here, 10 hours here, etc. but overall, it just seems like that’s a very low percentage that could be converted to a full-time job when you’ve got almost 12,000 secondary positions.”

Ms. Rockelman responded “I’m not sure I understand the question. Are you asking if these can be converted to primary jobs?”

Ms. Fertig said “Yes, it seems like you’re retaining a very high number of secondary positions, rather than finding a way to convert those to permanent or temporary positions. What’s not clear to me, on the handout, is what word I’m supposed to use to describe when it becomes a regular job.”

Ms. Rockelman added “Some of these positions might be for an Activities Bus Driver, and I may only need the driver once a month for a program, so that person may only have a few hours, so that would not be a full-time position. Another example of an additional position would be if I’m an investigator and I get called in because there’s an incident after school and I have to go in after hours.”

Mr. Wolter asked “Using your example of the bus driver who only has one hour per month, why can’t we take 20 of those one hour jobs and hire one person for 20 hours, rather than pay overtime?”

Mr. Notter stated “Yes we can do that, if everything falls into place; if those 20 hours aren’t overlapping, etc. When we did this research on this item, one thing we didn’t look at was how to really consolidate so that you could look at a 50% or 25% position. That was the issue when we discussed this, to prevent having an employee working one hour in Deerfield, one hour in Pompano Beach, etc. That is something we will be continually looking at.”

Dr. Mack asked “If the six month period can be identified, what Charlotte is asking for is a six-month report to see the results of what happened during that six month period. Is that correct, Charlotte? You are asking for an informal report back to us every six months.”

Ms. Greenbarg stated that was correct.

Mr. Reilly stated that we would do that. “One of the areas where we had an individual with a primary position and a secondary position, they were using the primary rate at time and one half for overtime. That correction will be made. I think they would need some time for the system to be updated. I think six months would be good to get an update and get a comparison of all the overtime; not just the issue with this group, but all the other factors that hopefully have reduced our overtime.” Discussions followed.

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Mr. Wolter stated “It’s now nine to twelve months after the audit, and we still haven’t received any savings. Also, we’ve got a good plan of what we’re going to do. Considering all the work that was done all year, we’re going to save about \$200,000 a year and it’ll be ready sometime in the future to start. I just don’t feel that sense of urgency. You want to save money, because budget funding has been reduced.”

Follow-Up Item #5 - Auditor General’s Report – May 6, 2010

Mr. Wolter stated “At the last meeting, it was requested that copies of the Audit report for the Broward Education Foundation (BEF) be provided to the Committee. Are there any questions?”

Mr. Reilly stated that the financial statements looked good and the external auditors gave an unqualified opinion. He said if there were any specific questions, he would ask someone from BEF to attend the next meeting and answer questions.

Ms. Fertig thanked Mr. Reilly for bringing the report.

Follow-Up Item #6 - Other Discussion Items

Change Orders - West Broward High – May 6, 2010

Mr. Wolter stated that this item was rescheduled for the October Audit Committee meeting.

Right to Audit Provision

Mr. Wolter stated “There was an item handed out today from Joanne Fritz of the General Counsel’s office regarding the Right to Audit Provision.” He verified that Ms. Greenberg had a copy.

Ms. Greenberg stated “The attorney (Mr. Marko) states that the auditors are not going there to see about getting money back, but I am. I don’t know if anyone else thinks we should get money back, but I sure do.”

Mr. Wolter stated “The way I read this is; what is the purpose of Mr. Reilly’s audit? It’s to determine the accuracy of the billing and identify operational issues that require correction in the future. It’s an aside if an error is found which leads to a request for recovery. I think that’s what this letter states, although I’m not an attorney.”

Mr. Reilly stated “Per the contract, there are certain requirements that are to be met; for example, the general conditions area where they may require security and are required to do certain things. We would also be looking to see that those things were done, such as issues regarding salaries that might have been paid from there, if they agree with the salary for that type of individual, and to make sure it’s not also in the regular cost of work and various audit issues like that, that we would be looking for.”

Ms. Greenberg asked “For example, if you saw that they charged the District \$150,000 worth of salaries for guards, and there was no contract for guards and there were no guards there, then I would say ‘give us back \$150,000.’”

Mr. Reilly agreed.

Mr. Rhodes added (referring to Mr. Marko's document) "One of the things they added in here as a catch all is that they are making the point that it is not our initial intent to look at the fees to go back and seek reimbursement, but I think when you look at that, it shows "B" that we are receiving services in accordance with the terms and conditions of the agreement. For example, if a fee category was paying for the guards you are talking about, and their negotiated fees were based on providing services during the life of securing that site, but they had no invoices and they did not provide those services, but we paid that, I think it would be incumbent on the District to ask for that money back, with or without the 'not' being underlined in this contract."

Dr. Mack stated "Mr. Marko's legal opinion, which went to the media, essentially said that the Auditor does not have the authority to get certain information to audit. Then he (Mr. Reilly) was bombarded by these letters and negative comments from people of various organizations and so forth, which really made the department look bad, as if they didn't know what they were doing. In my opinion, the fact that Mr. Marko changed his opinion does not alter that situation at all, and I think that somebody owes us in this School District and specifically in that department (Audit) an official apology. That was outright dirty and nasty and someone needs to tell us something by way of an apology or misunderstanding or otherwise. If it cannot be done through the school system, we can surely get it done from the street. I think that was very, very unprofessional on the part of whoever gave the information to the media, particularly when the situation hadn't been thought out and discussed and conclusions that we ultimately came up with and the fact that he could do that (audit fees). We on the Audit Committee knew all along that the Chief Auditor had the authority to do this. Right now I'm quite annoyed about that and I don't know who else is. I think someone should do something publicly."

Ms. Fertig added "I'm looking at two different opinions here, total opposites and really six weeks time, really a month from your May 20 date. This opinion that's before us is so much more detailed and has so much more meat to it and was done in a month and we have opinions all the time coming in here that take three, four, five months, and some that we haven't even seen come in yet. You're asking for an apology; I'd like an explanation of how the process was different in obtaining this from what came last month to us. I think it goes beyond this one issue in this one audit, but really to the core of how this is being generated and in response to what? What does it take to get what should happen, which is a detailed opinion, and not just an off the cuff 'no you don't have the right to anything'. Thank you for getting this, which is so much more thought out, but how many other times is this happening, when we don't see and what processes could you put in place so that the opinions you're getting, particularly on the issue of construction, where we all, I think, feel, whether there's an audit or not, that the dollars might have been spent in a better way. How do you get this kind of opinion the first time and in a timely manner, because obviously, it can be done in a month? I don't know if I said that well enough, but I think this speaks about the processes that are being used."

Dr. Mack stated "I agree with you 100%. This Audit Committee has requested legal opinions, which have taken years in some cases and in many cases, have never been received at all. I've heard Mr. Reilly, Mr. Superintendent, you know, meeting after meeting after meeting, asking for a legal opinion, particularly during the period when we were having major problems with the Construction Department. That's when that department was making negative comments to the media. We would ask for legal opinions and didn't get them. Patrick, if you look at your records, you could come back and tell us what some of those opinions are that we're still waiting for and

the length of time that Dave has waited for these opinions, in order to carry out his functions. It's something that's going to take some high level actions and decisions to reverse this phenomenon. I call it the strategy of delay and everyone knows what I'm talking about. If we need an answer and it's going to offend someone or interfere with a process that we are not made privy to, we never get it or it's delayed."

Ms. Fertig said "The Board, during the last year, has said that we shouldn't make these statements without giving suggestions on what can be done differently and I'd like to take that opportunity to say that last month we suggested that maybe Mr. Cooney, whose name I see is on this memo, be present when construction matters are being discussed and maybe when we're sitting here in this room discussing them, he could be available. It's my understanding that was why he was hired. That's his expertise and perhaps he could be available for conversations with the Board when they're discussing these contracts and voting on whether or not to award them. Could he be available when we have these audits that deal with construction?"

Mr. John Herbst added "There is one thing I would like some clarification on from the Attorney's office. At our last meeting, when we discussed his original opinion, there seemed to be an indication that the Right to Audit Clause was not sufficiently robust enough for our Auditor to gather all the information he wants. As we've all noted, the current opinion seems to change the perspective on that. I'd like to know, based on that, is it the Attorney's opinion that the way the contracts are currently structured is sufficient for the Auditor to have all the rights he could ever want to have, with respect to our contracts or do we still need to go back and consider enhancing it to be more enforceable? Is it sufficient; is it adequate; if it's still not adequate, I'd like to know that."

Mr. Wolter replied "Good point. I'd like to request, Patrick, that we bring it back at the next meeting. Unfortunately, the next meeting is after the summer. Also, please remind me to request that Mr. Marko be present so we can cover all the questions that were raised. Let's make it Number 1 on the list."

Ms. Fertig requested that Mr. Cooney be present, as well.

Mr. Wolter replied "Yes."

Dr. Mack stated "I'd like to discuss an issue regarding the contract. Historically, the Construction Management at Risk Contract (CM at Risk) was one of the first major issues that this Audit Committee addressed in our earlier years. There was a project in the field for \$115 million; we stopped that. The CM at Risk contract was re-written and negotiated and discussed and reviewed by Mr. Marko, the School Board members and everybody else and it was agreed to by the School Board, by the Contractors involved and by staff. At that time, the provisions for the audits by the Audit Department were included. Ted, you remember that. The reason I know this is because I wrote the contract myself. I know every word in there, because I had to fight with our so-called Attorney because I didn't know whether he was working for us or working for the contractors. The answer to your question is, in its original format, that contract essentially does what all these pieces of paper that we're reading here today do. I think any further action to get the information is for naught, because I know that because I did it."

End of Follow-Up Items

Regular Agenda Items:

Internal Audit Report – Audit of the Internal Funds of Selected Schools in the North, Central and South Areas

Mr. Reilly stated “There were forty-one schools in this audit. Thirty-seven complied with all policies and procedures for internal funds and payroll. There were four schools that had exceptions related to negative fund balances, late deposits, and one school had an issue separating internal fund monies with money from an outside organization. That’s been corrected. It’s very important to ensure that monies from an outside group are not handled by a bookkeeper of a school, where there’s a possibility of co-mingling both monies. In this case, internal fund monies were placed into the PTA account. That person should not have been handling PTA funds. More than 90% of the schools had no exceptions.

Ms. Greenburg commented “I’m very happy to see that there are so few exceptions. I have one concern that you monitor the new Principal at Lauderdale Middle, because that was a Principal who had a problem with the co-mingling of the outside funds.

Mr. Wolter added that he was also happy to see the small number of exceptions.

Motion was made to transmit. Motion carried.

Internal Audit Report – Property and Inventory Audits of Selected Locations

Mr. Reilly stated “This report had thirty-two locations. There were twenty-four schools and eight departments. Nineteen locations complied with procedures and policies related to property and inventory. There were thirteen locations that had some type of audit exception noted during the physical inventory audit.”

Dr. Mack stated to the Area Superintendents “As of last year, I think you went to training, got all your procedures in place, and we were very comfortable. I’d like to caution you not to get into the habit of making a statement like ‘Last year, we had 100, this year, we only have 50. We’re doing much better.’ You’re starting from scratch, so if you were at zero last year, you should be at zero this year. Do you understand what I’m saying? It gives the impression that you are boiler-plate an answer. You know and I know that this is not the case, but the reader as these Audit Committee people are, you note, when they start seeing those kinds of comments, then your credibility goes down and we fight too hard to keep the credibility. Avoid those types of boiler-plate comments and you could be a little more explicit in terms of your observations and particularly responding to the comments made by some of the Principals who are weak. I know that you don’t agree with everything those Principals are saying, and where you don’t agree, you make the judgment on whether or not you should comment on it. Again, I’d like to compliment you on your inventories.”

Ms. Greenburg asked “There were 2 or 3 schools noted as repeat exceptions. Mark knows which ones they are.”

Mr. Mark Magli stated “There are several repeat exceptions, for which we did not get the strongest responses back. We thought with the follow-up and the Area support on follow up that we would see improvement. When we returned, many of the conditions had become residual. I don’t think they would take drastic changes to remedy, especially in the case of surplus. As I mentioned during the last meeting, we had issues involving salvage equipment. The requirements of the State are reviewed by the Auditor General. They thought because we hold a strict policy with regard to documentation, when it’s adhered to, we’re in compliance. In some cases, that hasn’t been the case. What we really need is clear verification of new purchases; new purchases being entered into the system correctly. Whether they hit the system and the download is checked or not; that’s the responsibility of the site to ensure that those items are in our Master File of Assets and recorded accordingly. At the end of the life of the asset, these things must be accurately documented and sent on their way. If those conditions are met, conditions will improve. We have addressed these issues; in some cases, you’ve seen changes that were implemented. In a big school environment, it’s very difficult for one individual to handle the whole show. It might be a Tech person who has computers locked, but instruments or custodial equipment are disappearing.”

Motion was made to transmit. Motion carried.

Matrix of Charter Schools for the Fiscal Year Ended June 30, 2009

- **Lauderdale Lakes Academy, Inc. d/b/a Eagle Academy**
- **Smart School, Inc.**

Ms. Fertig stated that one of the attorneys in her office works for Smart School; therefore, she recused herself from the conversation.

Mr. Reilly stated “We try to bring all the Charter school audits, based on our review of the audited financial statements that we receive. We look at the quarterly statements for all Charter schools and also review the monthly statements for those schools in a financial emergency. We did not receive the annual audits until late April for these schools. We have prepared a matrix to give a recap of the reports and condition of the schools. These two schools are related. Eagle Academy’s original contract shows the name Lauderdale Lakes Academy. There’s also the Smart School. They share a location, as well as various management expenditures. One of the schools is clearly in a financial emergency, while the other is not, on paper, but they have a very large receivable from the other school and their ability to collect that money is questionable. At the end of last year, both accounts had bank overdrafts. Their outside auditor specifically noted that their quarterly financial statements were not very reliable, based on the number of adjustments that had to be made at year-end. There were concerns about the audits not being turned in by September 30th. This deadline is a requirement in their contract with the District. There are various items that we are concerned with; one of the schools has a going-concern issue. The Charter School Department, along with several District staff members from our Office, Budget and Curriculum Departments, are looking at this school in order to ensure that their financial recovery plan will work for them. We’re looking at the June 30, 2009 financial statements; however, it’s now a year later. They gave us their latest financials through April; however, there’s really not a big difference. There were no collections made against the

receivable, which is in the amount of \$786,000. This is one of the schools we are monitoring very closely.”

Mr. John Herbst stated “When I used to work for the Children’s Services Council in Jacksonville, one of the things I paid particular attention to was financial stability of the non-profits that we contracted with. In fact, I ended up pulling the funding from one of our largest providers up there, because I had going-concern questions about them. The impact on the children and on the employees would have been significant, had that firm gone under in the middle of providing services to the population. What are the policies that you have in place for dealing with institutions that are on such shaky grounds? To have an interruption in the provision of services halfway through the year is very devastating on these children. What is our overall policy on dealing with institutions that are this troubled?”

Mr. Reilly answered “We have had a couple of those schools that abruptly closed in the middle of December or January. It’s important to have their Board of Directors involved and to make sure they have an adequate financial group that’s following up. For these schools, I was also concerned with the management company allowing these things to happen. Also, their payroll withholdings were not paid for six months.”

Mr. John Herbst added “That particularly concerns me, because these are fraud indicators when you see something like that. That’s the first thing that happens when you start playing games with cash, is you start holding back payments to the IRS, etc. This is very concerning to me.”

Mr. Wolter commented “Those who have been around for awhile remember earlier conversations where Dr. Mack, as the Chair, stated that we would do everything in our power to work with these schools, but I would add to that, at some point in time, this may be one of these schools that are beyond saving. You’ve got \$53,000 in current assets, and \$2.1 million in current liabilities.”

Mr. John Herbst stated “When you look at technical bankruptcy and operating bankruptcy; when you’re dealing with a firm that’s in technical bankruptcy, is it wise for us to continue doing business with them? I think if we don’t have a policy that speaks to the financial condition of the people we contract with, perhaps it’s time to consider one, before we begin the school year.”

Mr. Perrella asked “Payroll taxes are obviously, a key issue and as of today, do we know if they have been paid?”

Mr. Reilly stated “They are on a payment plan where they are paying about \$9,000 a month per an agreement with the IRS.”

Mr. Perrella added “You are correct about the assets at Lauderdale Lakes. That is not good. The \$700,000 is just not collectable. I think a good policy would be an absolute, true evaluation. In this situation, I don’t think this school should be allowed to start again in the new school year. Somehow, the policy should be generated to that extent to state that the school should not begin the new school year without the infusion of cash. These schools cannot continue.”

Dr. Mack stated “There’s one element here that you’re missing. I’m like you; I went nuts when I saw the IRS deal. It turns out this was a unilateral decision made by a fired comptroller. There were some personal issues involved there and that person is trying to open a charter school, but

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they will probably be indicted, as a result of the things they did for these two schools.” Discussion followed.

Mr. Wolter added “One of the comments that I heard that I would like to restate, was a recommendation to determine a policy when a school is so far gone that appropriate action be taken, rather than waiting for the school to finally give up. I think this is the recommendation. I agree with you, Dr. Mack, we don’t have enough information here to make any specific recommendations.”

Mr. Reilly stated “There are two things. First, the contract we have with them states that we are the sponsor. There are certain things that they have to comply with; they have to follow all the Florida Statutes regarding Charter School curriculum and the financial side. They were in violation, for starters, for not having their financial audit by September 30, 2009. That’s right in the contract. It’s very clear now as to what constitutes a financial emergency condition. It’s Chapter 218 that covers all these issues relating to a financial emergency. They are in a financial emergency condition. They’ve had a plan together; we, as a sponsor, are required to review their financial recovery plan. We have actually met with them several times, because we’ve rejected their plan. Also, Tallahassee has to approve their financial recovery plan. They have to deal with us and with the State. They may be involuntarily closed down by the State, also. Definitely, the contract is pretty solid as to what they have to do and having financial mismanagement is grounds for closing the school.”

Mr. Perrella asked if the contract was a 5 year contract.

Mr. Reilly answered “Yes, I think it’s a 5 year contract.”

Mr. Karlsen asked “You stated these reports are due by September 30, and we are now just getting them in late April. Isn’t there any type of policy that states ‘if you don’t do this, we will do this?’”

Dr. Mack added “We are very limited as a School District as to what we can do to, for and with Charter Schools. I don’t think we’ve ever gotten that satisfied between the State and the schools. We put it in the contract and even if they break the contract, we don’t know what we can do if they don’t comply. Discussion followed.

Mr. Karlsen asked “What happens if that school is forced to close in the middle of December? If you move a student from one school to another, it’s a devastating thing for the child.”

Mr. Notter stated “We’ve done this more than once, so we have a fairly good process. You’re absolutely right that it’s devastating in the middle of the year. In the new normal, how does this impact class size? All of a sudden, we’re taking on another 200-300 kids to put back into a school. I really don’t have that flexibility with the class size anymore. There are a lot of issues now that come with closing a school in the middle of the year.”

Mr. Perrella asked “We (the School Board) are the sponsor of this contract. Who is the actual person or department monitoring this?”

Mr. Notter answered “That would be Dr. Harrison’s department.”

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Mr. Perrella suggested contacting Dr. Harrison and requesting a memo containing her response to the Charter School issues.

Mr. Wolter stated he would request a memo from Dr. Harrison.

Summary of Audit Activities for 2009-2010 and Proposed Audit Plan for the 2010-2011 Fiscal Year

Mr. Wolter thanked the Audit Committee and the Audit Department for doing a great job all year.

Mr. Reilly summarized the Audit Plan and welcomed any questions.

Ms. Fertig asked “When you are giving this report to the Board, I think this department (Audit Department) saves and makes money for the District and I wish you had additional Auditors to help you. I think we would see a return to the District. In communicating to the world what you actually do and how effective you are, for example, on page 5 of the report, you have a total historical cost of \$4.5. I really hope when you give your report to the Board, you’ll include a chart of what you had 5 years ago and what that historical cost was. It was so much higher in unaccounted for items. They should see a graphic example of how successful you have been in reducing loss and saving money for the District. Also, I’m disappointed to see the Review of Student Reassignments listed under the Long Term Audits, rather than the Proposed for next year. We are past the point where this is costing the District money, because the policies in place weren’t followed and students were transferred. Maybe buildings had to be built; there’s a capital consequence also that we might not see, since there’s not that much capital money any more. I think you see that cost in other areas. As I said three years ago, this might be an unusual area to audit; I think it’s an audit that would save this District a lot of money, if you had a very real idea of where students are; where they’ve been assigned; how many have been assigned in violation of current policies and how that might change, particularly, in terms of the fact that we are now having to come into compliance on class size and with the ILA that the District has just negotiated. I really think this is an area where you would identify a lot of irregularities where we could institute better practices and make the District run more smoothly.”

Ms. Greenberg agreed and stated that the Facilities Task Force had also made that request.

Mr. Wolter asked “Are we saying enough about the work that you’re doing in the Facilities area? It seems like we could have added more results. You and your team have done some really good work in that area. In the presentation, I think you should have hit on some of the high points that you’ve accomplished.”

Dr. Mack stated “I would recommend that it stay the way it is, but when you make your report, you should make those comments.”

Mr. Wolter added “On the second half, can we add a little more on what your plans are for auditing Facilities next year?”

Mr. Reilly replied “On page 11, we have what we’re planning.”

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Ms. Fertig added “Sometimes I think you’re writing this as Auditors, and maybe it would be good to have a Public Relations agent. I think it’s important when the Board considers how they’re going to spend their money, for them to realize the different ways in which you save money and recoup money and so forth. To do that, they really need to understand the amount of savings to the District for each audit.” Discussion followed.

Mr. Notter added “What we may want to do is take some of the statements and come up with a standard format. I believe what you are talking about is a very powerful piece of information in the sense of whether we were able to change policies, procedures, practices and the potential result and benefit financially to the District. You may want to check with the Council of Great City Schools’ key performance indicators or statement that could capture some of that.”

Discussion followed.

Mr. Notter continued “I really do look at trends in key areas. When I looked at the summary, there are great words, but my question is ‘how much money is that and what was it last year and the year before?’ The Council has those KPI’s (Key performance indicators) and there may be a format right there that we can simply adopt.”

Mr. Reilly stated that he had reviewed other Districts’ websites and agreed that we could elaborate more and include a trend analysis for next year’s Audit Plan.

Mr. Wolter suggested the addition of a 5-year chart be added to the last page of the report. “Also, on page 11 of the report, I think we should repeat something on the CM at Risk projects.”

Mr. Reilly replied “We could add something, although it’s included in Number 3.”

Mr. Wolter asked “About three years ago, there was a project in the Facilities area, where they were trying to make corrections at the schools for construction issues, etc. I drive by one every day called Eagle Point and it looks like, from the outside, that someone is out there pulling the stucco off and I know someday they’ll come back and finish it. Maybe you could do an audit of that clean-up process. I know there was a plan that Mr. Garretson had that over three years, every school would be finished. I know my school is not, because I drive by every day, so I ask if you can fit it in, that you take a look at that.”

Motion was made to transmit as amended. Motion carried.

OTHER DISCUSSIONS:

2010-2011 Tentative Audit Committee Meeting Dates were discussed.

Meeting adjourned at 2:30 p.m.