

The School Board of Broward County, Florida
AUDIT COMMITTEE

MINUTES OF AUDIT COMMITTEE MEETING

September 13, 2010

Mr. Duane Wolter, Chair, called the Audit Committee meeting to order at 9:00 a.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 Greenberg
Mr. John Herbst, CPA
Mr. Steve Hurst, CFP, Vice Chair
Mr. Anthony De Meo, CPA
Dr. Henry Mack
Mr. Ted Perrella

Staff Present: Mr. Edward Marko, General Counsel, Office of General Counsel
Mr. Thomas Cooney, General Counsel
Ms. Joanne Fritz, General Counsel
Mr. Henry Robinson, Treasurer
Mr. Patrick Reilly, Chief Auditor, Office of the Chief Auditor (OCA)
Ms. Delores McKinley, Director Internal Audits, 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 Superintendent
Dr. Joel Herbst, South Area Superintendent
Mr. Jeff Moquin, Executive Director, Support Operations
Ms. Nell Johnson, Director, Internal Accounts
Ms. Laurel E. Thompson, Director, Student Support & Psychological Services

Guests Present: Mr. Daniel O'Keefe, Moore Stephens Lovelace, P.A.
Mr. Manuel Garcia, CPA, GLSC & Company, PLLC
Mr. Ronald Thompkins, TCBA Watson Rice, LLP
Ms. Akilah Johnson, Sun Sentinel

Old Business

Dr. Henry Mack requested that Mr. Ed Marko provide answers to the questions asked at the previous June 24, 2010 Audit Committee meeting.

A motion was made to approve the minutes for the June 24, 2010 Audit Committee meeting.

Motion carried.

Current Status Report – Follow-Up Items

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. Duane Wolter asked for an update on the audit by Berkowitz, Dick, Pollack and Brant (BDPB).

Mr. Ed Marko replied “We are proceeding rapidly to closure on that item. As I indicated to you, that material would be presented to the Superintendent, but not to the Audit Committee, because it could compromise future litigation. We don’t want to make it public until such time as we want to make our demand. I thought that we would have a final report before this meeting, but that did not occur, due to summer vacation and other difficulties. We are anxious to bring closure to that item as soon as possible and we’ll be putting all our efforts toward that end.”

Dr. Mack asked for answers to his questions asked at the last meeting about the authority of Berkowitz, Dick, Pollack and Brant.

Mr. Marko stated “The School Board Attorney, as all other Cadre attorneys, has the authority to proceed with the development of experts in the preparation for trial, and that’s what we’ve done here.”

Dr. Mack asked “Has a purchase order been issued?”

Mr. Marko answered “I’m sorry, we don’t issue purchase orders in that regard. Maybe an engagement letter, usually it’s on the basis of calling and confirming that this particular entity will perform what we’re looking for and then proceed. I’m not saying we don’t have engagement letters, but that’s not necessarily a pre-requisite.”

Dr. Mack added “What has me concerned is that we’ve been waiting on this for over a year and I think we’ve heard all the excuses that one could make about this.”

Mr. Marko stated “I’m not making excuses; I’m telling you the facts.”

Dr. Mack continued “You don’t have to respond. We want this brought to closure. We continue to receive information as to why it cannot be done. Can you give us an estimate on when this situation can be brought to closure?”

Mr. Marko replied “I would hope within the next 30 days.”

Ms. Charlotte Greenbarg asked “How many hours has Berkowitz spent on this so far?”

Mr. Marko replied “We have not received a full statement from them on the number of hours.”

Ms. Greenberg asked “Do you have a guesstimate?”

Mr. Marko replied “All I can tell you is that they have met on numerous occasions with Mr. Reilly and numerous occasions with the Facilities Department with boxes of records, etc. I would hesitate to indicate the number of hours.”

Dr. Mack asked Mr. Reilly to respond to that question.

Mr. Patrick Reilly responded “We’ve met with them approximately three times.”

Mr. Dave Rhodes stated “We probably spent a total of four to six hours, meeting with the people from BDPB, but in terms of how much time they have spent on their review, I could not give an estimate.”

Ms. Greenberg asked “Have they asked for the work papers yet?”

Mr. Rhodes replied “Yes, they did ask for them the last time we spoke.”

Mr. Reilly added “We gave them a complete set.”

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

Mr. Wolter requested an update on the Lawsuits and Recoveries.

Mr. Reilly stated that it was requested at the last meeting to bring two schedules, one that had been presented at a workshop from March 2010. “The Audit Committee asked that additional columns be added back to the schedule. The original schedule was on page 17 of the workshop handout. We didn’t discuss this at the June meeting; this is the added information.”

Dr. Mack stated to the Chair that he still wanted answers to his questions from the last meeting that were contained in the minutes. “I’m not going to go through the minutes and pick them out; that person that was here stated to us that those questions would be addressed at this meeting, and I expect to hear that. I’m not going through the minutes page by page to pick them out, because he promised me that that would happen. Do you remember I spoke about two attorneys doing the audits, and I asked why only two of the cadre were being used. I asked how many cadre attorneys we had and why all the work was given to just those two. That was an example of my questions.”

Mr. Marko answered “There are several cadre attorneys. Becker Poliakoff is a firm that is handling matters for the School Board; Neil Levinson and his partner, Mr. Steve Lesser. We have Mr. Cunningham, Mr. Soto and Mr. David Valdini. Mr. Valdini concentrates his practice solely on construction and is an adjunct professor, I believe, at Nova Southeastern. These were the items that had been referred to, closed and collected. There are other matters that are out there on several other cases with Mr. Levinson and Mr. Lesser that are not included on this particular list at this time.”

Dr. Mack stated “I was speaking specifically about the errors and omissions.”

Mr. Marko stated “That is correct. All of those attorneys, Mr. Valdini, Mr. Levinson, Mr. Soto and Mr. Cunningham have been representing this school District in references to errors and omissions.”

Dr. Mack added “Then the report we got the last time was not correct? Am I reading this right?”

Ms. Greenbarg said “There are only two; Soto and Cunningham. I don’t see Valdini and the other one. The question is why there are only two.”

Mr. Thomas Cooney stated “We’ve got Mr. Valdini and Mr. Levinson working on a number of cases; it just so happens when we made this presentation to the Board at that workshop, these are the cases that had been settled or very close to being settled and was a good representative sampling of what we were doing. It just so happens that Cunningham and Soto at that point had the bulk of those cases.”

Dr. Mack asked Mr. Cooney if he was the person present at the last meeting.

Mr. Cooney stated “No, Mr. Vignola was here.”

Ms. Greenbarg stated “I’m looking at a very long time span between referred to legal and settled. Some of these are 3, 4 or 9 years and I think that this is a long time and a lot of legal fees to settle.”

Mr. Marko stated “I don’t think that years, necessarily represent legal fees, but in the case of Morganti, well over half a million dollars and they proceeded to litigate. I can recall four mediations; two I believe were in Palm Beach County. To go from the deficit of ‘we owe them’ to ‘they’re paying us’, is something I’m sure the professionals in the room would understand, don’t come easy. Architects are not inclined on these errors and omissions to proceed to issue checks. I attended a mediation a month ago; we then had a continuation of that in a more informal procedure on Friday. Eventually the carrier agreed to come up with a number that we believe would be fairly satisfactory. All of these as you can appreciate; the dollar amount that we indicate on the initial demand would be like hitting a home run, if received. You take the risk involved when you look at the amount that’s in controversy and try to resolve, in a good business decision, the acceptable settlement. All of these, by the way, have been approved by the School Board.”

Ms. Greenbarg stated “When we were in business, there were many times we would run up against people who weren’t paying us what we were owed, but what we realized and did, was, that if you write the contract properly, you don’t have a drawn out interpretation process. We wrote the contract to favor us and if they wanted to do business with us, they had to sign the contract.”

Mr. Marko replied “The contract is not the problem; it’s been the administration of the contract. Unfortunately, over a period of time, when you go through numerous PM’s (project managers), maybe two or three over a period of time, when the construction is being done, you get different stories and it becomes very involved. We’ve had to go up to Maine, take depositions on occasion where someone has retired. This is not a question of ‘you owe us’ and therefore, it’s no longer an issue. As a matter of fact, they’re all fact driven. One has to do the analysis with those facts and weigh it against what you believe to be the strengths and weaknesses and go from there.”

Ms. Greenberg stated “To me, it sounds like dysfunction was ruling for a long time, but that’s just my opinion.”

Ms. Mary Fertig asked “Mr. Marko, were all these resolved through settlement or did some of these go to trial?”

Mr. Marko answered “I believe that none of these went to trial. They eventually were resolved by settlement.”

Ms. Fertig asked “Is there ever any notation when you have a bad experience, a contractor in any type of purchase, so you don’t get into that situation again? There seems to be several of these on this report who are doing repeat business that you then go back and try to collect money from at the end of the day.”

Mr. Marko stated “These are architects. There’s a standard, there’s no such thing as a perfect set of plans, so we play within that arena. Unfortunately, when you go through the item, then of course, the question is ‘I built it, you didn’t, I designed it correctly’. You have to then go through that and show that it was not the contractor that caused the problem. He built according to the plans. I agree with you that there is a notation. My understanding is that the QSEC Committee notes these issues as they are presented.”

Ms. Fertig said “Ok, thank you.”

Dr. Mack stated “If we are suing someone and they settle out of court, the presumption is that they were guilty of what we were suing them for.”

Mr. Marko stated “That’s absolutely inaccurate. There’s no presumption for a settlement. If that were the case, then nobody would want to settle, because they would have to agree that they did something wrong. Usually, a settlement is like, for example, Big Sugar with the United States.”

Dr. Mack said “I understand. Is there anything in our policy or your procedures, for example, if I were a person or company that did something, and I wound up having to pay to continue doing business with the School Board, because of practices we felt were not correct?”

Ms. Fertig asked “Do you ever take any of these to trial?”

Mr. Marko said “If we have to, we will. In most instances, they settle because they recognize their risk. There’s an enormous expense involved in the preparation on both sides for the litigation. People will file, what is known as offers of judgment; they now call them offers of settlement under the rules wherein, if you reject the offer, then it establishes and shifts the attorney’s fees. If you were to lose, then if someone makes you an offer of judgment for \$100,000 and you say ‘no’ and you go to trial and end up having to pay \$100,000, then you are obligated to pay the fees from the time of the offer to the end. So, this goes on, we file offers of judgment and we receive offers of judgment of settlement. At a meeting this past week, someone made an offer and the discussion casually, at the end of the meeting, and I don’t understand why that number was blank instead of blank. That was the end of the meeting and it wasn’t an hour later where the lawyer who made the offer to the School District called our lawyer at home to tell him that, that what seemed to be acceptable that they didn’t offer, they were now going to offer. The value, if you’re asking for \$100,000 and the risk is only \$10,000, then the answer is no. If

you ask for \$50,000 and the risk is \$30,000 or \$40,000, then the answer is they will then start to negotiate because it's a business decision. By the way, we're not dealing with the architect, we are dealing with the architect's carriers, their errors and omissions carriers."

Ms. Fertig asked "I see some do repeat business; let's take BRPH, for example, in 2004, 2006, and 2008, so I guess, to me, the logical question is 'Do you continue to do business when you repeatedly find problems with their plans? I understand the argument, though."

Mr. Marko said "I cannot directly answer that. Certainly, the Facilities Department is aware of what's transpiring."

Dr. Mack asked "Is there not a point when you wind up owing more than you're going to get in the first place?"

Mr. Marko said "You would hope that would not be the case, but when you're involved in litigation, sometimes, unfortunately, and I'm alluding to a case about 20 years ago, where the fees far exceeded the amount of money. We lost the case. The good news was that everybody was being double billed, both us and the City of Sunrise. The lawsuit was brought against the law firm and both entities, the School Board and the City; we collected about a million and a half each. If I say to you, let's do 'x' amount of dollars and I'd like to settle the case and you say no, you go out and file all sorts of documents, motions for summary judgment necessitates the lawyer on behalf of the School Board to respond to all those things. At the end of the case, the person initiating the process, which is the School Board, has to determine whether or not, it wishes to really push the issue forward in light of the expenditures that are being placed upon it by the other side."

Dr. Mack asked "When can we reasonably expect to see a demand letter for Ashbritt?"

Mr. Marko said "The same period of time I stated last time, thirty days."

Mr. Ted Perrella asked "What is the completeness of this schedule. Are there any cases that are not included where we didn't recover anything?"

Mr. Marko replied "There are over a period of time, where we've made a demand, but in going through, subsequently realized that the Statute of Limitations may have run out, so we would then not proceed to go forward because it is obvious. For a period of time, the School Board was not taking an active role in the recoupment of these funds; it's only been recently that they have and so we have been looking at the larger ones to protect the District's interests. The answer is, of all those that we have filed suit on or we have been sued on, the answer is we have recovered. We have, for contractors, not architects, because these are errors and omissions, on the issue of contractors, we've had numerous cases where we've settled without litigation, due to delays or whatever, where we felt there was really no issue. It was a matter of dollars, and we would negotiate the dollars and accept it pre-suit, so we wouldn't have to go through the expense. In reference to this item, this is not a total list inclusive; I think a representation of what was out there, not a total inclusive list."

Mr. Perrella asked "So, we have additional fees outside the cadre of attorneys for various other projects. Also, just from your answer to number 1, do we have any contingent fee attorneys?"

Mr. Marko replied “No, they are all hourly based at \$140 per hour. I review and sign every statement that is submitted to me.”

Mr. John Herbst stated “There seems to have been an evolution in your opinion about the Right to Audit clause. Could you tell me what your current view of the Right to Audit clause is?”

Mr. Marko replied “My last letter, which was not a change of opinion, but an opinion predicated upon additional information and analysis.”

Mr. Herbst asked “Then I guess the follow-up to that would be the original question that the Board was concerned with ‘Is it sufficiently robust as it currently stands for the auditor to accomplish his mission or do we need to revise it going forward?’”

Mr. Marko replied “We’ve recommended and I think a letter was sent suggesting that if you followed the last opinion, you had to go down and continuously show other material and read it in total, we believe that you ought to be able to write it in four, five or six lines that is unequivocally clear as to the obligation and the contractor doesn’t have to look for it. The answer is, when you sign this, you understood where it was, it’s not ‘well I didn’t read paragraphs 43 and 29 together’ that type of thing. Yes, we recommended and I believe we’re having staff review the revisions as we speak. That should be in the immediate future. I don’t believe there are any contracts that have been issued recently, so it was not something that we needed to put in yesterday, but it’s something that I’d like to see in the next 30 days. There’s no reason that it should not be amended.”

Mr. Anthony De Meo asked “The fees and costs column, does that include just out of pocket expenses, payments for attorneys, etc.”

Mr. Marko replied “All fees that the attorney has incurred in the preparation of the case or the defense. The answer is yes, it’s all inclusive.”

Mr. De Meo asked “So, there’s no attempt to estimate?”

Mr. Marko replied “No, these are not estimates. These are from the actual statements that were submitted.”

Mr. De Meo asked “I meant estimates of the hours spent by staff and for you.”

Mr. Marko stated “We don’t keep hours. The School Board Attorney’s office doesn’t keep hours. If Mr. Cooney has to work weekends, that’s his problem. In the list, our hours are not there, because we don’t bill to the School Board. This is strictly the cadre attorneys and their cost referenced to the particular issue involved.”

Mr. Steve Hurst asked “The CPA’s on the Audit Committee are required to, if they find a business not being profitable, issue a going concern letter. Similarly, do you provide such a letter to the School Board, stating that these people are more trouble than they’re worth and why are we doing business with them?”

Mr. Marko replied “No, I believe that’s a role to be performed by the Facilities Department, who are involved on a daily basis. Professionals are pre-qualified, so under the circumstances, there is a process used.”

Ms. Greenberg stated “The pre-qualification process asks if the vendor has had any litigation, but it doesn’t state what they’ve done with the District, etc.”

Mr. Marko replied “You can disqualify someone under our policy for qualifications, but again, that would be done by the Facilities Department, not by my office.”

Ms. Greenberg added “To follow up on that, the pre-qualification is technical. Do they have their licenses, surety letter, etc? Are litigations verified with Dunn & Bradstreet, etc? There would be no way for the pre-qualifications to disqualify them, if everything was in order and reported. Where I found the problem, when I was on the CRC, which preceded QSEC, it was very difficult to get information from the Facilities staff regarding the past history of these vendors who were being interviewed. The other problem I had was the CM at Risk process, the way the District uses it. The CM process, you interview them, you rank them, but there’s no price attached. They negotiate it after you’ve chosen the party that you are ranking. The CM contract that they have in this District is unlike most CM at Risk contracts. What should be happening, as far as the Facilities Task Force is concerned, is that the CM at Risk contracts should make the District and the contractors the party. The contractor should be the party with the architect. The District should have nothing to do with suing an architect for errors and omissions. It should be with the contractor. This way, unfortunately, it’s a triumvirate, and that’s causing a lot of the problems.”

Mr. Marko stated “If you were to look on your sheet, you will see that everybody is an architect on the adverse parties, except Morganti, and they were the contractor because they had the relationship of then marrying the architect and any errors the architect made. Morganti took the position very early on that whatever errors occurred, they didn’t cause, and they were looking for a payment from the architect and that created a problem for a period of time, because the architect was not interested in contributing anything other than about a \$10,000 requirement. It wasn’t until many years later, after pushing that issue, and getting different rulings in favor of the School Board, that they finally came to the table legitimately.”

Ms. Greenberg stated “That was a good effort then, because that’s the way it should be written.”

Mr. Wolter stated “I’d like to add as a follow-up to ask the Facilities Department to attend the next meeting and explain how they will or should tie errors and omissions and other problem vendors into the selection process.”

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

Mr. Reilly stated “Mr. Notter recommended forming a Committee to deal with this issue with loans. The letter from Mr. Leong covers the two issues, future loans and existing loans.”

Dr. Mack asked for a status on which schools owed money and their schedules for repayment.

Mr. Reilly stated that a listing of all locations’ debts was given in May as of April 30, 2010.

Mr. Hurst stated “One situation dealt with school uniforms for approximately \$75,000, which started us down this path, because they had not paid for several years. Looking at this Committee being set up, there are no stakeholders in this. Who’s representing the parents and or taxpayers? These bills aren’t being paid.”

Ms. Fertig added “I’d like to see a community representative from the schools having trouble making the payments, so they can discuss their issues.”

Ms. Greenberg stated “They are talking about the payment plan, which has to be to the Area Office by September 30th, so at the next meeting, I’d like to know how many actually were sent.”

Follow-Up Item #4 – Other Discussion Items – Change Orders – West Broward High – May 6, 2010

Mr. Wolter stated that an update would not be due until the December meeting.

Follow-Up Item #5 – Summary of Audit Activities for 2009-2010 and Proposed Audit Plan for the 2010-2011 Fiscal Year – June 24, 2010

Mr. Wolter stated that an update would not be due until the December meeting.

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 thirty-four schools in this audit. Thirty complied with all policies and procedures for internal funds and payroll. There were four schools that had exceptions related to depositing and receipting of cash collections, negative fund balance, activities related to the use of the discontinued Principal’s Discretionary Account and yearbook items.”

Dr. Mack asked “I want to address my age old concern about the Principal’s Discretionary Account. I cannot prove it, but because of what I’ve been seeing recently, it looks as though there was a meeting to explain to Principals how to get around the policy that we established. The way they’re doing it is almost uniform. What I’m seeing is a blatant disregard for the policies and procedures. I think we made it very clear about what we expected on how this account should be operated. I’m seeing here that they’re doing the same thing; I’m talking about Taravella.”

Mr. Reilly stated “Once we’ve identified this situation, I believe Ms. Delores McKinley will be meeting with them this week to address the difference between a donation and a commission and what can go into the Faculty account and what can’t. As you said, there have been several audits over the last year, which have shown this same scenario, so I think it’s being identified. We’re taking action with each location to ensure that this issue is addressed.”

Ms. Fertig asked about training that was supposed to have been implemented regarding this finding.

Mr. Reilly stated “We are dealing with the individual schools that have this situation. Mr. Herbst and I have had some preliminary meetings on this topic. I think we’ve had five in a row. They are aware of the situation. We’re starting a new school year and hopefully, this activity should be curtailed. On a case by case basis, we are not waiting for a workshop to deal with this issue.”

Ms. Fertig added “We now know that it’s happening around the District, not just at one location. What that says to me is that they didn’t get the memo regarding the Discretionary fund. I don’t

think it requires an in-depth training, just a letter should be sent on this topic. Otherwise, we're going to keep seeing these audit findings periodically."

Mr. Wolter asked "Where are the teeth in the policy when somebody violates it? We're not talking about \$3,000 that maybe was questionable. We're talking about \$70,000."

Dr. Joel Herbst stated "Many Principals have been identified with audit exceptions. Progressive discipline begins with the first audit exception and then continues into the second audit exception, where the Principal has a conference with the Area Superintendent. The Area Superintendent then reduces that conference to writing. The Principal will then see a negative notation on their APPAS Evaluation form. This prevents them from receiving a "highly effective" grade on their evaluation, until such time that those audit exceptions have been cleaned up. I have met with Mr. Reilly on several occasions to discuss what steps to take to communicate clearly to the Principals what the expectations are across the District. We talked about setting up a Committee to discuss this with the Principals; however, Mr. Reilly is correct. We are going to look at a training mechanism, as Mark (Magli) has set up for Property and Inventory."

Dr. Mack stated "I think your answer about what happens if you violate the policy is pretty good in terms of discipline for the Principals, but understand this. The Audit Department is not in the training business. The ultimate responsibility to correct this rests with the Area Superintendents. If he (Mr. Reilly) had a training session, fine, I consider that a bonus, but as the managers being aware of the situation as you have been over the years, you should be taking the necessary action to correct it, whether the Audit Department has a class or not. I want to make that clear. I recall seeing you personally and I knew that my Area Superintendents were going to deal with that problem, because I have that level of confidence in you. I'm surprised to see this again."

Ms. Fertig stated "I consider all these people who have come before us to be really good Principals; we're talking progressive discipline, sometimes just explaining something to someone is all that needs to be done. We keep seeing this and it's a reflection upon that particular Principal, but when you see it a number of times, to me, it's a reflection on the communication going out to those Principals. I don't think they are setting out to break the rules."

Dr. Joel Herbst responded "Yes they are good Principals and they are very intelligent and they know and understand directives very well. That's why when Dr. Mack said 'where are the teeth in this; the teeth are the three people sitting here and when we seek the Audit Department's training, we seek the interpretation of the rule. What is the intent? As Area Superintendents, we don't know the intent. We seek interpretation and intent from the Audit Department. That is the mechanism of training we seek, and they do a very good job at it. Our job then is to provide, if you will, the same verbiage that you used, the teeth, that these very good Principals don't follow, because they don't understand, which is hard to believe, the interpretation laid out by the Audit Department, then the Area Superintendents step in and make it clear what the intent will be for the future. Unfortunately, with this situation, we have gone through peaks and valleys going back to the 90's about interpretation, and what these funds are and are not to be used for. We've had some changes in the Principal groups; we've got some young Principals out there that have not been exposed to the intent and the interpretation of this procedure and we will work on doing that. Until such time as the Auditors continue to look at the use and improper use for

interpretation of these funds, we will serve to follow the progressive discipline as laid out by the Area Superintendents when it comes to, not only internal accounts, but also property and inventory.”

Ms. Fertig added “I wasn’t questioning your ability to do that, I was questioning the communication we’ve been talking about for the last six months.

Mr. Reilly stated “Even in this report, there were three high schools we audited that had no problem. It’s not that all the high schools are not complying with this; most of them are. We had some training when the policy was changed. It was probably three years ago when the Principal’s Discretionary Fund was eliminated. Initially, there was a lot of training for the Principals. In general, most of the schools are complying; only a handful are not.”

Ms. Greenberg stated “The fact that most are complying, if you look at page 92, I don’t know how much clearer you could be. The Principal was directed to immediately contact the vending machine vendor in writing. Sharon (Ms. Airaghi), you did it exactly as it needed to be done, but if you look at page 95, a phone request was placed by the Principal. In person, the second request was made verbally. These people don’t know what ‘in writing’ means?”

Ms. Sharon Airaghi answered “That’s why I directed in writing when I saw how he had followed up. I then followed up with a memo to him stating that he was not directed to call. They are in our offices answering to us.”

Mr. John Herbst stated “I’d like to follow up on what Dr. Herbst said, ‘The policies are not necessarily clear to the Principals’ and I guess I have some difficulty understanding. When I look at the policies, they seem really unambiguous to me. I don’t really see a significant amount of training required to follow the policies. I’m somewhat taken aback that it takes years to understand the intent of what appears to be a fairly straight forward policy. I fail to understand why a request for a written confirmation of something is unclear to the Principal. These things don’t seem to be that difficult. The Principals, as you said, are very smart people, but yet they seem to have trouble following fairly simplistic direction. I guess I’m just surprised. It’s just a lack of attention. This policy was implemented in 2006. If it was 2009, I might be able to understand it, but 2006, that’s a long time to figure out how a policy works.”

Mr. Wolter congratulated staff for the 90% of audits without exceptions.

Ms. Greenberg commented regarding page 108. “Dr. Herbst, this Principal did the right thing. He requested a personnel investigation and I think it’s worth noting that it can be done right, and most of the time, they do.”

Motion was made to transmit. Motion carried.

Internal Audit Report – Property and Inventory Audits of Selected Locations

Mr. Reilly stated “This report had forty-two locations. There were thirty-two locations that complied with procedures and policies related to property and inventory. There were ten locations that had some type of audit exception noted during the physical inventory audit.”

Mr. John Herbst commented “Where I see repeat exceptions, I see the number of missing items decreased from 170 to 70. If there is an audit in a prior year with exceptions noted, it seems to me that it would be fixed from that point forward. It’s not improving the situation by saying ‘well this year, we only lost half as many items as we lost the year before’. Either procedures were changed, training was implemented, personnel was replaced; I don’t know what it is, but if there’s an exception in year one, I would expect to see no exceptions in year two. I don’t see this as an improving environment; this is not something that gets incrementally better over a period of 5 years where we get to zero. I think there’s a line in the sand that says Ok, here’s what you’re missing this year, change your procedures, nothing should be missing next year. I find that personally to be an unacceptable response.”

Dr. Mack stated “I told the Area Superintendents at the last meeting not to do this. Once it’s corrected, you are at zero. I was dismayed by this too. I’ve already given my position on this matter in the past.

Ms. Fertig added “For five of these locations, it’s the third time. On those five, is there anything that you see that explains it, any commonality here.”

Mr. Mark Magli replied “I think your points are well taken, as we’ve discussed this before with the Area Superintendents. I agree, if all the things we discussed were implemented, there would be improvement. In some cases, I don’t see that many changes have taken place. When you look at the basics, there are certain things we’ve covered repeatedly about reviewing your records to see specific things, like your information was provided during the initial purchase, that you reconcile your removal of old equipment. We’ve spoken many times about initiatives and instruction, but as I’ve told the Principals many times in trainings, check the checker. We’re looking at repeated scenarios. We know right now those are schools that require a lot of attention. I think you see in the Boyd Anderson report, there were some reviews done, and I know there was some Area involvement. When I pulled that report, within 30 seconds, I saw that there were some things with no serial numbers, there were things in the report that I didn’t know what they were, which have now landed on this report. During the audit period, there were items on the inventory that could not be identified. That’s a concern.”

Mr. Perrella stated “Regarding Boyd Anderson on page 32, that’s a detailed response. Have you reviewed that written response and do you have any comment about it?”

Mr. Magli replied “I have reviewed the response. The new Principal has to come in and present his/her plan to remedy the situation. We’ve worked on plans with them before many times. I personally have been there three times, three audits, I should say. That doesn’t count the additional times we’ve been there with staff. Again, you can put anything on this paper, as we all know, but it’s not what goes into this piece of documentation. It’s what they do and how their implementation is carried out. There’s always a component for some things, for instance, I had to personally go out to BA on the tail end of this audit, because we had numerous things like band instruments that just weren’t coming back. I worked with the Principal at McArthur and we spoke about creating deadlines and timelines and I know those folks put up quarterly deadlines and things to report back to management.”

Dr. Mack stated “I like what you said, but I’m concerned about my Area Superintendents again. You answered my concern at the end. What can they do as Area Superintendents with all the

Principals? I don't know because I've heard you report to us time and time again the actions that you have taken and I felt that they were sufficient. That's why I'm surprised to see these things again. I don't have an answer, except to ask my Area Superintendents to fix it. You know what our expectations are on the Audit Committee. We don't have to tell you how to do your job, because you do an outstanding job. Just fix this for us, so we don't see this again next time."

Ms. Greenberg asked "How are the policies and procedures coming along from that Committee that was formed a year or year and a half ago? Does anybody know if that's anywhere near completion?"

Mr. Magli answered "We've progressed into a different format, which Mr. Moquin and I and several other people have reassembled to come to work on that particular item. Mr. Moquin, Mr. Reilly and I have to review the final piece. Nothing is really changing; it'll just be a clearer, more established business practice. I just met with the new Principals and I'm glad that they mandated that all the folks attend my Q&A session. I don't know the timeline on the Business Practice Bulletin, but we're pretty close."

Ms. Greenberg added "I bring that up because as hard as you guys are working on that, and I know you are, the schools see how things drag out because there's no sense of urgency and this Property Committee has dragged out for so long. Had they given it to you guys (Mark Magli and Jeff Moquin), it would have been done probably in 60 days. When they see that, they get that message that there is no sense of urgency in this District to really correct these things, and that is a very wrong message that this District has been sending for far too long, not just on this, but on everything that needs to be reformed and changed. When we see a year and a half later that we still haven't received anything from the District, then they're saying OK, no sense of urgency. We're looking at several million dollars worth of stuff. I'm looking at the In-Service training. Have those In-Services ever happened? On page 51 at South Plantation, they were talking about an In-Service for the AP."

Mr. Magli stated "That's the part I don't know, when we talk about the follow-up piece."

Dr. Desmond Blackburn stated "Those meetings do occur, but as Mr. Magli pointed out, the instructions are being given; it's the follow-up and constant checking of the checkers that is a requirement and our follow through with the "teeth" so to speak, with progressive discipline."

Ms. Greenberg added "Did this particular In-Service happen? It was dated June 9th."

Dr. Blackburn stated he would follow up to see if that took place.

Ms. Greenberg stated "I'm looking at McArthur with almost a million dollars and the Principal during that audit review got a promotion. That's just an observation."

Dr. Joel Herbst stated "This is a unique situation in as much as they've had three Principals in three years, which makes continuity very difficult. Her promotion was not based on her property and inventory report; obviously, her promotion was based on her ability to deal with curriculum and ESE findings. Mr. Magli has met with the Principal, as I have, specifically about P&I. They have a plan in place and I have every expectation that it will improve. As I review these, Ms. Greenberg, I share your concern, especially when I look at items 25 and 26, regarding this report. I have to wonder how this is possible. Let me assure you that not only is Mr. Magli involved, but

I personally am involved in this. With this case, because it's a brand new Principal and the third Principal in three years, I need to not only model, but mentor, as well, specific to P&I in this school."

Mr. Hurst asked "Mark, what are waste receptacles?"

Mr. Magli answered "That was an example of the item I spoke of; when I reviewed their records, their download, the items should have been recorded with an actual manufacturer's serial number. That is a part of the receiving process. In some instances, there is equipment that does not have those, and there's a requirement for them to put the word 'none' in there. I check those things immediately. The next thing I do, I'll provide a sort by description. I had no idea what those items were."

Mr. Hurst added "\$1,300 and no one knows what they are and there are 10 of them?"

Mr. Magli continued "I don't know what they are. I'm under the assumption, again, when we have holes to fill, we require them to gather as much information for us, to support either an improved description, add the serial number back in, value adjustments, things like that. We weren't able to get all that information. When I researched the equipment, the best I could determine was that these items were a type of cabinet that a garbage can fits into, like you'd see in a fast food restaurant."

Mr. Hurst stated "Based on that answer, I'm sure there's a test of disbursements, either by the external auditors or by your office, where you follow through and physically inspect the items purchased. If you're going to beat the system and you know there are no controls over expenditures of a certain amount or certain type, are we testing for disbursements and observing newly acquired items and so forth?"

Mr. Reilly responded "In this particular case, it is likely that you wouldn't look at this through internal funds. This is not an internal funds purchase. If you were looking at that contract where these were purchased, we definitely would have seen it, but two concerns we have with these are that they weren't physically able to be verified and, secondly, if they are not there, were they purchased for this location, but never brought to this location? What is the item? Even the dollar amount is questionable. What are we buying for \$1,300.00? We're looking a little further on that."

Ms. Fertig stated "If there's a common thread, maybe it's not the Principal or the Area office. Maybe now you should drill down to where you have a handful of schools that aren't working, and one thing I've seen is that they've all had repeated changes in leadership. Maybe you need to go down a step further to all the people. Every school has their own culture. Maybe you need to work with the entire staff and not just the Principal. If we keep coming back to the Principal for everything and we don't go down that next step, we may never solve the problem."

Motion was made to transmit. Motion carried.

Carr, Riggs & Ingram, LLC - Review of ADA Projects “Various Americans with Disabilities Act Renovation Projects” and “Mandated DOJ Projects”

The Committee recommended that this item be deferred to the next meeting, in order to be able to discuss the entire report with the appropriate management staff and external audit firm.

S. Davis & Associates – Independent Current Status on a Review of the Operations of the Office of the General Counsel Issued March 23, 2006 for Updated Period July 1, 2008 through April 15, 2010

This report was withdrawn from the agenda because management’s responses were not received, in accordance with School Board Policy 1002.1.

Internal Audit Report – Current Status Review of the Auditor General’s Report– Broward County District School Board Financial and Operational Audit for Fiscal Year Ended June 30, 2009

Mr. Reilly presented the Current Status of the Auditor General’s report that was presented to the Audit Committee at the May 6, 2010 meeting. “There were sixteen detailed audit findings and recommendations, of which we received management responses and reported that fourteen out of the sixteen findings/recommendations have been completed and two are still ongoing.”

Ms. Greenberg discussed the audit finding related to overtime and expressed her disappointment in the length of time and lack of urgency to correct things that need correction in the District. “How long have we been dealing with overtime?”

Dr. Mack answered “Thirteen years.”

Discussion followed.

Motion was made to transmit. Motion carried.

Cummings-Grayson & Co., P.A. – External Quality Control Review of the Broward County Public Schools Office of the Chief Auditor for the Period July 1, 2007 through June 30, 2010 (Peer Review)

Mr. Reilly presented the Peer Review Report. He stated “This Peer Review was performed by an outside CPA firm in accordance with Government Auditing Standards. It was the firm’s opinion that the Office of the Chief Auditor’s internal quality control system was in compliance with Government Auditing Standards.”

Mr. De Meo stated “Based on that report and my experience on this Committee, I would like to officially request that we commend the Chief Auditor, his staff and all of their efforts. The report was very good. There was one slight recommendation to join a local audit organization/chapter, but you’re doing a great job.”

The Committee agreed.

Ms. Fertig stated “I know that one or two of the School Board members seem to have difficulty downloading items that come before the Audit Committee. I just want to make sure that every one of them saw this, particularly Item #1 – ‘The Chief Auditor’s Office has attracted highly

qualified staff with expertise and credentials in a variety of areas' and all of the other complimentary things here; how well organized their work paper files are, and so forth. I wanted to make sure that every single Board Member had a copy of this, because I think it's a wonderful report and I'd like to congratulate the Audit Department."

Ms. Greenberg asked that the excerpt of the five bulleted items in the report be included verbatim in the minutes. They are as follows:

- The Chief Auditor's Office has attracted highly qualified staff with expertise and credentials in a variety of areas;
- The Chief Auditor's Office has developed and implemented an effective and efficient system for following up on the status of outstanding audit recommendations;
- The work paper files were exceptionally well organized, and supported all conclusions derived;
- Auditees' frequently request copies of work papers, in an effort to understand findings. Realizing this, the OCA staff pays very close attention to the quality of work performed, referencing and cross-referencing documentation very carefully;
- Training and Professional Development opportunities and adherence to CPE requirements are strongly encouraged, promoting the expertise, dedication and enthusiasm of professional staff.

Mr. John Herbst added "Perhaps the Attorney's Office ought to read Item #3 about the work papers supporting all the conclusions derived."

Dr. Mack stated "I have a very important subject that we should address. I know you've heard this Committee make these recommendations, namely, the Ethics Commission regarding the Chief Auditor reporting to the Board. My philosophy is 'If it ain't broke, don't fix it' and they are recommending a change in the reporting structure of the Chief Auditor. When you look at this external review here, it says that however we are organized, however we are working, it's good, so I would recommend, Mr. Chair, that the Audit Committee make a recommendation to the Board that the reporting relationship of the Chief Auditor not be changed."

Ms. Greenberg seconded the motion.

Dr. Mack stated "That would be my motion. If it is seconded, I have something to say in the discussion."

Mr. Wolter stated "There is a second, and I'd like to attach it to the minutes. Before we vote, you said you had more comments."

Dr. Mack stated "In discussing this issue, we cannot compare what our Chief Auditor does to what you do for the City of Ft. Lauderdale (addressing Mr. Herbst). How many audits do you do each year, maybe four or five?"

Mr. Herbst replied “We do a handful. We don’t have quite the staff.”

Dr. Mack added “We do more audits in a week than you do all year, so they certainly cannot expect that our Chief Auditor will function as you do. There’s also the question of independence. You cannot put our Chief Auditor on the dais with the rest of the Board, because he loses his independence. For example, if the Board asks him if he thinks they should pull an item from the agenda and he says ‘yes’, then something goes bad, then who’s going to be brought to the carpet, the Chief Auditor! Likewise, if he has to audit that particular activity, he cannot be independent, because he was part of the management decision to cause that activity to happen. In other words, the way it works now, he is totally independent. He provides communication with the Superintendent, the Audit Committee and the Board and maintains his independence. Mr. Chairman, I think we ought to be sure that that independence is maintained, because it can come back to hurt us in the future. Take the Ashbritt situation, for example. Had he been involved in that, we’d really be in a mess now, in terms of the Auditor’s independence. I think we would put ourselves at risk as a School District, as well as the credibility of the Audit Committee, if we do not take a position on this matter.”

Ms. Greenbarg agreed.

Mr. De Meo added “The bylaws of the Audit Committee state that the responsibilities and the duties of the Audit Committee will be in accordance with Florida State Statutes and Broward County School Board policies. Without a long discourse, what does that mean?”

Mr. Reilly answered “I really report, if you look at the Organizational Chart, to the Superintendent administratively, and I’m accountable to the School Board and to the Audit Committee.”

Mr. De Meo continued “So, you report administratively to the Superintendent, but in matters regarding audits, it’s this Committee.”

Mr. Reilly replied “It’s a unique situation. I had to do a presentation at a workshop a week ago and I was asked to look at the other 66 Florida Districts to compare their reporting structures. We provided a PowerPoint. Some districts have the Auditor reporting to the General Counsel; they have some reporting to the Chief Operating Officer or the Chief Financial Officer. We have a very unique situation that has been working for more than fourteen years now, which has a dual system of checks and balances, whereby the Audit Committee can request items to be audited, as well as the School Board, or the Superintendent. There are checks and balances where requests are made at Board meetings, and recommendations are made. I was trying to emphasize here that the Audit Committee really is the School Board’s Audit Committee. If you look far enough, everything drills down to the fact that I am reporting to the School Board.”

Mr. De Meo asked “Is there anything in the Broward County rules or Florida Statutes that require one reporting structure over another?”

Mr. Reilly replied “No, there’s a Florida Statute that states that the Board can hire an Internal Auditor who reports to the Board or a designee.”

Mr. De Meo stated “I agree with Dr. Mack. If you look at Sarbanes-Oxley and what the public companies are required to do, they are required to report to an Audit Committee of outsiders.

Only the Audit Committee can hire the Auditors; the Audit Committee has powers to investigate financial means to hire consultants, hire CPA's and so forth. I think that model serves the interest of the public, and after all, this is a big public institution. I think your independence is strengthened by reporting to a Committee like this one and maybe even a more active Committee, although we meet seven times a year. I think it would not be in the public's best interest to have your reporting responsibilities focused either through an executive or even the Board."

Ms. Fertig stated "I have to tell you that I've been concerned during the last year with the amount of criticism that's been directed at the Audit Department and the questioning of what they do. I can see where the Ethics Commission wanted to see something done differently. Meeting after meeting, we've sat and listened to Board members make very derogatory comments and it becomes very unclear as to who hires you, the Superintendent, an independent Committee or the Board. What's the best way? I watch John (Herbst); I go to the City of Ft. Lauderdale meetings. He adds a tremendous amount to those meetings because he is an independent voice and that doesn't mean everyone sitting in his position would be an independent voice, but he does offer another perspective, besides that of the Attorney. I sometimes feel with the School Board, that the only advice they get is from the Attorney. I guess if what you were describing were what was happening and that was the clear understanding by the Board, that would be one thing, but I just think that's not their understanding at all. Charlotte, can someone elaborate or maybe someone else could express this better, but I really feel that the independence of the Auditor, however we achieve that, is what we all want to see. How can we make sure that you are independent and allowed to give your opinions without having to worry about retribution? Mr. Notter is the exception, because I think he does allow you to operate the way you should, but we could have a Superintendent who didn't or we could have Board members who are so swayed by politics that they can't either, so how do you best assure that independence?"

Dr. Mack stated "I came from another District larger than this one. The Chief Auditor there operated just like Patrick is operating. I went through this same process of the Board trying to change this. We ultimately ended up with the structure that we have here, and this works. When you talk about the disparaging remarks made toward the Audit Committee and about the Audit Department, I ask you to look at who made those remarks and look at what their status is. They're either gone or they're not going to run again, but the important thing is independence; that's the key word. In an organization this large, the Chief Auditor has to be totally independent and not subject to challenge. Anyone who takes a look at this Peer Review can see that his independence provides for an excellent operation, one that we, the Audit Committee, are proud of. We have placed many requirements on the Audit Department. He has not failed us yet. The Superintendent, as you know, has placed a lot of requirements on this department, and he's met them all. The only group that is dissatisfied with this group is the Board. We are all appointed by the Board. If after each Audit Committee meeting, our particular Board member would talk to us, ask us what took place, ask our position, they would be much better informed and they would not be doing the things that embarrass the Audit Department, the District and us in front of the world and the media. I personally am going to speak to the Board member who appoints me and tell him, 'please, if you're concerned about something the Audit Committee or Audit Department does, call me. This is not in violation of the Sunshine Law. We are not dealing with any issues, but talk to me. You appointed me. 'If you're not happy with what's happening, talk to me first,

then I can bring the issues up at the Committee or I can take the issues up with Pat or our Chairperson'. That particular communication link needs to be strengthened and I'm going to recommend that we each talk to our respective Board member and tell them to contact us so we can share information with them. We've always given them an open invitation to every meeting and annual meeting to come visit us. Understand if you come, you don't run our meetings. You can come and sit and see how we run our meetings and we've only had a couple of takers in the past thirteen years that have done that. With regard to the external auditors, again, in other Districts, and in this one, the Audit Committee has played the role in the selection of the external auditors. In that regard, every external auditor group we've had here, when this question came up about the reporting relationship of the Chief Auditor, has said 'leave it like it is'. It's also been done the same way in other Districts. Ernst & Young, for example, were very specific in making their comments about that. Ernst & Young also made us addressees on reports from the National Audit Committee Association and we were commended as a District about the way we were organized and the way Patrick's operation works. However you want to word it to make sense, I'm recommending that we do that."

Mr. Wolter stated "If it's a discussion point on how to say it, I think we're all in agreement."

Mr. John Herbst stated "I would like to take a slightly different perspective. I think on the good, better, best model, I think we have a very good reporting structure right now, so we agree that this is the best. I think the one word we've been discussing 'independence' and I truly do not believe you can be independent when you report to the Superintendent. When you are part of management, which is where that places you, I don't think you can be truly independent. I think the only way you can achieve true independence is to report directly to the Board. Now, through the Audit Committee to the Board, directly to the Board with the advice of the Audit Committee, to me, one way or the other, it doesn't really make a difference. I think when you report administratively to the Superintendent, there are a lot of decisions that have to do with budget, personnel, things of that nature, which now, you are as the Chief Audit Executive, required to go to the Superintendent for purchasing authorization and that allows the opportunity for influence on the Office and how the office is run, how it's staffed and how it's managed, and how it's budgeted. I think to be truly independent, it should report to the Board of Directors or the School Board. It works exceedingly well for me, for Broward County, for Duval County, where I used to work. These are, Dr. Mack, much larger organizations than the School Board. I believe you have a team of 25 auditors doing the number of audits that we're talking about, where you're dealing with a full county operation. It was the same in Miami-Dade County. I think in order to achieve a truly independent function, it should report to the Board. I don't disagree that it works well; we have a very vigorous Audit Committee and I think that really helps ensure that the efforts of the Office of the Chief Auditor are allowed to be as vigorous as they want to be, but again, I'm not necessarily just talking about today and this Audit Committee, and this Superintendent and this Auditor. I'm talking about a structure to be in place for the future, for the next generation of people that come through."

Dr. Mack commented "You made a good point when you said report administratively to the Superintendent, who deals with budgets, salaries, etc. The Board is not in a position to do that, to deal with the hiring, firing, the budget and so forth. They don't want any part of that, so reporting administratively to the Superintendent takes care of those housekeeping kind of issues. Operationally, he reports to the Board through the Audit Committee."

Mr. Herbst asked “How is it handled for the Attorney’s Office, when it deals with staff and budgeting, etc.”

Mr. Wolter replied “That’s the one employee of the Board.”

Mr. Herbst stated “I see the Office of the Chief Auditor being commensurate with the General Counsel.”

Mr. Reilly added “The one unique thing that we have here is that the Board hires the Superintendent and the School Board Attorney. The Attorney has a Legal Committee, whereby, if they need to hire additional cadre attorneys, or have issues regarding salary increases, demotions, etc., this committee does that. They have members of the Board on this Committee also. It’s a little different than the entire Board being responsible for the General Counsel.

Mr. Herbst asked “Would that be a role of the Audit Committee then? If the Office of the Chief Auditor reported to the Audit Committee, which is an extension of the Board, would that essentially then parallel what you’re talking about with the General Counsel?”

Mr. Reilly replied “It could, but again, as I explained to the Board, any method, whether you report to the Board, the Audit Committee, the Superintendent, could work. It could work any way you look at it, but I just think we currently have a unique system of checks and balances. Again, a big concern is that I don’t ever want to be doing any management decision making, and I really think that you’re heading in that direction when the Chief Auditor has the ability to pull agenda items from the dais. If you pull something, then you have to audit it later, you are associated with that now. As Dr. Mack said, certain audits like Ashbritt, I think it would complicate things if I were there to approve agenda items during Board meetings. Again, any of the structures could work; I’ve done a lot of research. Presently, the Miami-Dade County Auditor reports to the Audit Committee directly. That works, but they report administratively to the Board, which is kind of different. My issue with that is I’ve seen a lot more activity with GFOA and other organizations, as with the Sarbanes-Oxley, that the Audit Committee’s role really changed and it is felt that when you report to an executive or a higher reporting structure, rather than an Audit Committee, it’s a better structure. When the Auditors report to an Audit Committee, (an outside group), in the GFOA’s recent experience, the Auditors are losing a little bit of the ability to obtain management’s responses in an efficient manner and management’s actions to implement audit recommendations by the Auditor are less likely to be completed in a timely manner. It’s a trend shifting back now to where the Auditor reports to some level of higher management, such as an Executive Leader, who has the responsibility of running the business, as the Superintendent does in this District.”

Ms. Greenbarg stated “I was present at the September 2nd Retreat and the Board members stated that if you report to them, they would get to hire and fire you. If that were in place, I know of at least two audits that never would have seen the light of day. They would have buried them completely. I think before we start to say what should happen, our main statement needs to be ‘we like it the way it is; if you’re thinking about changing it, you’d better form a committee and include the Audit Committee and think long and hard about the consequences of any change you might make. Right now, I think our position should be ‘leave it alone; don’t make any abrupt changes without finding out what the unintended consequences might be.’”

Ms. Fertig stated “I’m still concerned and I think we should think beyond ourselves. We have some strong personalities in this room, and we have a Superintendent who allows the process to work the way it should. If we had a different Superintendent, he could play the same role as the Board; he could be political. I’m not saying, change it today, but I don’t think it’s a bad idea to look at it. That’s why I’m concerned about your motion. I would rather have your motion be what Charlotte actually just said, to have it discussed by different groups as to what would work best. The key issue is what ensures the independence of the Auditing Department, because that’s really what we want to see accomplished. How do you best provide information to the Board that helps them make the right decision? We don’t want to see you become politicized, as you could be if you were in a role, say like an attorney. We don’t want to see that happen, but on the other hand, I don’t want to see us have a change in Superintendents and now everything you say has to make the Board members happy or you don’t have a job. I don’t want to see that scenario either, so I’m uncomfortable with your motion, Dr. Mack, because I don’t want to say to keep everything the same. I want to move to the next thing that we’ve been asking for since the 1990’s, which is how do we have a totally independent voice telling the Board what they’re doing right and what they’re doing wrong. I don’t know the best way to accomplish that today, but I do know that I think all of us are in agreement that that’s what we want to see happen.”

Mr. Herbst added “If there are some audits that may not have been done, at the end of the day, for myself, if I report to the City Manager, I’ve got one person who controls my destiny. If I report to the Board, I’ve got to be able to count to three on any given Sunday. There is very little likelihood, having three of them, that three out of five would take that strong of a stance against me, but I know if it’s only one person, so perhaps a compromise in between, to address what you’re saying, is and I know I dealt with this circumstance when I was a Finance Director in North Florida, I reported to the City Manager, but I couldn’t be dismissed by the City Manager without a vote of the Commission as well. I was hired by a vote of the Commission and I was terminated by a vote of the Commission and I reported to the City Manager.”

Ms. Greenbarg said “I think it needs to be discussed before anybody puts anything forward.”

Dr. Mack stated “I would be open to amend the motion to say ‘at this time’. Let’s say at this time, it’s not broken, let’s not fix it, OK? If they want to reopen it in the future, fine. I’ve been through this before. I’ve seen School Board members go absolutely insane and you know what I’m talking about, Charlotte. I served on Dade County School Board Audit Committee for 25 years, chaired the Committee for 20, and I went through sixteen Superintendents. There were some Superintendents who liked it, and some who didn’t. I think we’ve been through seven or eight since we’ve been up here. Logic prevailed and the terms ‘reasonable and independence’ prevailed in the structure that we have now. As I said, I would amend my motion at this time and recommend that we do nothing with it, particularly with the group that’s making the recommendation, because I would challenge their real ability to subjectively evaluate the effectiveness of this office, because they are not CPA’s; they do not fully understand the accounting and auditing function. The City of Ft. Lauderdale gives us experience from his perspective, which is correct, but with an organization this large, it’s what operates best. I can’t say what operates best, all I can say is that it’s operating well, based on the Peer Review, based upon our relationship with this office; based upon the fact that in most meetings, we have the Superintendent here, and he can make decisions on these Audit Department issues, to deal with these issues we are addressing. That is my motion, as amended.”

Mr. Perrella asked “What was the response to your comments at the last meeting?”

Mr. Reilly replied “There really were no decisions made. They want to wait until September 20, 2010, when the Ethics Commission presents their recommendations. There was a lot of discussion about reporting, but not wanting to do the administrative side, the hiring and firing, but maybe changing some of the reporting structures discussed, those being reporting directly to the Superintendent, directly to the Board or directly to the Audit Committee or a hybrid was discussed.”

Mr. Wolter said “We have a motion on the table to transmit this very favorable report (Peer Review) on the Internal Audit Department, the language basically is to commend the performance of the Audit Department, its leader, its staff, with a recommendation to not change reporting relationships at this time. That’s the motion that’s on the table. Do we have a second?” Six Audit Committee members approved the motion. “One comment I’d like to make is that we’ve got five or six CPA’s, Steve Hurst’s special designation, an Internal Auditor for a major Florida city; we’ve got a lot of talent here who know and understand internal and external auditing. We have a great audit firm here that supports us, based on your comments in the past. The only concern I have is if our Board makes a decision without including us in the process, we could end up with a bad answer. So, if each of us would just pick up the phone this afternoon, call our Board member and ask that we be included in the decision making in order to come up with the best plan.”

Ms. Fertig added “I want to say, the way these two things are tied together, the report, which we started off complimenting and the motion, I would not want anyone to think, at least on my part, I can’t speak for John (Herbst), that we didn’t wholeheartedly congratulate the Audit Department for their practices and know that they do a wonderful job. I’d like to note that I disagree only because I’m concerned that with no discussion, the independence of the Auditor could be threatened with a change in leadership.”

Dr. Mack agreed “She’s correct. When you tie the two together, there were two separate issues. I would recommend that we vote on the report, commending Pat, and as a separate issue, the reporting relationships.”

Mr. Wolter stated “We have a separation of the motion into two motions for reconsideration.”

Mr. Perrella stated “I like the recommendation (in the Peer Review) and I don’t want to mitigate the fact, and I think it may be important, the fact that we have no membership to an oversight entity. I think it’s well intended and could actually bring additional education, so I don’t want to mitigate that we shouldn’t have a membership, as discussed. I’d like to make that comment, so as not to ignore the fact that we should have that membership. It could be a tool even to address this issue, so I’d like to say that there is a recommendation that we agree with that’s within the budget of the Audit Department.”

Mr. Wolter asked if he was modifying the motion.

Mr. Perrella replied “The motion was to approve the report with accolades, but to recommend that we look into membership, as recommended in the Audit Report.”

Mr. Wolter said “You are recommending that the Audit Department become a member of the FICPA?”

Mr. Perrella said “Read the recommendation, we should emphasize that if it’s within the budget of the Audit Department, we look into becoming a member.”

Mr. Wolter replied “I think Patrick has already responded that he’s done that.”

Mr. Reilly added “We are looking at the Institute of Internal Auditors, the local Chapter, I know they have a Palm Beach and Dade Chapter. We used to belong to that organization, but we turned our direction to more in-house training for our CPE requirements due to the budget. We are using more of the on-line training courses or purchasing DVD’s, rather than traveling to attend the more expensive ones. The membership is always a good network to have, I agree.”

Mr. Wolter concluded “The motion is to transmit with accolades and support the recommendation of joining a professional organization.” Motion was approved. “Second motion is on the issue of reporting relationships; we recommend at this time, that no changes be made in the relationships.” Six members approved and two were against the motion.

Moore Stephens Lovelace, P.A. – Communication with the Audit Committee on Audit Planning 2010 – Year Ended June 30, 2010

Mr. Dan O’Keefe introduced Mr. Manny Garcia from GLSC and Ron Thompkins from Watson Rice. He stated that page 9 reflected some issues he would be discussing regarding the recurring significant accounting issues and the current ones they identified this year. He stated the recurring items included debt, technology and payroll. He continued “This year, due to economic constraints and changes in regulations and other risk areas that we think are very significant, we’re going to have to drill into other areas; probably the biggest one deals with the stimulus package and the ARRA dollars. The School Boards that we deal with have gotten a significant amount of money in this area. With that grant money, comes many different regulations in the area of reporting. We have two different challenges this year, one being the fact that we have these grants and secondly, we have another audit standard, SAS 117, which deals with compliance. This particular audit standard requires us to go in and assess risk in the specific compliance level vs. at the program level. This year, we are requiring more documentation from District staff, related to grants. We spent the summer trying to develop our approach for this year, using the AICPA Government Audit Quality Center and the tools that are out there. We will try to have the three reports ready for the December meeting, as we have in the past; however, the additional work needed with the ARRA funds audit may delay the Single Audit. In this case, we may have to come back and present this at the February meeting.”

Mr. O’Keefe also discussed that they will be looking at budget transactions and financial reporting of accounting information, due to the shortfall of funding and the economic environment of the District. He discussed some new accounting standards related to derivatives and reporting on them. Also, there were changes on how to present the fund balance, which now requires more detail on the classification types of restrictions and usage. He discussed GASB 55 and 56, which incorporated some of the standards of the AICPA audit guide and brought them into generally accepted accounting principles. He clarified that AICPA sets audit standards and

GASB sets accounting standards. He talked about some of the reporting standards, such as SAS 118 and 120, which deal with the reporting requirements.

Several questions were asked regarding the changes in the auditing requirements and the effect on their auditing procedures for this year.

Mr. De Meo asked “Have there been areas where you expected to use the work of the internal auditors, but could not, for whatever reason?”

Mr. O’Keefe replied “No, I think that has gone on record several times that if you didn’t have the internal audit function the way you have it here, the external audit fee would be much more expensive, because we would have to be doing a lot more work.”

Mr. De Meo continued “Have you asked them to look into areas, so that you could use their work, but they have not been able to do?”

Mr. O’Keefe answered “No, we’ve actually had great communication with regard to what they’re doing.”

Mr. De Meo added “That allows for an efficient and cost effective audit.”

Dr. Mack asked if it would be feasible to have the external and internal audit departments perform an operational review of the IT Department. He stated it had been a while since this department was audited. Discussion followed regarding the current technology systems in use.

Mr. O’Keefe stated “When you get into the operational side of this, it would expand the scope of what we typically do during an audit. I can talk with the Chief Auditor about this issue.”

Mr. Hurst mentioned that the thin client systems have gone down in price by 50%.

Mr. Wolter asked if Mr. O’Keefe could report back at the next meeting as to whether it’s feasible to perform a joint operational audit within the budget or what it would cost to perform an IT audit.

Motion was made to transmit. Motion carried.

Meeting adjourned at 12:04 p.m.