

The School Board of Broward County, Florida
AUDIT COMMITTEE

MINUTES OF AUDIT COMMITTEE MEETING

December 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. Charlotte Greenbarg
Mr. John Herbst, CPA
Mr. Steve Hurst, CFP, Vice Chair
Mr. Anthony De Meo, CPA
Mr. Ken Evans
Ms. Mary Fertig
Dr. Henry Mack
Ms. Alex Mores

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, F&CM
Mr. Edward Marko, General Counsel, Office of General Counsel
Mr. Thomas Cooney, Office of General Counsel
Mr. Robert Waremburg, Director, Supply Management & Logistics
Mr. Henry Robinson, Treasurer
Mr. Omar Shim, Director, Capital Budget Department
Ms. Lynette Tannis, Intern Superintendent, Superintendent's Office
Mr. Charles Webster, Coordinator, Public Relations & Community Affairs
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. 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. Nell Johnson, Director, Internal Accounts
Ms. Veda Hudge, Accountability Department

Guests Present: Mr. Daniel O'Keefe, Engagement Partner, Moore Stephens Lovelace, P.A.
Mr. Pablo Llerena, GLSC & Co.

FINAL - Presented and approved at the February 10, 2011 Audit Committee Meeting

Mr. Wolter introduced and welcomed the two new Audit Committee members, Mr. Ken Evans appointed by Ms. Nora Rupert and Ms. Alex Mores appointed by Ms. Jennifer Gottlieb.

Old Business

A motion was made to approve the minutes for the October 25, 2010 Audit Committee meeting.

Motion carried.

Current Status Report – Follow-Up Items

Follow-Up Item #1 - Other Comments – October 25, 2010

Mr. Pat Reilly stated that the Committee had requested an update on the changes that had been made to that Quality Selection and Evaluation Committee rules and School Board Policies. He added “I’ve attached an update that shows the changes; it’s called Policy 7003. There is a matrix also that shows what changes were made.”

Ms. Charlotte Greenberg commented “Just a statement of preference; I spoke to the School Board on this representing the Broward Coalition. I would have liked to have seen on page 2 of 4, that the same restrictions of not doing business with the District for two years would apply to the member of the general public appointed by the CEO, but they didn’t feel the need to do that. I hope they don’t run into trouble with that.”

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. Also, the Committee would like an update on the OIG’s (Office of Inspector General) report on how that might affect the current legal actions or transactions between Ashbritt and the District.” He asked Mr. Marko for an update.

Mr. Ed Marko stated “It also provided an update on the review of the FEMA audit. The answer is whether or not it would impede a settlement process and the answer to that is no. It will not impede the settlement process. Number 2, the update is that the School Board of Broward County was served with a Petition for a Declaration by Ashbritt. We are preparing a response to that item. In the meantime, the School Board, our Office asked and we requested an attorney/client session with the School Board, which we had. We explained to the Board where we are legally, which unfortunately, I’m not able to share with you, because it’s part of the process of an attorney/client session. We explained to the Board where we were and we asked the Board for certain parameters for the purposes of trying to resolve the matter and that’s where we are. We will be proceeding in that regard. I’m sorry that, unfortunately, you, the Audit Committee is not my client; the School Board is our client, so when you ask for an update, I really need to first go to the client, and since we did an attorney/client session as a result of the lawsuit, this matter has become out of bounds and for us to proceed to further discuss the lawsuit or the parameters or what defenses or what claims we are asserting, is part of the lawsuit and we feel at this time it would not be appropriate to do so. So we respectfully decline. I’m sure that it

must be frustrating for the Committee in that regard, but at the same time, there is a process and I have to adhere to that process and go forward. I will share with you two other items in the process issue; one is we have not received a bill from the accounting firm, which we expect before the end of the year. Secondly, we have not received the final draft of the audit report that they will be giving us, which we also anticipate receiving before the end of the year. The statement, when we receive it, we will go through it to ensure that it does not contain material that could be interpreted as the objectives, as you realize when you deal with somebody, you say 'Well this is my thought, what do you think', then they turn around and then they will either research or do it, etc. As a result of that, we believe that is presently excluded, so we may submit to you a statement showing the hours and who performed them, but there would not necessarily be an itemization of the actual services. That would be coming later when either we go to try the lawsuit and/or we settle. Number one, number two, that's the same issue as it relates to the report. Everybody understands that I will be leaving the District on December 31 of this year. We are trying to hopefully resolve the issue of the statement and the reports that will all be done. I realize that you're not meeting until February; however, if things go the way I hope they would go, there's a good possibility that we could be able to bring closure to the whole matter within that time frame. Unfortunately, you can't always control the other side of a negotiation process, etc. Under those circumstances, this is not a promise, but an intelligent estimate of when we hope we should be able to bring some kind of closure."

Dr. Henry Mack thanked Mr. Marko for the update and commented "We would like to know what the auditing firm is doing. What are they auditing?"

Mr. Marko replied "They are auditing all of the materials that are relevant to this particular claim that we have against Ashbritt. That includes the materials that have been provided by the Auditors, that includes material that has been provided, whether in duplicate or additional or new, or whatever it is, by the Facilities Department that may have been, or whatever entity they have contacted to hope to get and my understanding was, has obtained the necessary records that they could make their decision, based upon the documentation that they've reviewed."

Mr. Steve Hurst asked "Does that also include any discovery from the other side? Were there any documents requested that have been delivered that you didn't have?"

Mr. Marko stated "I believe that the answer to that would be yes. I don't know whether or not we had it, but I believe that the Auditor went to Ashbritt for the purposes of trying to obtain or review or confirm, whatever that process is of certain documents, if in fact, there was some void or lack of material or information."

Mr. Hurst asked "Those records have been delivered there also?"

Mr. Marko replied "I would hate to say yes to that, because I haven't asked them what documents, but I can assure you that whatever they have that they've utilized, we're not dealing with somebody that is inexperienced in the business, so whatever documentation they would utilize for the purposes of performing their function as an auditor expert witness, they will have done that."

Mr. Hurst asked "Where are they in the time frame?"

Mr. Marko replied “My understanding is that 99.9% of the legwork, etc. has been done and we’re now in the process, they are in the process of writing a report to provide to us, that we will get a final report before the end of the year.”

Ms. Charlotte Greenberg asked “Did you bring on board Oscar Soto to deal with this issue?”

Mr. Marko replied “As you know, I did, because it was published in the newspaper that the School Board would meet with the attorneys and Mr. Soto, which we did. I’d like to wish you all a happy season. This is your last meeting of the year and this is my last meeting of my career with the School Board. I’d like to thank and bid Emeritus a happy holiday, as well as the Chairman who appeared at the Board meeting the other day. I understand part of your frustration. Unfortunately, the School Board of Broward County, which I will give a pitch for, their legal department is the smallest of the sixth, or seventh, or eighth or ninth largest school districts in the United States by about half. Miami Dade, Palm Beach has in the vicinity of ten to twelve; we have six and so when there’s a little delay or a delay in getting material out, it is not because we are not performing our duties; it’s due to the fact that we have been on a financial short leash ever since the day we moved in and that has not changed, yet the problems have gotten bigger. Under the circumstances, if there have been delays, and I recognize the Chairman’s comments the other day, I apologize for those, but we’re doing the best we can under the circumstances with the staff that we have. Thank you and happy holidays to all of you.”

Follow-Up Item #3 – Change Orders-West Broward High – May 6, 2010

Mr. Reilly stated “The Committee requested an update on the change orders for West Broward High. That is included in our Audit Plan, but we have not started that audit yet. We will begin later in the new year.”

Follow-Up Item #4 – Eagle Point Elementary School – June 24, 2010

Mr. Reilly stated “The Committee requested at the June meeting regarding the status on the Eagle Point Elementary School’s exterior wall repairs. We researched that and right now, that job is on hold. There were some issues with the vendor and there is also a possibility, after discussing with the Facilities personnel, that we may finish that job as an in-house job through the PPO Department.”

Ms. Greenberg asked “Do you have an idea how much has been paid to the vendor so far and if they will be able to recover or not?”

Mr. Dave Rhodes replied “We don’t have dollar amounts on this, but we were looking at scope. There were a few different pieces in the scope. At one point, they got to a position where there was some kind of a problem between the vendor and the District and they determined they would stop it at a point, a clear cutting point. They’re in the process of trying to work through that, so we don’t know what the dollars are, but we do know there is a specific scope that still remains. We were more than anything trying to figure out physically, what the situation was with this job; whether it was completed or not completed. As we go through and look at the additional information, we can bring back a breakdown of the payments.”

Follow-Up Item #5 – Internal Fund Audits – January 28, 2010

Mr. Reilly began “The Committee requested an update regarding the process of establishing loan criteria. A Committee was formed and Nell Johnson has an update. There were a couple of handouts that were included with your reports.”

Ms. Nell Johnson stated “As a result of previous Audit Committee meetings, the Superintendent created a School Loan Criteria Committee. It consists of ten District staff members and one member of the public, as you requested. The packet of information you have is a sample of the process that we have implemented. The first part is the schools’ loan application process, which the schools will follow when they request a school loan. Then you have a notice for permission to proceed, which is a notice that schools will complete and send to the Area Office. Once they’ve been given permission to proceed, then they would complete the school loan application, which would then be sent to the Internal Accounts Department, so that the fundraising information will be completed, if they choose options #2 or 4 of the loan application process. Once the Internal Accounts Department receives that information, the application would be forwarded to the School Loan Criteria Committee for review. They will give a recommendation on whether or not the application should be approved or rejected. That information will then be forwarded to the Area Office for final approval and submission to the School Board.”

Ms. Mary Fertig asked “What is the criteria for repayment terms? It goes from one year to ten years on this chart; I’m just wondering how you determine how much time a school has to pay back a loan.”

Ms. Johnson replied “I think the information you are looking at is previous information that the schools received as far as obtaining approval for items other than school loans. That’s the information that Mr. Oleg Gorokhovskiy filled out. As far as future loans, we are suggesting that those loan terms be no more than five years.”

Ms. Fertig added “But the page shows that as of December 1st, loans due from internal accounts, that’s just a summary of what’s outstanding? Do you have criteria for how long they have to pay back the loan?”

Mr. Gorokhovskiy stated “When the Areas worked with schools, they gave several options to choose from, based on their situation, whether they can repay in one year, five years, and the schools then chose applicable terms.”

Ms. Greenberg stated “At the last meeting, we talked about asking the famous alums of these schools to help the schools with donations, so it doesn’t take ten years. Has there been any outreach to the famous alums or others who may want to help out these schools?”

Mr. Ben Leong stated “Good point, but I defer that to the Superintendent to answer. That is beyond the realm of the Finance Department. We just compile the report; the Area Office works with the schools. Certainly, this is an area they may wish to look into; they have some outstanding athletes in those schools.”

Dr. Joel Herbst stated “There is a constant sea of reaching out to alumni associations, not only to fund loans through athletics, but also to reach out to former students, who are now attorneys or doctors in the community to support other programs. We do make an effort at the level to those

in the community now who have gone through our schools to come back and support our schools.”

Discussion followed.

Dr. Mack stated “I don’t think Ms. Fertig’s question was answered. What are the criteria for establishing the length of time for these loans to be repaid. Oleg stated the Areas get involved, but if they’re borrowing money from the District, the Areas do not make the decision. The decision is made at this level, so I would like a very clear, concise answer to that question that makes sense.”

Mr. Leong stated “Only two schools have loans, Taravella and Cooper City, they are all paying back within five years. The others, mainly athletic events accumulate throughout the year. I think the Area Business Analysts looking at the ability to pay back.”

Dr. Mack stated “That is not the question. What is the criteria for establishing the length of time for a loan to be repaid.”

Mr. Leong replied “I think the answer is that the Area works with the school to determine the school’s ability to pay back.”

Mr. James Notter stated “We need to clarify what Mr. Leong has stated. We need to have criteria.”

Ms. Fertig added “I think we have a good start. This is not an Audit Committee function, but when I look at these schools, some are just equity issues. If you’re not going to fund these items, which would be the first choice, and you’re going to have schools borrow money, then there has to be strict guidelines on how the money will be repaid, or just fund it out of your general budget. I think this is a great start.”

Mr. Hurst asked “You’ve established that the schools will have a payment schedule. What’s going to force them to make that payment? It’s five years from now, let’s say we’re in the year 2015, those students were not in the school at that time. How motivated are they going to be to pay a five year old debt that goes back to 2006-2007 to pay it off? What’s the motivation? What’s the penalty going to be? That’s not in here.”

Mr. Leong added “There is no penalty at this point, because these accumulated over the years and we can do two things. We can deduct it from their general fund budget, which will hurt the school, so we will not do that. We will leave it up to the Area Superintendents, because the Area Superintendents work with the schools. The Area Superintendents can judge and look at the fundraising and all the efforts. The Finance Department cannot tell the schools what to do, because they do not report to us.”

Mr. Hurst stated “You’ve got a loan document.”

Mr. Leong stated “Again, these are not loans, they are mainly athletic events where they charge the general fund. Several years ago, the Internal Revenue Department audited the District and stated that you cannot pay your athletic events from Internal Funds and that created a problem. They’ve now put people on payroll and charged the General Fund. We stopped that now. From

this point on, whatever expenses they incur will automatically be charged to their General Fund within the quarter. Therefore, this will not continue to grow. The effort is that the Area Office will make sure that the schools are slowly paying back. Some of these school loans of ten years are a result of their losing money. We have left it up to the Area Superintendents to decide whether this is reasonable and they will be the ones to enforce it.”

Mr. Hurst stated “We were under the impression that some of those were band uniforms.”

Mr. Leong stated “No, only two loans are band uniforms. One is less than \$24,000, the other \$34,000.”

Ms. Fertig asked if another column could be added to the report to show the purpose of the loan. Discussion followed.

Mr. Gorokhovskiy added “From July 1st to September 30th, 1st quarter expenditures, every single dollar has been repaid by October 31st, so the process is working. What we are dealing with here are the prior years’ balances.”

Mr. Wolter said “To summarize, what we’d like to see is two more columns, the initial date and purpose, bring it back one more time at the February 2011 meeting, then bring it back annually every February and give us an update.”

Regular Agenda

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

Mr. Reilly stated “This report contains forty-two audits. Thirty-one schools complied with the policies and procedures for internal fund accounting. There were eleven schools that contained some audit exceptions in the areas of vending machines, payroll processing, late deposits, and internal fund advance accounts.”

Ms. Fertig asked about training of staff. “Do you have in writing the criteria for the Principals to follow on vending commissions?”

Mr. Reilly replied “Yes, we do. We have a Standard Practice Bulletin which details how the money is to be used for vending commissions, as well as related donation factors in a different policy which relates to the difference between vending commissions vs. donations. To us, a donation is basically monies given to a school with no strings attached. A vending commission is based on the District’s deal with the vendor promising to sell their product, for example Pepsi or Coke. The contract that we are looking at now is divided into two commissions, one based upon the sales of soda, but there’s a piece in the contracts which appears to be a donation, but is really part of the vending commission, because that donation is tied to the school’s using that product as part of the contract. Our feeling on that is that it’s really not a donation if you’re tied to sell only that product.”

Ms. Fertig asked “Was there a change in the contract?”

Mr. Reilly replied “There have been some changes. It’s gotten to the point now where some of the contracts even state to which accounts the money should be deposited. At one time, they still

had the Principal's Discretionary Account in the contract which said, for example, that \$3,000 would be placed in the Discretionary Account, which no longer exists. There's a lot more dictating where the funds are supposed to be placed, but again, it's not the per volume portion, such as \$.25 per can of soda, etc."

Ms. Fertig asked "Who sets how that goes?"

Mr. Reilly answered "There's a committee that writes and reviews the purchasing contract for that product, which actually originates in the Purchasing Department."

Ms. Fertig asked "Does the contract specify how the money is going to be distributed?"

Mr. Reilly replied "We have strict rules on where the commissions can be deposited; however, it's a little bit silent on the part that they don't want to call it a commission, they want to call it a donation, so they can dictate where it can go. My feeling is that the Principal of the schools should dictate where those monies should go, because it ties into what our policy states on that. There was a time where a portion of these monies would go into the Faculty account, rather than specifically into a designated class or club or the General Fund. The portion related to the faculty is now strictly the commissions generated by the vending machines located in the faculty lounge which are utilized by the faculty."

Ms. Fertig asked "You are able to tell how much soda was sold in each location, so you're actually auditing what you're selling?"

Mr. Reilly answered "Yes, they receive that information per machine, but the contract also has a clause stating that we will also give, for example, \$2,000 unrelated to the sales volume."

Ms. Fertig added "It seems unclear to me. One way money comes in is by commission on a per item basis and the other is a lump sum donation to the school. Is this designated by the vendor or by the school as to how that money is distributed?"

Mr. Reilly answered "It's an agreement between both parties."

So, the faculty receives a commission based on their sales, but should not be getting any money from the lump sum. Is that the way it's written in your Standard Practice Bulletin?"

Dr. Joel Herbst replied "Yes, it is written in the BTU contract."

Ms. Fertig stated "When you see the same thing occur in multiple locations, perhaps a clearer description needs to be given to Principals."

Dr. Mack added "At the last meeting, I stated that it appeared that the Principals had found a way to get around the policy by using the Discretionary Fund and I can see how they can do that now. Please see page 94. It is very clear, but the Principals are still using the Discretionary account, although it was discontinued. Page 98 shows an example of a faculty vending machine and the proceeds being deposited into the Faculty account. We've just changed the name of the account it can go into."

Mr. Wolter added "In the audit on page 94, your report refers to \$5,700 in vending commissions. On page 98, the response from the Principal, the amounts total more than \$5,700. The Principal

also stated that they abided by Standard Practice Bulletin. I don't see a comment regarding Mr. Jones' letter. I don't understand the flow of information and what the conclusion is on this particular case."

Ms. Sharon Airaghi replied "I have sent my Area Business Analyst out to work with them to clarify that. As of the writing of this, he had not made that visit yet. He has since. We also asked the vending companies to give us more timely reports showing the commissions from each machine. They were lagging behind or often not sending these reports to the schools unless the Principals request them by phone. We've also put that into place."

Mr. Wolter added "Does Mr. Jones understand that putting the upfront money into this account is inappropriate?"

Ms. Airaghi replied "He does now."

Ms. Fertig stated "If someone has a vending contract, there should be a timely report on the money, if someone's going to know how to spend the money."

Mr. Hurst asked "A 1099 form will have to be issued for every one of these, correct? Then you will know all the money coming in and going out?"

Mr. Wolter added "But you would know this thirteen months later."

Mr. Reilly stated "The schools are getting the commission checks, but they are lump sum checks. The problems we've had has been designating which portion was going to which accounts. For example, if a school received a \$5,000 commission, it was arbitrarily stated to place this much in the faculty account. We are stating that the faculty account should only receive the commission for the items sold to the faculty, rather than a percentage of the totals. That's why they need that detailed vending machine activity report per machine."

Dr. Mack asked about page 101 regarding the internal advance account.

Mr. Reilly replied "This was an advance made to someone, but money had to be taken from the General Fund to replace the amount. That money should either be returned or receipts need to be turned in for the amount expended. In this case, that was not done and a transfer was made from the General Fund, but that is not acceptable. All advances should be cleared by year end and policies and procedures should be followed regarding internal advances."

Ms. Greenberg commented regarding page 128 "The first paragraph states "When developing our new plan, this school needs strict oversight, don't you think?"

Ms. Airaghi replied "This school joined the North Area last year and since then, we have had our Assistant Budget Analyst out there on a regular basis. We've also had some changes in personnel. We've made training mandatory for their budget and bookkeeper and are working diligently to get this back on track."

Ms. Greenberg commented regarding page 137 "The statement on letter I, it just seems like this is not an appropriate or acceptable excuse, because the Payroll Processor hadn't been told of the requirement. This is something that is so basic that this would be another school that I would expect would have some close scrutiny."

Mr. Reilly responded “In August, a new Business Practice Bulletin was introduced PR-100, which clearly lays out how to handle the time entry and all pieces of that which was lacking. I believe there was training done, but now it’s written in a Business Practice Bulletin and is clear how it should be handled.”

Ms. Greenberg asked “Regarding William Dandy School, there was a request for an SIU investigation for unaccounted for collections. Do we have an update on that?”

Ms. Delores McKinley replied “The investigation was closed and no substantial information was found.”

Ms. Greenberg asked regarding page 188 “Where are we in terms of Everglades missing funds?”

Ms. Mckinley answered “The investigators are finalizing that report, so we will have an update at the next meeting.”

Ms. Greenberg asked “On page 186, it states that the employee is not assigned any function. I presume this is pending the outcome of the report, is that correct?”

Dr. Joel Herbst replied “That is correct. They are not in any function dealing with funds, but they are still on campus pending the outcome of the investigation.”

Mr. De Meo asked “Regarding the vending machines, how do the schools know at the time the money is collected? Does someone from the school attend and make a preliminary report to determine how much has been collected?”

Dr. Herbst replied “No Sir, they don’t.”

Mr. De Meo asked “So, how do we know that the commissions, in the first place, are what they should be?”

Mr. Reilly answered “The vending machines that are used have a system to identify what has been taken in along with inventory information; however, at this time, we are relying on the service of that vendor to maintain and stock the machines.”

Mr. De Meo continued “Does anyone take a reading?”

Mr. Reilly replied “That would be an excellent check to do that, but currently they don’t.”

Mr. De Meo added “If possible, at the time of the collection, make a preliminary report and send it to Finance or the appropriate area or the Bookkeeper of the school and match the commissions, because it doesn’t sound like there’s a lot of accountability there.”

Mr. Reilly added “I agree it would be a good check to verify and perform a cash count, to get an idea of what that machine is producing on a test basis.”

Mr. Wolter asked if that would be reasonable.

Dr. Joel Herbst replied “I don’t think that’s a practical process for schools to be engaged in for several reasons primarily, we don’t have the personnel on campus. When you look at the number of high schools; there could be thirty or thirty-five machines on that campus. We would like our

personnel to focus on the teaching and learning piece, and to task someone with that responsibility would be another full time job.”

Ms. Fertig stated “The accounting on this appears very loose. The whole idea of having an outside vendor was to take the burden off the schools. I’m wondering how a check arrives with no detail of how the commission was calculated. At a minimum, shouldn’t that be accompanying the check. Then you’d have some method of tracking the inventory sold at a particular location. Now there’s no tracking of any kind, unless you call the vendor and ask? Is that correct?”

Mr. Wolter stated “I thought I heard earlier that the information is there.”

Ms. Airaghi stated “It is a report. The check and the report often come at different times.”

Ms. Fertig continued “I’m saying the check and the report should come at the same time. That would give you a place to start minimal tracking.”

Mr. Reilly added “We’ve done audits where we called the vendor to get that information. I understand what Dr. Herbst is saying; however, maybe periodically the schools could perform a spot check verification, as a check and balance to let the vendors know we are checking.”

Mr. Wolter asked for an update at the next meeting to advise whether you could or could not implement such a test audit.

Dr. Herbst stated that he would.

Mr. Hurst asked that future contracts require the vendor take responsibility of providing these reports.

Dr. Mack asked why the payroll reports were not being signed at some locations.

Mr. Reilly replied “It is very clearly stated in the new Business Practice Bulletin for payroll that they must do that. There is no excuse for not signing these reports. Payroll is the most expensive item in the District and those are the controls we have in place. The Principals must review and approve the payroll.”

Dr. Blackburn added that progressive discipline is taking place when these procedures are not followed.

Motion was made to transmit. Motion carried.

Internal Audit Report – Property and Inventory Audits of Selected Locations

Mr. Reilly stated “This report contains thirty audits. Seventeen schools and departments complied with property and inventory procedures. There were thirteen locations that had some type of audit exception.”

Dr. Mack asked “The spot check of the twenty-five to fifty items; has that been done? If so, what were the findings?”

Ms. Airaghi replied “The first of the series of spot checks occurred on December 7, which was last week. The Area Director reported that three items were unaccounted for. They gave the

school five days to get back to our cadre to report what's been done in the process. Also, they have a new Micro Tech just hired at this school. He's also playing a critical role and has been through the training, working closely with the cadre and the Area Technology Specialist."

Dr. Mack asked "On page 20, it states the Principal will be required to review and the next review will be completed by November 30th. What was done and what was the result?"

Dr. Blackburn answered "It was done and all corrective action steps were implemented."

Dr. Mack asked about repeat exceptions on page 40.

Dr. Joel Herbst replied "The statements in the response are accurate. The Area Director who was over that school is no longer with the District. The Property and Inventory team at that school is no longer in charge of property and inventory. Working with Mr. Magli, we've created a process using external individuals to enter that school, conduct audits outside the personnel of that school, and provide me directly with reports."

Dr. Mack questioned the response written by Mr. Israel Canales on page 69. He asked if Mr. Israel Canales was in attendance. He was not. He stated "I have never in my fifteen years here or my twenty-five years in Dade County Audit Committee seen a letter like this."

Mr. Tom Lindner stated that he had written the response, not Mr. Canales.

Dr. Mack added "I knew you wrote it, even though it's supposed to be from him. What is this about?"

Mr. Lindner stated "The letter pretty much speaks for itself, Sir. Everything in that letter is a fact."

Dr. Mack said "Why wasn't a 3290 Surplus form created? Wouldn't that have solved the problem?"

Mr. Lindner replied "These items are infrastructure and part of a building. I wanted to find them all, pull them all and have them inventoried and watch the entire network in the District go down. These are items that we did not purchase; we never signed for them, never saw them and they are on our inventory audit. This is an ongoing problem we've been trying to resolve for a year. I think we need to change the process which allows this type of item to come onto the records of the guy who maintains the buildings and his cost center. The system is broken and I'm going to take a stand against it. That's why I wrote the letter. I think we really need to audit our process that allows this to happen rather than just sit here and take the hit for something that is essentially not right."

Dr. Mack said "I am rather disappointed that you would take this direction."

Mr. Lindner replied "I'm disappointed that the system doesn't work."

Dr. Mack said "If the system doesn't work, then you participate in making it work, but this is not the way to do it, and I'm sure you know what I'm talking about."

Mr. Lindner said "Yes, Sir, I do."

Dr. Mack said “We don’t accomplish anything by doing this. I don’t want to start that nonsense again. My recommendation to you is to do whatever it takes to fix it. I would not want any Board member to see this, because we’re acting like little boys and we’re not going to do that. We’re much too professional to have a letter in here like this. It just does not make sense to me and I respectfully request that you withdraw it, because it doesn’t accomplish anything.”

Mr. Lindner stated “That one is not my item, Sir.”

Mr. Wolter asked Mr. Lindner if he would agree to provide that before the report be transmitted to the Board.

Mr. Lindner replied “As long as I’m allowed to state the facts as they truly exist, I’ll rewrite the letter.”

Mr. Wolter stated “I don’t think anyone would object to facts.”

Ms. Fertig added “What you’re saying is a new Principal comes in and is being held accountable for what may have been there 20 years, but at some point, you want to write those off.”

Mr. Lindner said “Actually, no. I think that the items exist, but since, accountability has to be there. If you show me where one of my people signed for it or for the receipt or we ordered it and it got put in somewhere, I’m OK with that. I’ll accept accountability for that, but this is like asking me or you to be accountable for the car insurance on your neighbor’s car. I’d like to establish a process, if it goes in, this is all ETS equipment, servers and switches and things that I don’t touch, maintain or own. I don’t even know where they were installed. They’re part of the infrastructure, so we’ve been trying for nine months to get a handle on this. I don’t even know how they come in. I don’t know if they come in by serial number. I couldn’t even find documents that showed how they were ordered, who installed them. Many were installed by third party vendors, so when we tried to track this down, we spent significant hours. Mr. Magli will support that. If you read his comments, he says the system is broken.

Mr. Mark Magli stated “That’s not exactly what I stated.”

Mr. Lindner added “You say record modification is needed and pending, so we are trying to work on this. The reality is, this goes out and we only tell part of the story, which creates the impression to people outside that we lost all this stuff and don’t care about it. This isn’t true. The fact that the network is working in the buildings when you turn your computers on means that we have this stuff in place somewhere. The people who are charged with this material are not the people, these are the custodians of the buildings. How did they get charged with hundreds of thousands of dollars of IT equipment? We should ask ourselves that question.”

Mr. James Notter asked “Pat, when was the last time we did this department?”

Mr. Magli replied “Two years ago.”

Mr. Notter asked “And this date is compared to that?”

Mr. Magli replied “That’s correct. There are millions of dollars being spent on modules which are installed by third party vendors, which I did explain in my summary piece. I explained there are a number of scenarios and I contacted Mr. Canales last year, because I thought this would

become a problem. During the last audit, we had a similar situation, where items were put on his audit that were assigned and designated to other parts of the organization. We went ahead, pinpointing those during the audit, making a point to review your records, put hands on things and so forth in order to monitor those things in a timely fashion, close to their installation, which is a crossover, which I did meet with ETS, with Mr. Canales and pretty much conducted the meeting for a similar thing. It was said numerous times that if we have phones, it is working or if we can get to the network, it's working, but we're paying for things. Just because it's working doesn't mean we shouldn't track where the stuff went for millions of dollars. We just did this a couple of years ago, so this stuff is pretty new for this particular site, but not a new occurrence. The other part of that is we just opened Beachside. Beachside did not order all that stuff. FFE, Capital Planning ordered that stuff and they didn't sign for all that stuff, but they're in charge of getting that stuff put back together and where it's supposed to be, and they do. You'll note in the past, we've worked with new schools and new openings; we've worked with the schools extensively and made thousands of corrections. We had this report since March. In the last week, we've accounted for thirty-five items. After this response was received, we worked with Mr. Canales and other parts of the organization and accounted for things that are not network and infrastructure that were other items still on that list, so we're working on it. I agree this is an issue. I believe these are assets and they should be tracked. I suggested to ETS several months ago that we get these items identified, that we didn't have any installation records that clearly said 'I took a piece of equipment "A" and put it in the rack, third floor, KCW' where we could go to it and see it, which you can, because we did it at the Sawgrass with a number of other pieces of equipment that are no longer on this record, so it is possible. It is difficult when you do it after the fact. There is a concern with the communication that has to be worked out. Someone has to track it, we can't all just say no."

Mr. Notter stated "I would like the opportunity to discuss with both of my entities and come back in February with a report."

Dr. Mack stated "This problem is common, Mr. Superintendent. The things that have been uncovered in these audits are receiving equipment without serial numbers, transferring equipment between departments with no serial numbers, etc. We're trying to move forward and get everything corrected. It's not designed to get you involved. I thank you, Mr. Superintendent, but I just don't think this is at your level. It should stay in the ranks where it's supposed to be. Let us do our job and get it fixed. You don't have to bring back a report."

Mr. Notter replied "I'd still like my fingerprints on this one, so that I can get a better handle. Israel Canales, with all the respect in the world, is not what I consider comparable to a Principal at a school. I have some organizational structure issues and I appreciate your trying to take some of my workload from me, but this one, I want to be involved."

Ms. Fertig said "In the past, we've focused so much on the schools and the Principals, and the Principals are always held to a certain standard and I think my request was that it be District wide, not just Principals. If there's a problem with how that's happening, that's a different issue. There shouldn't be one level of accountability for a school based site and another for departments. I think there should be consistency."

Mr. John Herbst stated "It seems to me that there are two issues here. One, the assignment of accountability, and secondly, a process by which that person will go about tracking these items

and I encourage you and am glad you are doing that, Mr. Superintendent, because I think if you assign that responsibility to Mr. Lindner, then whether he likes it or not, he will then have to develop a process by which he can make some statements about that. If you determine the accountability needs to be somewhere else, then that lets him off the hook. Either way, I think, as the Superintendent, you have to decide where the accountability has to be. They can put together a process that allows them to be accountable.”

Mr. Reilly stated “It doesn’t matter if it’s a school or department, one of the key things we’ve been stressing for years now is to pull a PNI 811 to see what is on your inventory. If it’s done periodically on a timely basis, it’s a lot easier to see when something shows up on your inventory that you did not order, and that’s not yours, etc. Also, on page 65, the third paragraph outlines the two issues. When we purchase an item, and the vendor gives us an invoice that’s missing the serial number, when all the other added items, such as warranty, etc., are not broken out, you end up overstating the asset on your books. You want to separate the asset from the other things that are not a part of the value of that asset. When items are transferred or taken for repair, we want to ensure that the District tracks the item and has accountability for it. When something is unaccounted for, it doesn’t always mean it is missing. It could have been transferred and the paperwork not completed, or surplused without paperwork, it could have been something that was never received by the department and not corrected in a timely fashion. Then after a year or two, to go back and look at your inventory, employees have changed, it takes a lot of time to find what that item is. Our staff does a lot of the work, sometimes even calling the vendors to ask for details of items, etc. We have an added audit function that we really shouldn’t be doing, but we try to do it to clear up these situations. The main thing, as mentioned, is to check your PNI 811. They’ve added a new piece with the Optispool that shows you when something has been added or deleted to your record. That’s a great tool to be used.”

Mr. Lindner said “Well stated. I don’t have a problem with accountability. If I own it, I own it.”

Dr. Mack asked “When vendors send invoices with a lot of items, but without serial numbers, in some cases, the schools are unable to identify what the item is. How do we get the vendors to give the schools what they need?”

Mr. Magli replied “Many times equipment comes with a packing slip, but many times not all vendors provide that information on the packing slip. We encourage that you physically verify what comes in and take the information off the actual equipment. The next step is to receipt the information into the system with the serial number. Mr. Waremburg and I have had discussions before, I think there were some issues with the bid items and there were some objections to that, but he would be able to speak about that better than I can.”

Ms. Fertig asked “Can’t you just require that the vendors put that on there? Isn’t that a requirement to put the serial number on the invoice?”

Mr. Robert Waremburg replied “That is something we’ve tried to do in our bid specifications; however, since a lot of our vendors that are actually suppliers are not the manufacturers of the equipment. They do not know who the manufacturer is, and sometimes they place orders as the in between, and orders are drop shipped directly to us. This did come up as an issue with the protest I had, where I was actually demanding a vendor do something that they felt was improper, and almost impossible to document the actual serial numbers. We do have some

vendors who are cooperative, especially our larger vendors who supply a lot of products. We do have some, but with the thousands of vendors we do business with, it's difficult to make that a universal policy and required in the bid, simply because the vendors themselves don't have the ability to do it."

Mr. Reilly stated "When there's a warranty on an item and you don't have that serial number, it's very difficult to determine whether that item is still under warranty and that makes it difficult when we need something fixed."

Ms. Greenberg stated "I agree with Dr. Mack's evaluation of this response from Mr. Lindner. On page 66, the statement that both Mr. Lindner and Mr. Akagbosu initialed and approved the comments made by Mr. Canales is incorrect and should be changed. As we learned this morning, Mr. Canales did not write the letter; Mr. Lindner wrote the letter, so that also would have to be revised, I would think. On page 8, when the audit occurred during a former Principal's tenure and that Principal who was responsible for the audit findings isn't there anymore, does that follow that Principal, so you can make sure to look at the next location, to avoid repeating history."

Ms. Airaghi replied "Yes, in the Areas, our Business Analysts keep a chart of audits and the outcomes of them."

Ms. Greenberg added "I'm glad to hear there's a new team at Hallandale High and that you're handling this in your usual efficient fashion and I do appreciate that. On page 63, I was wondering about the accountability on item #2. The Audit Specialist indicated that the police report was fine and there were no audit exceptions. I don't understand that."

Ms. Veda Hudge replied "I believe you're speaking about the Dell computer. The police report was done the year before in another department. When the Drop Out Prevention Department was dismantled, that then showed up in the Accountability Department. The Auditor did an audit the year before, but she did not find that as an audit exception. This coming year, it came up as an audit exception and it was because the police report did not have the serial number of the Dell computer, when the officer did the police report. We had to go back and do another police report this year citing the serial number from the stolen item."

Mr. De Meo asked "Are the items tagged with the metal etching?"

Mr. Reilly replied "We still have a system that assigns BPI numbers and we like to put that number on the item in association with the serial number."

Mr. Magli added "We used to have a portion of the Division that went out to engrave items. We currently work from the manufacturer's serial number piece, but we do provide a label barcode, but they're not that strong and could be removed. It's important for the schools to know where items are, and if items are swapped out by a vendor and replaced with a new piece of equipment, there needs to be a record of when the original item was removed and replaced."

Mr. De Meo emphasized that the responsibility for a location's inventory is the Principal and that the school should be performing periodic inventories themselves. The Principals should question any items that appear on their property inventory for which they are unaware of how it was

added to their property record and investigate the item immediately. That would go a long way toward accountability.”

Mr. Reilly stated “Those procedures you mentioned are in place and the schools that are not having problems are the ones that are following the procedures. Mark has provided training for all locations on how to obtain a download of their property inventory and the steps they should follow to ensure their inventory is accurate.”

Discussion followed.

Motion was made to transmit with the revised response from Mr. Lindner. Motion carried.

Moore Stephens Lovelace, PA – Comprehensive Annual Financial Report (CAFR) – June 30, 2010

Mr. Daniel O’Keefe, Engagement Partner, Moore Stephens Lovelace, P.A., provided the external auditors’ perspective on the activities and performance of the District, as reflected in the Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2010. Mr. O’Keefe stated “Staff has provided a memo which highlighted some of the significant financial areas. There is a lot of detailed information in this document as well. There are two items needed to get this report issued, one is the Management Representation Letter and the Legal Representation letter which comes from Mr. Marko. The Management Letter and the Single Audit Report will be provided at the February 2011 Audit Committee meeting. The work is done on the reports. This year, it took a little longer; there was an additional \$155 million in federal grants this year and a lot of it was ARRA money, so the audit procedures took longer. Also, on the IT side of the audit, we came up with additional comments and will be obtaining responses from management.” He added “The Report on Internal Control will not show any material weaknesses or significant deficiencies or significant compliance issues that would have a direct material impact on the financial statements. There were no significant material compliance violations related to federal programs, which is good. On page one and two of the report, you will see our report on the financial statements in which we issue opinions, because we have to issue opinions on reporting units that are part of the financial statements. The report includes various top level financial statements and fund financial statements broken out by major versus the aggregate non major funds. There are component units reported such as Charter Schools. The Charter Schools are audited by outside CPA firms. We do confirm the independence of the firms that perform the Charter School audits. This year, there are three new standards, SAS 123, 124 and 125, which require us to modify the last two paragraphs to conform to the new standards. The new standards nail down the auditors’ responsibility for required supplementary information and other schedules and information presented in the document to make it very clear what our responsibilities are now.” Mr. O’Keefe added “Staff did a really good job pointing out some of the key issues. On page 19, the Statement of Net Assets and one of the items implemented was GASB 53, dealing with derivatives. In the District’s case, you have some interest rate swaps that are tied to debt. GASB requires that those values be presented at fair value. Also, GASB 51 was implemented relating to intangibles. There was a huge amount of money spent on BRITE and the new computer system. In the past, a lot of things were expensed and just capitalized the software cost, but there were so much more activity cost involved, they had to go back and identify those costs and those costs got capitalized and amortized over a period of time. On page twenty-four, this is just a comment. It is clear if you look at the operations of the School District this year, it

would be very different if the ARRA money had not come in. You are talking about \$160 million, the operations of the District would have been dramatically different if that money did not come in. Also, whatever unrestricted fund balance that you had is really getting whittled down.”

I always take the unrestricted fund balance and compare it to total expenditures of the General Fund, because that really is your operating fund and right now it’s about 3.2% of total expenditures, which is pretty lean. There is no fat in this number. The good news is you’re not in a deficit situation, but we operate and live in a state that mandates balanced budgets. You have to either cut costs or increase revenues, in order to cover your operating expenses. What you see in California would not happen here because of the statutory requirements we have in Florida. That makes it tough for a School District when you have such a dramatic change in revenues and you still have services that you are trying to provide. The number of students hasn’t dropped off dramatically compared to the amount of revenues that have dropped off. It is a problem. Also, the amount from ad valorem tax that was budgeted, you are going to see a negative variance of about \$6 million. You never normally see this, because we have tax sales certificates. When tax sales certificates are issued, what happens is there is a claim on the property, but the cash is collected and distributed to the taxing agency. For the first time, we are seeing tax sales certificates not being sold, so they don’t get sold and tax doesn’t come in and can’t get distributed. In the shortfall, there is a \$6 million shortfall, because you don’t have anyone buying the certificates. There are some challenges here, but overall, we are pleased with the assistance we got from staff. It was a tougher than normal year because of all the new requirements coming in related to the ARRA dollars. At this point, I would be happy to take any questions.”

Mr. De Meo asked “You mentioned that there were no material weaknesses and no significant deficiencies. Do you issue a report on the control deficiencies that don’t rise to the level of significant deficiencies?”

Mr. O’Keefe stated “Yes, the Management Letter basically does that.”

Mr. De Meo asked “Do we get a copy of that report?”

Mr. O’Keefe replied “At the next meeting, we will present the Management Letter and Single Audit reports for your review.”

Mr. De Meo asked “Are there any reoccurring or unmet control deficiencies reported? Do you indicate what deficiencies are reoccurring?”

Mr. O’Keefe stated “Yes, we are required to report on prior year findings.”

Mr. De Meo stated “You mentioned fund balance and undesignated fund balance, which totals about \$400 million. The largest part of that is capital funds, which seems to me you can’t spend bricks and mortar and usually you’re talking about some cost basis amortized for depreciation and who knows what the fair market value of those assets are? So, if you take that component out of the designated fund balance, it looks like there is very little.”

Mr. O’Keefe stated “That is why I focus on the General Fund, because other funds are basically restricted dollars. There is another GASB Statement (Number 54) which is going to restructure the fund balance component.” Discussion followed.

Mr. Hurst asked regarding derivatives on page 19 “Are you saying that it’s a minus and a plus equaling zero and that in 2007 one of the outcome derivative problems was there had to be a market for them and there isn’t a market for them? Is that the commercial side you were alluding to?”

Mr. O’Keefe stated “Yes, in a GASB and FASB, you tend to have this annoying way of coming up with their own vision of how this should be presented in the statements. GASB and FASB took different approaches.” Discussion followed.

Mr. John Herbst stated “I have a question about the OPEB (Other Post-Employment Benefits) liability and I notice we are doing a pay-as-you-go funding. Is there any reason we are not amortizing that down? It’s obvious that it is going to continually grow year after year if we don’t make some contributions toward the net liability itself?”

Mr. Gorokhovsky stated “You really only have two options, either pay-as-you-go or set the money aside. At this time, the way the economy is and the funding that is coming into the District, we have chosen to go the route of pay-as-you-go. We don’t have funds now to set aside.”

Mr. John Herbst stated “The only issue with that is that the liability doesn’t go away by not funding it. It just continues to grow. I have a challenge with that, because you are basically kicking the can down the road by making the liability grow. Is your return 7% now?”

Mr. Gorokhovsky replied “It’s 4%.”

Mr. O’Keefe stated “All of this may change soon, because GASB is working on a project right now. My understanding is they may be forcing the entities to book their unfunded liabilities for pension plans and OPEB liability in total. So when that happens, it will catch the eye of a lot of folks and maybe funding is the way to go with this.” Discussions followed.

Ms. Greenberg asked why the Broward Education Foundation audit was not included in the report.

Mr. Gorokhovsky said “At the time of publication, this report was not available. The report was received on the previous Friday and will be forwarded to Mr. Reilly’s office.”

Mr. De Meo asked “How did our fund balances and our \$2 billion dollars in debt compare to other Districts?”

Mr. O’Keefe explained “There are some school districts that have hardly any debt, due to the fact that they did not have a large influx of demand, as we did over the years. Some of these districts are predominantly retirement communities and these school districts grew at a much slower rate. Miami Dade County would be the only comparable District to us.”

Mr. De Meo asked “Does GASB have a going concern counterpart?”

Mr. O’Keefe replied “If you were in a going concern type scenario, we do have to form financial condition type procedures to determine that. According to law, you have to provide this service. According to law, someone has to fund it. That funding is either going to come from local resources that the State says you can collect or from the resources that they collect. You have the

governing bodies that have the ability to levy taxes or to increase taxes. The going concern is truly not that big of an issue in the Government sector, but we have to look at it, at the trends. In the Management Letter, we specifically talk about whether you are in a deteriorating state of financial condition; we have benchmarks that we look at this entity, then we have to ask management how they will handle it.”

Mr. De Meo asked “Did you consider this District as a possible going concern?”

Mr. O’Keefe said “You can cut costs at any point in time and match it to your revenues. That’s what the law basically says. If it gets to the point where your costs exceed your budgetary revenues, keep in mind there’s another component of the budgetary revenues, and that is fund balance carry forward. If your operating costs exceed that, that would be a real problem, but would be more of a compliance issue than anything else. I believe the State would have to come in and inject some money into the District very rapidly.”

Mr. De Meo asked “But we’re not specifically, based on the audit you completed, at that point?”

Mr. O’Keefe stated “No.”

Mr. Notter asked “When you do that benchmarking, we look at the big five and big seven, specifically. I thought you indicated regarding fund balances that there was little debt in Pinellas County. My curiosity is when you do that, do you look to see whether or not the county voted for additional funding? My understanding is that Pinellas had two four year additional funding levies that their people passed, which, in my opinion, pays for the reoccurring cost of their organization. Since 1986, we have not gone to our public for additional revenue, especially when you look at the reoccurring costs, such as health care, etc.” Discussion followed.

Dr. Mack asked several questions relating to amounts shown on the Executive Summary and the draft of the CAFR.

Mr. Gorokhovskiy provided an explanation to Dr. Mack’s questions and also stated he would make necessary corrections where needed before the final CAFR was issued.

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

Charter School with Financial Emergency

Mount Herman Educational Corporation of South Florida, Inc., D/B/A Henry McNeal Turner Learning Academy

Mr. Reilly presented the audited financial report for the Henry McNeal Turner Learning Academy. He provided a matrix, which detailed that the Charter School had a deficit fund balance as of June 30, 2010. This school met the criteria in Section 218.503 (1)(e), Florida Statutes, which is considered a financial emergency. The Charter School Office will meet with school personnel to develop a financial recovery plan.

FINAL - Presented and approved at the February 10, 2011 Audit Committee Meeting

Other Discussions

The Committee decided to move the Committee meetings back to Thursdays at 12:30 p.m. beginning with the next meeting on February 10, 2011.

Also, the Committee recommended conducting an orientation for new members.

Meeting adjourned at 11:45 a.m.