

The School Board of Broward County, Florida
AUDIT COMMITTEE

MINUTES OF AUDIT COMMITTEE MEETING

October 25, 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. Charlotte Greenberg
Mr. John Herbst, CPA
Mr. Steve Hurst, CFP, Vice Chair
Mr. Anthony De Meo, CPA
Dr. Henry Mack
Mr. Ted Perrella, CPA
Mr. Joey Epstein, CPA
Mr. Neal Shapiro

Staff Present: Mr. James F. Notter, Superintendent
Mr. Donnie Carter, Chief Operations Officer
Mr. Ben Leong, Chief Financial Officer
Mr. Thomas Lindner, Acting Deputy Superintendent, Facilities and Construction Management
Mr. Edward Marko, General Counsel, Office of General Counsel
Mr. Thomas Cooney, Office of General Counsel
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
Dr. Desmond Blackburn, Central Area Superintendent
Dr. Joel Herbst, South Area Superintendent
Mr. Jeff Moquin, Executive Director, Support Operations
Mr. Oleg Gorokhovskiy, Accounting and Financial Reporting
Ms. Cyrilla Bradley, Transportation Services

Guests Present: Mr. Daniel O'Keefe, Moore Stephens Lovelace, P.A.
Mr. Scott Ferguson, Carr, Riggs & Ingram, LLC
Mr. Shaun Davis, S. Davis & Associates, P.A.
Ms. Annette Lewis, S. Davis & Associates, P.A.

Old Business

A motion was made to approve the minutes for the September 13, 2010 Audit Committee meeting. Motion carried.

Current Status Report – Follow-Up Items

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

Mr. Reilly asked that Mr. Lindner provide information as to how the District ties errors and omissions and other performance problems with vendors in the selection process at QSEC.

Mr. Thomas Lindner stated “In the past, there was no real feedback provided to QSEC on the performance of contractors that was written by Project Management. In the past two meetings, we’ve instituted hard copy feedback forms, which are distributed to QSEC members as part of the pre-qualification selection process, so that we consider both the contractor’s performance as well as accountability for that contractor to do the work, based upon its financial strength. We use that feedback tool to help us determine whether or not to authorize the limits requested by the contractor, and in the event that we were in the process of selecting a contractor to do a specific job, we would use that feedback essentially as a weighing factor in the selection process, based upon their previous performance.”

Mr. Steve Hurst asked about the evaluation tool. “Is it on a scale of 1 to 5?”

Mr. Lindner said “It’s 1 to 10.”

Mr. Hurst asked how to ensure that the evaluation form was completed appropriately.

Mr. Lindner replied “I’m involved in that process. When a Project Manager sees the project, based upon experience, I think they only have 13 Project Managers left; most of them have years and years of experience. They also know that their feedback is now going to count. They are actually part of the process; it’s not something where their feedback and their opinion of their work, as well as actual performance of the work will be a consideration in the selection process. In the past, I think the Project Managers felt ignored and although they were the customer, they weren’t treated as the customer. We want to be considered the customer in the contractor/School Board relationship, and hold the contractor accountable for maintaining that relationship. You’ll always have human nature in any type of evaluation process, some of the things we look for is the percentage of change orders, the temperament of the communications we share with the Project Management, particularly the hostility involved in some of their demands and/or their ability to work with us, the time taken to resolve a conflict, the time taken to close out a project, which is a problem right now. We’re closing out projects right now that date back to 2007. I spend a significant amount of my time closing out projects over the last six months. As we move forward, we’ll try to establish a reputation with contractors that serves in the best interest of the School Board and the taxpayer.”

Dr. Henry Mack asked “What is the composition of the QSEC Committee?”

Mr. Lindner stated “There are no longer Board appointees on the QSEC. The Superintendent and Mr. Carter have appointees taking the place of Board appointees. The final reading (of the policy) goes to the Board this week.”

Mr. Reilly stated he would bring the updated policy to the Committee after it had been approved by the Board.

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. Reilly requested an update on the progress of the Ashbritt audit; specifically, the work being performed by the external auditor/expert witness Berkowitz Dick Pollack & Brant, CPA’s. Also, the Committee requested an update on the charges to date for their services.

Mr. Ed Marko said “As I indicated at my last presentation to you, I was anticipating that we could bring closure before your meeting today; however that was not accomplished for several reasons. The major reason is, as you have been reading in the newspaper, we got a final audit from FEMA, and we want to make sure, there are references to roofs, I was not involved nor was my office, in the collection and analysis of what FEMA wanted. We’re not sure yet if what FEMA was addressing was the same as what we’re addressing. Until we are able to pin that down, we are not interested in bringing closure to the item. That’s where we are on that item. I would anticipate, there is no doubt that there will be some aggressive activity between now and the next time you meet. I’ve read your minutes, the question is, is there a time frame? Unfortunately, I cannot give you a specific time frame; we believe that we are fairly close; we could have been closer if it had not been for the FEMA item. The FEMA audit needs to be reviewed; we would be remiss if we wanted to bring some type of closure to this item without looking at that first. As to the cost involved, I have not received a specific bill for the services rendered. It is not inexpensive, but I believe, they are being hired as a forensic consultant expert witness, if necessary to go to court. Under those circumstances, I believe one of the members of the Committee worked with them in the past, and they are very competent. It’s been a long time in coming, but it’s been a lot to be reviewed. I will try to answer any questions the Committee may have.”

Mr. Joey Epstein stated “I was a partner there, I understand how the billing might not be out yet, but couldn’t we call them and ask approximately where they’re at with their work in progress and where they stand, at least up to date?”

Mr. Marko stated “I hesitate to do that on the basis that whatever, I have the, as all cadre attorneys have the opportunity to proceed in obtaining expert witnesses and we have done that. I think that by just coming out with the amount of money, I don’t think addresses the issue because you don’t know what you’re getting. I think that it needs to be done collectively. Part of the billing, I suspect, one of the reasons why I have not received a specific billing is that when a billing is issued, it would then represent or in some way show services being rendered. We feel that general material of a billing may not be excluded from the public records or entitlement of the public records, but we believe their report is. Until such time as I have an opportunity to proceed, to go to the School Board with the item, I do not want to disclose it because it may jeopardize the position that we are in or may be in.”

Mr. Epstein added “Normally, with forensic matters, they are broken down into phases. Were there ranges of fees with the various phases? I’m only asking that because the question’s been asked several times.”

Mr. Marko replied “Let me look at that letter to see whether or not the engagement letter in any way compromises the position, if it does, I would then represent and send out a memo to you in that regard. If it doesn’t, we’ll be happy to provide it to Mr. Reilly.”

Dr. Mack stated “You said the reason this was not brought to closure was because of the FEMA audit?”

Mr. Marko replied “One of the reasons, yes Sir.”

Dr. Mack stated “It seems to me that if the FEMA audit had any bearing on the work you’re doing on this project, that it would have surfaced itself long before the final report was issued, because on page 6 of their report, they say that they met with School Board officials and School Board officials agreed with the findings. That would mean if there was something that would affect something that you were doing, they would have arisen by then.”

Mr. Marko replied “That would be true, if in fact, we were part of that, but we were not. I have never been asked by anybody at FEMA, nor the Committee that was collecting the documentation and meeting with the FEMA people, until we saw the report within the last two weeks, maybe a month, and then proceeded to make the inquiry.”

Dr. Mack stated “I don’t know if you answered my question or another question. It appears to me that if this FEMA audit had anything to do with the project we’re speaking about, it would have surfaced long before now. That being the case, if you were involved in it or should have been, it’s just reasonable that you would have been. The audit report is just a report, but the actions that led up to the report were done months ago. I’m trying to see how that would interfere with your bringing us back the information that we wanted today.”

Mr. Marko answered “I would suspect that you’re using an assumption, that we should have known what the FEMA audit is looking at and whether or not they were related to the issues that we were looking at. Is that your question?”

Dr. Mack replied “No, I don’t make assumptions. I deal with facts. I think I made myself clear; I’m not going to belabor the point anymore.”

Mr. Marko said “I’m not sure what your point is, Dr. Mack.”

Dr. Mack said “I’m not sure what your answer was, so let’s just drop it and we’ll bring it up again later.”

Ms. Greenberg asked “It said that even though the School Board officials agreed with the FEMA audit, no one asked you? Is that what you’re saying? You were not part of that agreement process?”

Mr. Marko replied “Our office was not involved in either the review or collection. The answer is no. I was not involved in that process and it’s been a little bit. By the way, I don’t know whether the FEMA audit side is particularly worried about our side. The fact remains that they were

independent of each other and until such time as we realized that there was an issue out there and that they do a critique of the audit. As I understand, the six or eight pages are really a critique of their findings and not the actual audit. We are going back to try to make sure, that when they talk about rules and other issues, that they are not talking, or if they are talking about the rules that pertain to Ashbritt. Because as you all know, there were seven or eight vendors that did the work on the roofs and that the only one that surfaced that we have a problem with, that was identified in the audit that went to your Audit Committee was the Ashbritt end of the audit, of the work, as I understand. Therefore, under those circumstances, we want to make sure, if they're talking about somebody else's entity, if it has nothing to do with Ashbritt and the roofs that Ashbritt was dealing with. There were 1,400 portables that were addressed or repaired approximately and about 90 of those were Ashbritt, so I want to make sure, that in fact, they are not related to each other. I think I'd be remiss if I didn't do that before we brought closure."

Dr. Mack said "Thank you. You answered my question."

Mr. John Herbst asked "Would you please clarify how a progress billing might have an impact on the settlement process, in other words, presenting to us the progress billings to date?"

Mr. Marko answered "I haven't received any progress billings."

Mr. Herbst continued "Will you explain to me how your receiving a progress billing from the auditors would impede the settlement process?"

Mr. Marko said "I don't know whether it would impede the settlement process, but it certainly would be disclosing what we are doing and what we wanted to make sure of was that nothing would be put into the mix that would result in the disclosure of what we were looking at and the documentation, other than to go to the different groups and associations. We didn't want anything in writing that would indicate I did X number of things, talked specifically to X or to Y, etc., because we felt that could show a pattern of what we were doing. The whole purpose of the review and what the law is, is that information is not considered to be public information. Well, it's considered to be public information, but not available under that public statute, so we, if we encompassed at all, fearing that what would be a disclosure in that material, could be an opportunity to determine where we were going, and we didn't want to do that until we were ready to bring closure to the item."

Ms. Greenbarg stated "I wouldn't be talking about asking them what they were doing; I would be interested in knowing how many hours they've worked so far, and how much they're charging per hour."

Mr. Marko replied "Other than your curiosity, I'm not quite sure what purpose that would serve, because if they're doing the work, and they're doing the work to our satisfaction, and they're preparing a report that we're looking at or will look at when it's completed, under those circumstances, it's like saying, Well it costs X dollars, let's say 80,000 or 90,000, whatever it would be. The answer is, what did you get, well the answer is I ain't gonna tell you that. I don't see how that plays, other than to satisfy the curiosity of the Committee, how much has been incurred. What has been incurred has been incurred and what will be incurred if we go to trial will be incurred and unless we fire them and get somebody else, I'm not quite sure of the purpose."

Ms. Greenberg stated “I feel I have a responsibility to know how many hours they’ve spent so far working on this.”

Mr. Marko answered “We would hope that information would be available upon receiving the report.”

Ms. Greenberg said “I would expect it to be available. In terms of the audit and what they’re looking for, I have a question for Dave Rhodes. FEMA was looking at a specific area, but they couldn’t find any documentation and yet, your audit talked about a lot of documentation.”

Mr. Dave Rhodes replied “I couldn’t speculate on what FEMA looked at, but I can say we looked at invoices. We tested them against policies and procedures, Notices to Proceed and emergency contract procedures from the School Board level and ultimately, the State level, where we made it to the Governor, for lack of a better term, relaxing some of those procurement statutes during the emergency. One thing I can see is that, in the FEMA report, they seem to be looking at Federal regulations specifically, which is completely different. I’m not commenting either way on what General Counsel said. To me, it looks like they were two completely different scopes, which may or may not have a relationship to one another, but certainly, my opinion is, that it doesn’t impact what we found from within our own policies and procedures and contract terms.”

Ms. Greenberg said “In reading that and thinking about what you did, I looked at it also, as you did, as a separate report. FEMA is Federal and you were looking at State regulations.

Mr. Reilly added “I think Homeland Security’s objective was to look at how the District accounted for and expended FEMA funds. Their sample included Hurricanes Katrina and Wilma activity. They looked at many different things, while our audit concentrated mainly on the projects relating to portable roof repairs. Their report emphasized debris pick-up, initial emergency protective measures and other activities. Their sample, I believe, is quite different than what we looked at and their objective was different than ours.”

Ms. Greenberg agreed “That’s the impression I had; it’s two different things.”

Mr. Wolter stated “But, we don’t know that and I don’t think we should impose our opinion on what’s already been done by staff. My request, Mr. Marko, is for you to come back at the next meeting and provide an update.”

Mr. Marko replied “Yes, I will do that. By the way, Mr. Reilly, was your department involved in the FEMA audit?”

Mr. Reilly replied “This FEMA audit began in January. FEMA notified the District that they would be doing a review of the payouts from Katrina and Wilma as part of their selection of FEMA reimbursements throughout the State. We had a formal kick-off meeting in January. All the appropriate parties attended; they continued to do the audit through June. There was an exit conference on July 13, 2010, where all appropriate parties, who had to respond to the report, attended. They let us know on Thursday last week of their report. Their process is that this report now goes to FEMA, and FEMA deals with the State. We’ll be working with the District to review the issues. They have a deadline for reporting, FEMA has a deadline to report to the Homeland Security group. When we received this report, they asked us to distribute it to the

appropriate District management. They have this as a public document on their website. Their process now is to deal with FEMA, and FEMA will deal with the State and us to address the audit findings in the report.”

Ms. Greenberg asked “So, this will go on until FEMA’s process in December?”

Mr. Reilly answered “That is their date that they stated in the report that they want the responses from FEMA.”

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

Mr. Reilly began “The Committee requested an update on establishing loan criteria for all future loans to schools. They also asked for an update on the schools’ repayment plans for outstanding debts. This was triggered from an internal audit report a couple of meetings ago that related to some schools having outstanding liabilities due to the District for loans. The other types of outstanding loans are routine processes, such as transportation fees charged to the schools, etc.

Mr. Ben Leong stated “I am happy to report that during the last Audit Committee meeting, when we reviewed how to establish criteria for future loans, the Committee suggested that we include community members. Mr. Henry Robinson and Ms. Nell Johnson (not present) asked community members from Ely High to participate in the Committee. The first Committee meeting will be early November. The next quarter, after the Committee meets, we’ll come back and give an update on the Committee’s recommendations. In terms of the report of outstanding loans, I think the Committee has a copy of what Oleg (Gorokhovsky) sent to the Committee. As of October 15, 2010, almost 40% of the school loans have been paid back totaling about \$360,000. We still have approximately 60% or \$560,000, for which they have submitted repayment plans. Those plans have been submitted to the Area offices and the Areas have reviewed and approved them. On a quarterly basis, we will monitor their plans and progress and will report back to the Audit Committee. Some of these balances are not the result of band uniform loans; only two schools fit this scenario. The majority of the expenses incurred are the result of athletic events, football games, ticket takers, etc. About three years ago, the Internal Revenue audited the School District and found that we were using internal funds to pay for athletic events. They disallowed this practice. They recommended that these expenses be paid through the payroll system. As a result, they have charged the General Fund of the District. We need to be more proactive on making sure these loans are repaid. I think that Oleg and I have established a process now whereby all their outstanding balances need to be totally repaid by the end of each quarter. If not, we will be debiting their budget accounts. There will not be outstanding future balances increasing like we’ve had in the past. We mainly need to focus on the \$560,000, and give them an opportunity to pay this back. The Committee will look at the criteria. The major criteria is the ability to repay these loans before granting the loans. I will leave it up to the Committee to decide what the criteria will be. Once the criteria has been established, we probably will create a Standard Practice Bulletin to memorialize the criteria to be followed for future loans.”

Mr. Anthony De Meo asked “Regarding the criteria that gave rise to the \$900,000 in advances; was there any criteria? Were those funds available if the school felt it needed it, could they just take it from their funds? How did that work prior to this?”

Mr. Leong replied “The majority of those expenses were incurred from athletic events.”

Mr. Oleg Gorokhovskiy added "That is correct. The custodians, security specialists, campus monitors, employees that were involved in those events, as mentioned, were charged to the General Fund. We anticipate that the schools will reimburse the District. Over the last two to three years, there was a gap, where in some cases, the schools were not reimbursing the District."

Mr. De Meo asked "If a school has a need, can they just write a check from a certain checking account, do they have that ability?"

Mr. Gorokhovskiy replied "We're talking about two different things. If we're talking about band loans, those would go to the new Committee, who would set up the criteria and how the schools would repay funds."

Mr. De Meo asked "What would prevent them from borrowing \$5,000 or \$10,000?"

Mr. Leong stated "They would not be able to borrow money. These are athletic events, such as football officials, which have to go through the payroll/purchasing system, which automatically charges the General Fund of the District. When that happens, the last two to three years, we did not look at their balances to prevent such accumulations. From this point on, we will be looking at those balances on a quarterly basis. If they do not reimburse us, we will automatically deduct the amounts from their school budgets. We will notify them first and give them five days to pay."

Mr. Ted Perrella stated "Mr. Notter, with this Committee headed up by Nell (Johnson), it sounds like you've resolved the issue of no more adding to balances due, right? But, there has been no meeting yet of this group, correct?"

Mr. Leong said "No."

Mr. Perrella stated "Every quarter, they have to refund back those funds you are referring to. So, there's really no point going forward."

Mr. Leong "The only point is that we report back regarding the \$560,000 outstanding balances."

Mr. Perrella added "The oddity of these paybacks is unusual. Some are paying back \$268 a year for the next 25 years and some are paying back \$10,000 in the next two years. Are they going to address the ability to repay these loans?"

Mr. Leong said "Not these outstanding loans. The Area offices along with the Business Analysts work with the school to see how much they can pay back. After the first quarter, we will review this again."

Ms. Greenberg stated "I'm looking at some of these payments, such as Dillard that owes \$117,000, and can only pay back \$352.90 a year. Is that what you're saying?"

Mr. Gorokhovskiy said "That was the amount paid during the first quarter. The actual plan is for 10 years. The first payment of that loan will occur July 1, 2011."

Ms. Greenberg asked "Why does it take a high school 10 years to repay that money?"

Mr. Gorokhovskiy added "The idea is not to create a hardship on schools."

Ms. Greenberg asked “Why would it be a hardship for a school like Dillard and Ft. Lauderdale? You may want to look into how they are managing their money at these schools?” Also, Lauderhill Middle, repaying \$2,800 over nine years?”

Mr. Leong stated “I think your point is well taken. We are going to review the repayment plans to ensure they are reasonable.”

Discussion followed.

Mr. Reilly added “The athletic revenues at sporting events is intended to pay for the ticket takers, sellers, referees, etc. prior to determining the profit from the event.”

Mr. Wolter asked Mr. Leong when the Committee would be meeting and what modifications would be made on the repayment plan.

Mr. Leong replied “The Committee is not charged with modifying the repayment plan, but will work with the Area offices on outstanding liabilities. We can point out the loans that seem to be unreasonable. In terms of school loans, the criteria, the issue is not school loans. I think it’s a good policy to determine criteria for a formal loan submitted to the Board. If a school wants band uniforms, which is a large expense, we need to establish criteria; they need to submit a repayment plan, fundraising, etc. to repay the School District. These types of loans are approved by the School Board.”

Discussions followed.

Mr. Wolter stated that Mr. Leong would give an update at the next Audit Committee meeting relating to their evaluation of the existing repayment plans.

Mr. Notter concluded that economic concerns and a level playing field for all schools is an issue regarding loan approval.

Discussions followed about partnering with the community and alumni that are successful.

Follow-Up Item #4 – Property & Inventory Audits of Selected Locations – September 13, 2010

Mr. Reilly stated the Committee asked Dr. Blackburn to follow-up on whether a June 9, 2010 In-Service training took place. Dr. Desmond Blackburn responded that the training had taken place.

Follow-Up Item #5 – Moore Stephens Lovelace, P.A. – September 13, 2010

The Committee asked that Mr. O’Keefe from Moore Stephens Lovelace, P.A. report whether it would be feasible to perform a joint operational IT audit.

Mr. Reilly stated “I spoke with Mr. Dan O’Keefe about an IT audit. We determined that after the current year audit is completed, (which includes a review of the IT policies and procedures), it was recommended that a scope of work could be developed and a request could be made to Mr. Notter to fund the audit of the IT Department later in the fiscal year.

Regular Agenda Items:

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

Mr. Shaun Davis stated “We did a review of the operations of the Office of the General Counsel in March 2006. We were asked to update from the period July 1, 2008 through April 15, 2010. On page iii, there is a summary matrix, which contains the observations that remain open. You will see that there are eight on that page; one of those is a new observation related to testing of expenditures. Two of the items, numbers 5 & 6 are partially resolved, the others being fully resolved. Regarding #5, an existing instrument to evaluate the department’s use of cadre attorneys was provided. It was noted that the evaluation should take place on a semi-annual basis; however, it was only conducted once a year. The evaluation instrument is on page 7. The General Counsel stated that he will provide that on a semi-annual basis going forward, as required. The second partially resolved item is #6. There remains no tool to provide a reasonable means of evaluation of operations.” Mr. Davis stated that the General Counsel’s office uses a Google calendar as a management tool to track litigation assignments, court dates, etc. He stated the other items were resolved.

Ms. Greenberg asked “On page 8, when you state you don’t oppose a Board discussion to expand the evaluation instrument, who would initiate an item to go to the Board for that discussion?”

Mr. Marko said “Since we are in transition, the contract presently states that the School Board and the School Board Attorney will develop an instrument for the purposes of evaluating the School Board Attorney.” Discussions followed on the evaluation process and the function of the Legal Services Committee.

Dr. Mack asked if it was correct that there were three School Board members on the Legal Services Committee.

Mr. Marko answered “Yes.”

Dr. Mack asked “And that Committee will make recommendations to the full Board?”

Mr. Marko said “Yes.”

Dr. Mack said “And those three School Board members that are on the Committee are going to vote on that same issue?”

Mr. Marko answered “Oh, Yes Sir.”

Dr. Mack asked “Back to my discussion at the last meeting, Soto and Cunningham seem to be getting the preponderance of the work.”

Mr. Marko stated “There are four attorneys, Mr. Soto, Mr. Cunningham, Mr. Neil Levinson of Becker Poliakoff and Mr. David Valdin, who are outside counsel for the purposes of construction and/or errors and omissions. I believe Mr. Cooney indicated last time that when we gave the report, it indicated who was doing what in reference to those jobs. It doesn’t mean that

those two are the only ones being actively engaged in the process of addressing errors and omissions. All four attorneys are utilized.”

Dr. Mack asked what the correct name was of Mr. David Valadini’s firm, since it appeared in different titles throughout the report.

Mr. Marko provided an explanation that he hired the individual, not the firm.

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”

Mr. Reilly stated “This is one of the audits that Mr. Notter requested that we have an outside firm review some of the ADA projects.” Mr. Reilly asked Mr. Rhodes to provide an update.

Mr. Rhodes stated that the report was updated after the September 13, 2010 Audit Committee meeting and some of the verbiage was revised to clear up a misunderstanding regarding the phrase “disgruntled employee”, which was found in the original report and questioned by the Committee at the September 13, 2010 meeting. “This was an agreed-upon procedures report consisting of basically eleven audit steps that we wanted them to perform for the purposes of maintaining cost as well as identifying future risks and also identifying places where recommendations could be made. The report has several repetitive types of findings, and giving you that background, I’d like to turn it over to Scott Ferguson from Carr, Riggs and Ingram for any questions you may have.”

Mr. Scott Ferguson stated he would take any questions.

Ms. Greenberg stated “On these projects, did anyone determine whether the projects should have been done as part of the code required with the initial construction?”

Mr. Ferguson said “I don’t believe that would fall under our scope. I’m not a construction expert in the sense of knowing the Florida code. As Mr. Rhodes said, I applied those procedures agreed to by our firm.”

Dr. Mack asked “On Horizon Elementary, what was the amount of liquidated damages noted on page 4?”

Mr. Ferguson replied “There were some discrepancies in the paperwork regarding the contract or change order that was written that said time would be added to that contract, but there were discrepancies on the change order itself, or notes that we had an opportunity to review. It was unclear if days were given or not given, that’s why we presented it in such a way in our report.”

Dr. Mack asked “Was the amount \$28,000 or \$53,000 or somewhere in between?”

Mr. Ferguson said “I believe you’ll have to ask the Facilities Department that question. Based on the information we had in the file, we were unable to determine if it was \$28,000 or \$53,000.”

Mr. Lindner stated that had not been determined yet.

Dr. Mack asked about management's response to Finding H.

Mr. Reilly stated that management agreed on the importance of increasing or decreasing the purchase order, due to change orders, and that they should be done on a timely basis.

Mr. Lindner commented that the time frame needed to be tightened up between when a change order was created and the updating of the purchase order to reflect the change.

Dr. Mack asked about management's response to the Village Elementary School's finding C.

Mr. Lindner replied "I agree with the recommendation. There are two issues here, culpable negligence and inefficiency. There has been in the past a culture of not closing out projects and moving on to the next one before the work is completed. There were other issues involved in these project close-outs, which you read about in the paper, I think, involving the Building Department, Temporary Certificates of Occupancy, which prevented us from closing projects out. Those two issues are the number one priority for us right now. If you've been following the Board agenda items, you'll see that we have closed out a significant number of projects over the past six months. I believe we cannot move forward until we get all this baggage off our backs. There are several hundred of these that we're working on. Slowly but surely, we're meeting with contractors; we're actually having to go back on some projects where architects, engineers and contractors have gone out of business. We've had to re-scope work to close out some of these issues so we could get a final Certificate of Occupancy. Maintenance has done some of the work, it is problematic. We're doing the right thing in going back and closing them out."

Dr. Mack stated "We have been monitoring your department since you've taken over and while I have several little questions, we appreciate what you are doing here. The changes you've made have been a welcome relief. The answers that you give to questions in most cases make sense. This audit was written by someone else and the questions I'm asking now are particularly ones that pertain to money. For example, on page 16, Finding C, the report refers to a consultant error, but no where do we comment on if there's going to be any recovery on it."

Mr. Lindner replied "On every issue regarding consultant error or omission, recovery is pursued. We are using our cadre of attorneys to pursue these recoveries. Also, the Agenda Preparation Group meets to go over the categorization of all change orders."

Dr. Mack asked if a change order was issued on the Winston Park Elementary project.

Mr. Lindner replied "Yes."

Other findings were discussed.

Dr. Mack asked about the re-writing of existing contracts.

Mr. Lindner said they were in the process of re-designing and re-writing 32 separate contracts. Discussions followed regarding the variances on Exhibit C on page 26.

Mr. Lindner explained that variances in contract value vs. budget and bid amounts were due to various conditions, such as reduction in scope, benefits of lower prices during the period the work was actually done, rather than the year the budgets were created. "It looks like we saved a lot of money, but we paid the market rate. We over budgeted. We should have gone back when

the DEFP was done and re-adjusted all those budgets, based upon what the prevailing construction rate was, so that when you obligate funds, or start to plan, based upon that planning document, which is what the DEFP is, it should reflect a more current market rate for the projects that are going to move forward in the coming two or three years. That's what our plan is, to re-adjust these."

Ms. Greenberg asked "Under Finding D on page 14, the management response states the Contracts Department and the Board Attorney's Office submits the letters of demand when it is determined the change orders are the result of errors and omissions. Does that mean that the Contracts Department and the Board Attorney's office make that call?"

Mr. Lindner stated "The Agenda Preparation Group looks at the change order before it goes to the Board. We try to come to consensus whether or not it was an unforeseen condition, an owner's request or whether it was an architect's fault. That's the clarification process. If we can't come to consensus, we actually try to defer to Mr. Cooney and we ask 'Is this defensible in court?'"

Ms. Greenberg asked "Will there be any way to determine whether these projects should have been done originally with the project instead of having to do them now?"

Mr. Rhodes replied "One of the ideas with doing agreed-upon procedures is that it helps us to identify areas of risk that we may want to include in other audit scopes later on and it certainly is something that you see and hear enough times, as well as other items you see repeatedly, that identify areas that we would want to include in some future scopes."

Mr. Wolter added "Charlotte, what you're saying is since these are mandates for the Americans with Disability Act, it goes back to the 1990's; why wasn't this in the original construction? That's your question."

Mr. Lindner added "These projects were actually at schools that were built way before the ADA Act and the question you should be asking is 'why weren't they done back in the 1990's when the Act was originally passed. The Act was written so that you were not required to make the changes unless you were going to do another project at the school. Every time you pull a permit, you look to see if that project, school or site meets the ADA requirements. A large number of our schools do not; therefore, a lot of these projects were put together to allow us to fall into compliance with the ADA Act and what we're finding now is that we've funded many of these projects and originally, some were bundled into a renovation. What we've done now, since we don't have the money for a renovation, is we've actually backed the ADA piece out and moved it forward as a separate project. If they're smaller in nature, we've actually screened a lot of those to the Capital Projects Division of the Maintenance Department and given them to smaller companies to do. I think the goal is to get all of our schools in compliance, particularly ADA restrooms and locker rooms."

Mr. Rhodes added "When looking at the items that you identified specifically, the ADA/DOJ mandated, those were specifically for schools that were supposed to be hurricane shelters, so not every one of these projects in here that were part of the ADA scope were hurricane shelters, but the DOJ mandated had to do with making sure. On those, I do believe those were newer structures, where Ms. Greenberg's question is really applicable."

Mr. Wolter stated “If I can give an example, a hurricane shelter is McNicol on Pembroke Road and 28th Avenue and that’s a newer structure, so I would imagine that would be ADA mandate compliant.”

Mr. Rhodes agreed. “I don’t know whether or not some of the same issues that were identified in here would apply to that, but again, as we look at projects in the future, we would be looking at, as a result of this audit, scope items and steps where we would also take a look at when the structure was built, what the scope was supposed to be, and from an ADA perspective, were there items that were simply missed and not included into the drawings.”

Motion was made to transmit. Motion carried.

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

Mr. Reilly stated “There were thirty schools in this audit. Twenty-six complied with all policies and procedures for internal funds and payroll. There were four schools that had exceptions. I’ll address any questions the Committee may have.”

Mr. Hurst asked “I’ve noticed comments about leases. Is this something we’ll be seeing more of in the future?”

Mr. Reilly replied “It’s an audit step that we do at some of the schools. We look at leasing activity, we look at the processes to ensure there are facility rental agreements and collections are made prior to the use of the building and that the custodial expenses and monies are handled per School Board policies.”

Mr. Hurst added “Back in the 1990’s, I ran across Colbert Elementary, for example, when I was on the Committee with the City of Hollywood and they had three different leases for the same playground. Is that also something that would come up in the audit?”

Mr. Reilly replied “Those are more the type that would come to the Board. If there’s some type of unilateral agreement to use a park near a school or a facility that may be used by an outside group, such as a ball field; usually any arrangements with the city would come to the Board. The facility rentals are mainly when someone rents the auditorium, for example, for a dance recital or banquet. There’s a matrix of all the different categories, along with the applicable charges and arrangements, exempt organizations, etc.”

Mr. Lindner discussed reciprocal agreements and the new Policy 1341 that would be presented to the Board in the near future. He added that this would change some of the fee rental structures. Further discussion followed regarding the differences between leases and reciprocal agreements.

Ms. Greenberg stated “I’m glad to see the continued improvement in the report. On page 87, Stranahan, this is three years, three audits in a row showing the same problem at this school with this same Principal. What is the plan?”

Dr. Desmond Blackburn answered “You can see the more progressive action being taken with that Principal and that Bookkeeper to the extent of pairing up that Bookkeeper with a mentor from another school, weekly checking of the problems found in this audit with the receipting

books and things of that nature, progressive discipline with the Principal, additional training and mentoring.”

Ms. Greenberg continued “Well, I hope we don’t see this next time. Thank you.”

Motion was made to transmit. Motion carried.

Internal Audit Report – Property and Inventory Audits of Selected Locations

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

Dr. Mack asked “On page 40, I’m trying to see why the actions are not as comprehensive as the actions on page 29 on Meadowbrook, because this school has twice as many missing items, and the action you are going to take there doesn’t appear to be as comprehensive as it is on pages 29 or 32.”

Dr. Blackburn replied “The response on page 40 was dated September 16, 2010. We have revised and added to our corrective action steps being implemented at schools. You’ll see that reflected on September 30, 2010. Those action steps will be taken at Plantation High School as well.”

Dr. Mack asked “On page 60, define what you mean by private schools. I’ve heard Charter schools referred to as private schools.”

Dr. Blackburn stated “That came from our Deputy Superintendent of Curriculum. I cannot speak to that item.”

Mr. Mark Magli explained “We had a situation with a grant item, Title 5, I believe. We addressed this situation with Learning Resources Department. It was a partnership; we served as the host to execution of that grant. Some of those items called for us to provide purchasing for items that would be funneled out to private schools. Because they were the host through executing that grant, the property was at their disposal. We did address this in the last two audits. In the previous audit, we had recommendations to keep continual communication and to ensure that those partner groups understood the terms by which the grant was to remit those items back to us for final disposition and disposal.”

Dr. Mack asked “They are not related to us at all like Charter Schools?”

Mr. Magli replied “No. As with the closing of a Charter, if there is anything with the equipment getting older, we are the ones who would take that information. We have a partnership agreement with them to maintain in accordance with our procedures.”

Dr. Mack asked “When you speak of a Charter school going under, have you reviewed the old policy we had of how we dispose of and deal with property at a Charter school that comes back to us?”

Mr. Magli replied “We must determine what funds were used to procure those items. Pat and I have reviewed this extensively. Another thing those groups have started to do is to lease those

items, whereby we would not want to assume an extra liability by taking that equipment that may be old, just so we can pay out the remainder of their lease. It's a tricky area. We started with that in the North Lauderdale Charter many years ago; we did complete inventories and removed a good amount of equipment, which we probably could have done a better job. We created great lists for them to check off and inventory equipment as it came out of the school. We did have a good record of that, but getting it allocated to different places in a short time frame presented some difficulties. As we've gone out to do our inventories, we have been listing equipment that may not have hit the record correctly, and have instructed the schools and departments to have those items properly recorded so that we can inventory them. There was a little bit of a loose control there. Our difficulty has been being able to determine that the monies that were given to them, for which we are entitled to that particular grouping of property, gets very difficult. Maybe Pat could comment more on that."

Mr. Reilly added "Probably, the one where we had the biggest issue, which turned into some legal action, was North Lauderdale. Their partnership was with the city. We had a lot of discussion whether this purchase of equipment was from FTE funds or was purchased by the city. We went into litigation and we did settle after a while, but as Mark said, I find a trend now where a lot more of the schools had a lot of items that were leased, rather than owned. That equipment cannot come back to us, because it's not property to which we would have the title."

Ms. Greenberg asked "On page 27, it looks like three brand new items having to do with floor maintenance, two stripping machines and a wax applicator, brand new, can't be found at Meadowbrook Elementary?"

Dr. Blackburn replied "Yes, Ma'am, they are currently unaccounted for."

Mr. Wolter asked "On page 4, for example, when I look at Deerfield Beach, the historical cost of \$900,000, loss of \$7,000, and it's listed as no exception. When I look at Sawgrass Springs, they have \$1.3 million, but only \$7,000, yet we list that as a repeat exception."

Mr. Magli replied "The difficulty we had at Sawgrass Springs was a lack of understanding and a reporting scenario with the local police department, so it's more procedural based, than it was the loss."

Motion was made to transmit. Motion carried.

Audits of Charter Schools for the Fiscal Year Ended June 30, 2010

Mr. Reilly began "Each year, we bring you the annual audited financial statements of the Charter Schools, as required, and the Florida Statutes regarding Charter Schools have been tightened quite a bit. There's a lot of specific language now regarding schools that have a financial emergency or a going concern. We're working closely with the Charter School Department and we're their liaison with the audits. This year, we have 68 Charters, next year, we will have 85. This is the first batch; we reviewed 48 of the Charters and out of those 48, there were 12 that had a financial emergency, in accordance with the Florida Statutes. Some are carryovers; one or two are, for the first time, having a financial emergency condition. They have 30 days now to report to us and the State. We have to meet with them and try to assist them in correcting those deficits. The Charter Department has many different groups in the District, the curriculum side, the safety

side, the testing, ESE, that are looking at a lot of the pieces, not just the financial side. I have given you a matrix showing the various issues and I will take any questions.”

Mr. Hurst asked “The Charter Schools are not supposed to use FTE funds for leases. That was a discussion item several years ago. That was brought up when we first came across leases. I would imagine some of these budget deficits could be due to outstanding leases, too. Is that fair to assume?”

Mr. Reilly replied “No, the use of FTE money, and most of them are now in the process of requesting capital funding. Capital funding clearly allows them to use funds for leasing or for building newer structures or add ons to what they have. They are allowed to use the FTE funds for running the operation of their schools. It might have changed, but as far as I know, they can definitely do that.”

Mr. Hurst asked “I’m seeing a quizzical look on several faces. Is that something we should get a clarification on?”

Mr. James Notter stated “It may be, the legislature changes laws every session, so it could have changed. I’ll get an answer back to you.”

Dr. Mack stated he liked the format and matrix used for reporting the financial emergencies, etc. and would like to see that continue for future reporting for all Charter schools.

Mr. Perrella asked “The auditor’s opinion says fairly stated. One mentions a going concern. Do they all have going concerns?”

Mr. Reilly answered “I think some of them were presented that way. They all have references to F.S. Section 218.”

Discussions followed regarding the frequency of financial reports.

Mr. Reilly stated “We are now receiving and reviewing monthly reports.”

Mr. Notter commented “Pat mentioned the number of Charters would be increasing from 68 to 85. Last year, the legislature cut the administrative cost that the District gets in half. We used to use the data from the first 500 students and now it’s 250 students. We could use a full-time auditor in the arena of Charter Schools. As we move forward, we may be calling on you for some assistance also, at least with our delegation and showing, by the numbers, the unfunded mandate of having us fiscally manage taxpayers’ money.” Discussions followed.

Other Discussions

The dates of the Audit Committee meetings for the remainder of the 2010-11 were discussed. A decision was made to change the meeting dates and times to Thursdays at 12:30 p.m., beginning with the February 2011 meeting. The Monday, December 13, 2010 meeting will remain at 9:00 a.m.

Meeting adjourned at 11:35 a.m.