

The School Board of Broward County, Florida
AUDIT COMMITTEE

MINUTES OF AUDIT COMMITTEE MEETING

February 10, 2011

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

Members Present: Ms. Charlotte Greenberg
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
Mr. Andrew Medvin, CPA
Ms. Mary Lou Ruderman, CPA
Ms. Cynthia Samuel

Staff Present: Mr. James F. Notter, Superintendent, Superintendent's Office
Mr. Donnie Carter, Chief Operations Officer
Mr. Ben Leong, Chief Financial Officer
Mr. Thomas Cooney, Office of General Counsel
Mr. Robert Vignola, Office of General Counsel
Ms. Lynette Tannis, Intern Superintendent, Superintendent's Office
Mr. Patrick Reilly, Chief Auditor, Office of the Chief Auditor (OCA)
Ms. Ann Conway, Director Operational Audits, 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. Melissa Grimm, Director, ERP Project Management
Mr. Chuck Stanley, Director, ETS Technical Support Services
Mr. Denis Herrmann, Director, Design & Construction Contracts
Mr. John Hodge, Curriculum/Program Specialist, Facilities
Ms. Nikita McKenzie, Transportation Services
Ms. Christine Corbin, Transportation Services
Ms. Coco Burns, Broward Education Foundation

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

Mr. Wolter introduced and welcomed the three new Audit Committee members, Mr. Andrew Medvin, appointed by Ms. Laurie Rich Levinson, Ms. Mary Lou Ruderman, appointed by Mr. Thomas and Ms. Cynthia Samuel, appointed by the PTA.

Old Business

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

Motion carried.

Current Status Report – Follow-Up Items

Follow-Up Item #1 - 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. Patrick Reilly stated that the Audit Committee had requested an update on the Ashbritt audit, specifically related to the external firm Berkowitz, Dick, Pollack & Brant (BDPB), that was hired (by Mr. Ed Marko, General Counsel) to perform work for the District, along with their charges incurred to date. He pointed out that the information provided by the Office of General Counsel had already been distributed to the Audit Committee. Mr. Reilly continued “There is an invoice in the amount of \$122,000 for the services rendered. There are sections in the invoice that were redacted in order not to show some of the details of the invoice. The invoice showed that there was also a forensic report within that invoice; however, we have not been given the opportunity to review it. We asked if we could obtain a copy of the forensic report, but were denied by the General Counsel’s office. Their office feels that our reviewing the forensic report could prejudice both our defensive and affirmative claims. I understand there is now a counter-claim.” Mr. Reilly asked the Legal Counsel for an update.

Mr. Thomas Cooney stated “As Mr. Reilly stated, we did finally receive and provide copies of the invoice that the Audit Committee has been seeking for quite some time now, as well as the report that summarizes and concludes our independent forensic auditor’s findings. The portions of the invoice that were redacted indicate that specific tasks were performed in conjunction with directives from our office and do reflect our strategies in the current lawsuit. Mr. Reilly is also correct in stating that we are a counter-plaintiff also, so we’re not just defending in the lawsuit that was instituted by Ashbritt, but we’ve got, at least a preliminary counter-claim that we’re prosecuting. We’re still in the discovery phase of the litigation side and the report that we received is what we’re utilizing as our guide to get through that process. We still have a bit of information to uncover before we can come back to our School Board in a closed door session to seek guidance. We have to basically go back and look at every single portable where Ashbritt performed work for us and confirm and perform some testing. Once that is concluded, then we’ll be able to come back to the Board with our findings and receive further direction.”

Dr. Henry Mack inquired about the professional discount referred to on the invoice.

Mr. Cooney explained it was a discount from their standard rates.

Dr. Mack asked “Is there anything about this invoice that you challenge?”

Mr. Cooney replied “No, sir.”

Dr. Mack continued “Then we should feel comfortable taking it as it is.”

Mr. Cooney replied “Yes, sir.”

Ms. Alex Mores asked “Regarding the \$122,000 charges on the invoice, what did they discover from a financial standpoint that are recoverable in damages?”

Mr. Cooney replied “That’s precisely the major component of the findings of the report that we can’t disclose to anyone yet; in fact, we haven’t yet disclosed that to the School Board. It’s going to depend on what we discover with these portables before we can define that number.”

Ms. Mary Fertig stated “I’d like to make one observation on what a great job Mr. Reilly’s department does for us on a very limited budget.”

Ms. Charlotte Greenberg asked “Inasmuch as this accountant (BDPB) conferred and had meetings with the accountant hired by Ashbritt’s attorney, I was wondering why Pat Reilly, our District Auditor, was not allowed to see the report. What would the rationale be for not allowing him to see the report?”

Mr. Cooney replied “I don’t know that necessarily that meeting with Ashbritt’s auditor would automatically be subject to independent review. It’s all part of our directives to Berkowitz (BDPB).”

Ms. Greenberg continued “No, I’m not asking that. If they meet with their auditors, then why can’t our auditor see the report? Everybody else is talking about it.”

Mr. Cooney replied “The report you are referring to is the report prepared at our office’s direction and is part of their research process, reviewing documents and so forth. They did meet with the other auditors for Ashbritt and so forth.”

Ms. Greenberg asked “Why can’t our auditors see the report that came out of all of these meetings and work. That’s all I want to know.”

Mr. James Notter replied “I would suggest that we have two separate houses; the administrative side of the house, which is the Superintendent and also our Chief Auditor, etc. There is also the legal side of the house. The Superintendent of Schools has not been privy to the report, so it’s been in the legal side of the house. The reason it’s not being shared, as I understand it from Legal Counsel, is they still have an active case and the specificity within that report is really only privy to Legal Counsel at this point in time. Whether it’s Pat or Jim or Sally or Bill on the administrative side of the house, it’s strictly now in Legal’s possession for any type of case that they need it for.”

Ms. Greenberg asked “So, when they meet with you and the Board in closed session, you will have to discuss this report, I presume, to talk about the lawsuit.”

Mr. Notter answered “Closed session is closed session. I’m not privy to share that with anybody.”

Ms. Greenberg replied “I understand that, but you will see that report in closed session?”

Mr. Cooney stated “At some point in time, that report and everything else related to this dispute will become public knowledge, we just haven’t gotten there yet.”

Ms. Greenberg said “I’m glad that after over a year of requesting this that we’ve received it.”

Mr. Notter added “I wish it had been a shorter time, but it’s much less than waiting for a year.”

Mr. Reilly stated “I just think that if we do end up in court, I do think it would be a benefit for us to review their reports, not to challenge it necessarily, but even to support it or challenge if something could improve our position. I’m following the process, but if we had just sent a demand letter back in July, 2009 and could have seen how that played out, that may have been the route to take first. If we are not going to court and possibly settle out of court, that might have been beneficial, but I do think since we are the “meat and potatoes” of what the case is about; we did the audit, we’re familiar with all aspects of the audit. I do think we can be a big help in preparing our case.”

Ms. Greenberg agreed.

Mr. Wolter asked for a clarification. “When you were speaking about having to observe or visit the portables, is that going to be an additional step or did I misunderstand that comment?”

Mr. Cooney replied “We’re actually going to be inspecting and testing each and every portable that Ashbritt worked on.”

Mr. Wolter asked “Will that be done by our internal staff or a combination?”

Mr. Cooney answered “A combination.”

Ms. Greenberg asked “This Committee, as I recall, did request that a demand letter be sent early on in this process.

Ms. Fertig stated “I think there’s a lot that can be learned from this particular case. It’s been a long time. For those of us who were here in July, 2009, I think this could be a learning experience for how things are handled in the future, as to whether that was the best course or not. You are making counter-claims and I’m assuming that will become part of public record, which we will be privy to, as citizens.”

Mr. Cooney said “Absolutely, anything that’s filed in court is a public record.”

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

Mr. Reilly began “This is a final follow-up on the update for the process of establishing loan criteria and the Committee requested that information be added to the schedule to show the initial date and purpose of the loan/debt.”

Mr. Oleg Gorokhovsky stated “It was requested at the last meeting to add two columns; one was to show the purpose of the debt and the other was the initial date. Since the last meeting, one school paid the full amount.”

Dr. Mack asked if there was a policy and how it’s determined which schools receive loans and the repayment schedules.

Mr. Gorokhovsky agreed to look into the recommendation of creating a policy. The Area Offices now work out a plan that best benefits each school in the repayment of loans.”

Mr. Notter commented “I wouldn’t see it as a policy; I’d see it as a Business Practice Bulletin.” Mr. Notter asked that a draft be presented at the March 24, 2011 Audit Committee meeting.

Ms. Greenberg asked “I am looking at this schedule which shows loans from 2007 with repayment dates of 2015 and 2018. That seems like a very long time.”

Mr. Gorokhovsky stated “These are agreements that were recently negotiated. These are not loans that were initiated back in 2004. Of these agreements, there are only two band loans. For the remaining accumulated balances from the prior years, we are working out repayment plans for these schools. You are correct that because of the larger amounts, there is a longer repayment period.”

Discussion followed.

Mr. Ben Leong stated “As previously mentioned, there are only two loans here, which are for Taravella High and Cooper City High. When they enter into loan agreements, which are approved by the Area Superintendents before submittal to the Board, they probably have a term agreement to repay. All of the others are charges incurred for other activities, such as field trips, for which we have no control. About three to four months ago, when this item came to our attention, we froze these accounts, so that no more charges could be added. In the current quarter, they must pay all expenses incurred.”

Discussion followed.

Ms. Alex Mores asked “Does each school choose how they will repay their debts?”

Mr. Leong replied “They could choose to pay from their internal activity funds or they can do fundraising. Before, if they didn’t have the money, they could use the General Fund, but now the General Funds cannot be used. Internal regulations state that internal funds cannot be used to pay ticket takers and other gate help. These events are now paid through the budget.”

Ms. Mores stated “A nine year difference is a big difference in terms. Is there nothing that one school could learn from another in order to accelerate that loan payment or is there such a fiscal difference between the two?”

Mr. Leong replied “I do not work with the schools, I am simply reporting on this issue. The Business Analysts from the Area Offices work with the schools. We leave it to them and I’m not going to question them on whether they agree that the terms are reasonable. I cannot answer that question as to the variations from one school to another.”

Mr. Anthony De Meo asked “If the General Fund is budgeted and the appropriations are approved by the Board, how then can the schools use the General Fund to pay for something that hasn’t been appropriated?”

Mr. Leong answered “We never appropriate funds for this kind of event. The Internal Revenue, a few years ago, when they audited us when we were paying this from internal funds, they stated that we could not pay these expenses from internal funds, since you cannot generate the W-2 forms from internal funds. We have to let them use the General Fund; however, we have a remedy now. Every quarter, we request that the outstanding balance be paid back in full.”

Mr. Reilly added “A portion of that money is bus transportation. It’s not only ticket takers and gate help from the games. The revenues from those games are supposed to be forwarded back to the General Fund to reimburse the payroll expenses paid by the Budget for those workers.”

Discussion followed.

Follow-Up Item #4 – Internal Fund Audits – December 13, 2010

Mr. Reilly gave an update on the vending machines. “At the last meeting, there was a discussion about vending machines. We went to two schools and performed cash counts, did a walk through with the vendor on how they re-stock, how they account for and collect the monies, how the schools receive their commissions, and the documentation they receive with the commission checks. We plan to do more site visits. There are seven other vendors who provide service to the District. We noted there are many different deals that are offered to schools, for example, some schools are on a commission basis, based on the sales volume, where others receive a lump sum for the entire year. One school received \$55,000 for the year in four equal installments. The incentive clause states that if the volume is over \$100,000, they will receive a bonus of \$12,000 to \$15,000. The only controlling factor is the Sales Meter Reading on the machines. One vendor had three schools on his route and we verified their process of controlling and reporting the sales. As a District, how do we know that we are receiving all commissions and bonuses due? The only way is to check the meter reading. For example, if the meter reading is 2,800 in the morning and 2,900 at the end of the day, there should be \$100 that should be sales for that one vending machine. We will be doing more fieldwork, but as it looks right now, we’re pretty much at the mercy of the vendor to accurately report their sales revenues. What we may want to consider is when they send their commission or lump sum payments, the school should take a meter reading, at least as a spot check. Occasionally, the schools should perform a cash count, as we did. At the high schools, the vendors are there on a daily basis. We saw a couple of unique situations. At one point, we were told that they empty the machines daily, but the day we were there, they stated they didn’t empty the machines on the previous day, so the cash count would represent two days worth of sales. Right now, it’s difficult to determine actual sales. We will provide additional updates at future meetings.”

Ms. Fertig asked “If a school receives a lump sum donation accompanied by a letter saying to spend the donation for faculty, is the school bound to follow that guideline, even though it is not how we want them to use these funds, based on our Standard Practice Bulletins?”

Mr. Reilly replied “That’s another issue; the vending machine commissions are not donations. We have had issues relating to commissions vs. donations. There are some contracts that state

the school should use a designated amount for Athletics. I don't think the vendor should have any say in how the monies are disbursed."

Ms. Fertig asked "My concern is if you receive a donation with instructions on how it is to be spent, how do you make the decision to not follow that? Shouldn't the Board consider changing their policy so that this is uniform across the board?"

Discussion followed regarding donations vs. commissions. Also discussed was whether there is a policy in place covering the disbursement of vending commissions/donations.

Mr. Reilly stated "We do have policies and procedures that govern these areas; we have a Donations policy, a Vending Machine policy plus purchasing policies and requirements, etc. These policies state how the commissions should be spent."

Dr. Mack stated "At the last meeting, we discussed the vending machines for faculty use and determined that these monies should not be co-mingled with the machines for student use. Is that correct?"

Mr. Reilly answered "Yes, we've had some issues in that area. Only the revenues from those faculty machines should be placed into the Faculty account. If you typically have two faculty machines at a location, you cannot put a lump sum of \$2,000.00 in the Faculty account. Based on the BTU Contract, the revenues from those machines should be the only portion deposited into the Faculty account. The schools need to receive a detailed breakdown of every machine, in order to determine the revenues for each machine. In the past, unless the schools asked for this breakdown, they were only receiving the commission check, not the breakdown. Schools should ask for the beginning and ending meter readings by month or by quarter, so the schools will know what monies are generated by each machine. At one school, the vendor stated that \$100,000 was the revenue for one year, but if the school is receiving a lump sum, my concern is that the school could be earning more after reaching a certain plateau of sales, but the schools have no idea without the documentation from the vendor. There are many different factors to consider, such as Spring Break and Winter Break. Some schools have a lot of activity at night, etc. We want to make sure that each school is getting all the revenues agreed to in the contracts."

Mr. Carter stated "We can certainly look at some of the high level, high volume contracts and follow-up on those. We specifically set the current contracts up to have flexibility in order to maximize the revenues for schools. The contracts we have now show substantial increases over what we've traditionally gotten in prior years."

Ms. Greenberg stated "The point we're making is if you have no accountability and you're at the mercy of the vendors, you don't know what your possibilities for revenues are."

Mr. De Meo stated "You may wish to consider having the Legal Department look at the contracts and provide an interpretation of what contracts require in terms of donations. We want to ensure that vendors are following IRS regulations. Also, if we don't have the resources to implement controls, we should inform the vendors that we want to maximize our revenues, but to make sure they install machines that do not have erasable totals or meters that can be set back, and there are such machines."

Mr. Reilly agreed that we should ensure the meters cannot be tampered with or turned off.

Mr. De Meo stated “Once the vendors know we are checking their records, you will see an increase in revenues.”

Mr. Reilly stated “We also noted that the amount of electricity these machines are drawing is not being reimbursed to the District. That is something we wish to speak to our energy personnel to determine the estimated cost to operate these machines.”

Mr. Wolter asked that this topic be updated at the next Audit Committee meeting.

Mr. Steve Hurst asked “When you are auditing the machines, do you actually see them register one transaction for every purchase?”

Mr. Reilly responded “Now that we realize how this one company is operating, we want to verify the meter reading, the stock, and check that they are working correctly.”

Discussion followed.

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 twenty-three schools. Nineteen schools complied with the policies and procedures for internal fund accounting. There were four schools that contained some audit exceptions in the areas of facility rentals, receipting and depositing funds, procedural failures, some fund raising activities and some issues with internal fund advances. There was one item where there was a theft of money that is now under SIU investigation. This occurred when money was left where someone else had access to it. This is a control issue that could have been avoided by not giving someone the opportunity.”

Dr. Mack asked for an explanation on North Lauderdale Elementary.

Ms. Airaghi stated “There was action taken against that Principal, who is no longer with the District. A plan was developed. A new Bookkeeper has been assigned and we received a letter from the Office of the Chief Auditor on January 18, 2011 that showed their internal audit is now free of exceptions.”

Ms. Greenbarg asked “On page 67, at Arthur Ashe Middle School, I see that that Principal was not the Principal during the audit. Where is the Principal now who was there during the audit?”

Dr. Blackburn stated “That Principal is now at Village Elementary.”

Ms. Greenbarg asked “Are you trying to get this money paid back or is it a loss?”

Dr. Blackburn replied “After the SIU investigation was launched, she did attempt to make restitution, but since it was an SIU matter, SIU told the school not to accept any restitution from the person and to allow the investigation to follow through. That employee has since resigned.”

Mr. Ken Evans asked “Regarding Cypress Run on page 53, can you explain about the facility rental money that was not remitted?”

Ms. Airaghi replied “The Bookkeeper had failed to transmit the money to the Budget office. The school moved into a new building; prior to that they were in a portable site and had never had the opportunity to lease or rent their facility. The Principal who is there now had an exception free audit at his previous school, so we have retrained staff, now that they are in the new building, on how to lease or rent their building. The money was in their internal account, but had not been transmitted to the budget.”

Mr. John Herbst added “Dr. Mack and I share a similar perspective about this, where if cash is one penny off, we don’t like it. The reason is because some things are relatively small and seem innocuous, but when you have a breakdown in internal control as it relates to cash, you wind up with what you have on page 68, when cash is missing; the inevitable outcome of not doing the little things right consistently.”

Discussion followed. A motion was made to transmit. Motion carried.

Moore Stephens Lovelace, PA – Management Letter for the Year Ended June 30, 2010

Mr. Daniel O’Keefe, Engagement Partner, Moore Stephens Lovelace, P.A., provided an update on the Management Letter. He introduced Mr. Chris Ghosio and stated that he would be able to answer any questions regarding the IT audit. “The Management Letter is broken out into the current findings and at the back of the Management Letter, there is a summary of prior year comments and a reference to the prior year comments to give you a status regarding those comments. We’ll be happy to address any questions.”

Mr. De Meo stated “It is noteworthy that there are no significant deficiencies or material weaknesses and I commend the staff and all those involved. For a number of the IT security comments, there are a number of five year unresolved security issues. I’m sure you feel that the application of these items did not rise to the level of a material weakness. Is that an acknowledgment?”

Mr. O’Keefe replied “Yes, we have to go back through the assessment process.”

Mr. De Meo asked “With all those security issues, you don’t think that’s a material weakness?”

Mr. O’Keefe replied “That is correct.”

Mr. De Meo continued “I’d like to point out to the Committee that some of these access issues are very serious, even though they are not material weaknesses and I think we should give them a high priority.”

Mr. O’Keefe replied “That’s a very valid comment. There is a lot of information that the School Board has that may not have a direct impact on the financial statements themselves. You have over 30,000 employees and certainly there is financial information that has a direct impact on the financial statements, but if you look at an employee file, there is a lot of information within that data within that system.”

Mr. De Meo stated “Without getting into details because it should be privileged, I presume we have redundant off premises immediate capabilities?”

Mr. Ghosio replied “There are those provisions in place. There is a disaster recovery plan, a disaster recovery facility, some off-site information and things like that.”

Dr. Mack stated “Ten years ago, we had the same issues regarding IT, redundancy, etc. I think the responses submitted by the IT Department are unacceptable and that the Superintendent’s office is not satisfied with these responses either.”

Mr. Carter stated “I concur with the concerns of the Committee. I had the same concerns when we developed the responses and having discussed the responses with my IT Department, I’m comfortable with our direction and improving all facets of security without having specifically stated how that would be done. I can assure you it is of the utmost importance to us and we have taken all of the necessary steps to do exactly what the Committee wants. If there are details that you need, we can provide them. Our responses were designed to be the way that they are.”

Dr. Mack asked “On page 6, regarding the disaster recovery plan in place, as far as the District is concerned, if the vehicle by which this system should be policed is in place, if it’s followed, we should not have any deficiencies. However, the auditors have identified opportunities for improvement. There are some significant recommendations from you for the recovery plan. We would like to see those things also and give our recommendation on whether or not they should be included in the plan. We’ve been following the process all these years.”

Ms. Alex Mores asked “I have a question for Mr. Reilly’s group. Do you have an IT staff that you use to audit the IT general environment?”

Mr. Reilly replied “No, we tried at one time to hire an IT person, but were unable to for budget reasons. We use an outside group. Also, the Auditor General’s IT group performed several audits, as well as our external auditors, who look at the system annually.”

Ms. Mores asked “When I look at the general controls, we’ve got access controls, back up controls; we have change management. How do you become comfortable? I understand we don’t have a material weakness, but I don’t understand not having a significant deficiency. Did you identify compensating controls around access?”

Mr. O’Keefe replied “Basically, if you can’t rely on controls, you go through a process of testing to get comfortable. We tested over \$200 million in Federal grants and expenditures and found zero compliance problems and zero issues. We did an extensive payroll test, which is such a large volume of costs that the School Board has, so the support of the tests help us to arrive at the conclusion. One of the reasons we delve deeply into the IT area more than we would on a normal financial audit is because the Chief Auditor doesn’t really have an IT Specialist and they’ve asked us to look at some things that we wouldn’t normally review. We’re giving you a more in depth audit than you would typically get on a true financial compliance audit.”

Ms. Mores asked “So you don’t have any reliance on the systems when you perform your audits?”

Mr. O’Keefe replied “We’re talking about a lot of different systems and modules here; there is definitely some reliance we place in certain areas.”

Ms. Mores asked “From a back-up perspective, you say that it’s backed up on site, but are we talking about out of state?”

Mr. Chuck Stanley replied “Yes, the recovery site is out of state (Philadelphia).”

Mr. John Herbst added “When I look at the IT Department, I see three basic functions; project management, maintenance and security. I’m a little disturbed to see that security seems to have fallen to the back of the desk, if you will. I’m glad you are going to re-focus, because in this day and age with identity theft and system breaches, I think you can’t afford to ignore that. I’m also surprised that this would not have risen at least to the level of a significant deficiency. I’m happy that it didn’t, but I consider it to be a significant deficiency in our operations. When you look at the information in the system about employees and students, to have some potential for access to any of that, to me, is very disturbing. I’m glad there will be an enhanced focus on that.”

Ms. Greenberg added “When talking about IT at the Facilities Task Force meeting, we were describing the SAP system with the lack of interfacing. This has been a problem since SAP was instituted and I really have hopes that it can be fixed, but I really wonder if you can ever get this interface situation fixed.”

Dr. Mack stated “When the Audit Committee raised issues with SAP before, we could do anything we wanted to, but the cost would have been ridiculous. SAP is a very, very tight system. If you want to change anything in it, you are prohibited from doing so by contract without some ridiculous cost.”

Ms. Greenberg added “When they bought it, one School Board Member voted “No”. That was Lois Wexler.

Mr. Wolter summarized the Committee’s concerns. He stated “Dr. Mack asked if the Committee could see the detailed recommendations on the disaster recovery plan. Assuming that there is not something highly confidential, we are asking that you send it to Patrick for his review. Secondly, when we meet next February, there would be no repeat recommendations. There may be new ones, but no repeats. I’d like to put that commitment on record.”

Dr. Mack asked regarding page 3 “The Level 2 FBI screening responses appear that they are responding to something other than the observation or the recommendation. They say they agree, but then they go into this long dissertation about SAP again, which is totally irrelevant. When they go to the timeline, their answer should be what they have on page 4. They are going to have to do something in the meantime, until they can come up with a system that works.”

Dr. Mack asked “On page 4, Payroll Processing, the second paragraph states ‘as an internal control procedure, the Office of the Chief Auditor performs payroll audits to ensure compliance with policies and procedures and laws related to payroll. I hope this means that this is a regular auditing process.’”

Mr. Reilly stated “It is performed at every location we audit.”

Ms. Greenberg asked about the last paragraph on page 4 “Was the memo processed and sent on February 4th?”

Mr. Carter replied “Yes, before that.”

Mr. O’Keefe commented “One other thing that I feel is important is the ARRA (American Recovery & Reinvestment Act) money we had this year that we considered high risk back in the planning. We have a ton of ARRA money. We had awards of over \$300 million and I think through December 31, 2010, the District had spent a little over \$200 million. Because it was high risk, we had to apply extended procedures into those particular programs. That’s one of the reasons we took a little longer this year to complete the audit. Because you are a low risk auditee, we had to, at minimum, test at least 25% of the total expenditures, but because you had ARRA money, we ended up testing closer to 55 %. The population we selected was much greater, and of the clients we’re working with this year, you are one of the few that didn’t have any specific comments in the ARRA programs, for which I have to commend staff for jumping on the reporting element, because the reporting side of this is an absolute nightmare. We tested that extensively. Also, as of December 31, 2010, there is \$100 million of unspent ARRA money and you want to make certain that will be spent. You don’t want to get to the end of the program and you have some unspent funds. I think every single dollar should be spent, because you need it. Your total financial systems last year totaled over \$400 million, which, without that money, the District would have been in pretty bad shape last year.

A motion was made to transmit. Motion carried.

Moore Stephens Lovelace, P.A. - Auditors’ Reports Required by the Office of Management and Budget (OMB) Circular A-133 (Single Audit Report) for the Year Ended June 30, 2010

Mr. De Meo asked “Did you reduce your testing based on the reliance on any controls or were there no controls?”

Mr. O’Keefe replied “For the Federal programs, under the Single Audit requirements, you are absolutely required to test controls. We’re talking about controls over compliance. Most of the money that has come in on these programs goes to salary and those types of costs. We do a lot of testing in the entire payroll system for a lot of reasons, but we have to do a lot of testing on the Federal side because of the Federal compliance requirements. There are some controls that you may not test or opine on, but these controls dealing with dollars spent on allowable costs in accordance with the grant agreement absolutely have to be tested.”

Motion was made to transmit. Motion carried.

Broward Education Foundation, Inc. – Audited Financial Statements for the Fiscal Year Ended June 30, 2010

Mr. Reilly stated “This is a report of the BEF that the Committee requested. Normally, this report is included as part of the combined annual financial report of the District. In December, when we last met, the report was not available. This audit was transmitted to the School Board at the January 25, 2011 meeting as part of the CAFR. I reviewed the report, which shows net assets of over \$7 million and unreserved fund balance of over \$2 million. The external auditor issued a clean opinion.”

State of Florida Auditor General Report No. 2011-005 – Florida Education Finance Program (FEFP) Full-Time Equivalent (FTE) Students and Student Transportation for the Fiscal Year Ended June 30, 2009 and Internal Audit Report - 2009 State FTE Audit Advisory

Mr. Reilly began “Ann Conway in our office created the FTE Audit Advisory, which summarizes the Auditor General’s FTE report. The Auditor General normally audits the District every 3 years and this audit reflects the 2008-09 school year. The summary on page 2 shows the potential loss of \$5.8 million. There are certain areas the District may be able to appeal. The failure to provide the contracted agency’s (Alternatives Unlimited, Inc.) source attendance documents was a large item affecting the audit adjustment totaling \$3.9 million. This was due to the District’s not having the original attendance sheets from the external firm, Alternatives Unlimited, Inc. that handled the Drop Back In program. We do have an appeal started on that and we did make every effort to retrieve these missing documents. We even contacted law enforcement to try to obtain those attendance sheets. The other item was related to ESE student documentation. There was an item called the Funding Matrix that needed to be reviewed and updated. In terms of dollars, this item was approximately \$850,000. There were some areas where we received no audit exceptions; however, we know they will be looking at these areas during the next audit. One area is the Hospital Homebound Classification of Students Residential and Day Treatment Facilities and how they want the coding. There was also teacher certification, one area where I think the District improved from the past; however, we did have the one contracted agency that did not comply with some of the general knowledge requirements that they needed to obtain within the year of hiring, and they didn’t do that. That represented \$98,000. Overall, the biggest problem we had was with contracted agencies, which affected this year’s audit. Another item that I spoke to Mr. Notter about is that normally the Auditor General comes every three years, giving us time to take corrective action, such as out-of-field issues, teacher certification, OJT items, as well as transportation issues. We understand that now they may be returning this year to look at the 2009-10 fiscal year that has already ended and cannot be changed. They changed their three-year pattern, which means they could come at any time. On page 7, there is a breakdown of their sample, the number of exceptions and the dollar value of the FTE portion, relating to each of the categories, broken down by type.”

Mr. Notter added “On the Alternatives Unlimited (Drop Back In) Program, we’ve terminated our contract with this company. That program is now being run internally by our District. Pat and I

discussed what will happen if the State auditors disallow the \$3.96 million. It is the Superintendent's intent to go after it."

Mr. De Meo asked "Given Pat's comment about the audit cycle being based on judgment, not on a tri-annual cycle, and your potential losses here are \$5.8 million, maybe you'd find a benefit if the accounting dept or the respective business managers in each of the areas, maybe internal audit would allocate additional time to make sure the documentation is correct, because \$5.8 million is a lot of money that belongs to this District. Maybe we should pay a little more attention to that."

Ms. Fertig added "I'm always speaking on Magnet funding. That almost equals what was taken away from all our schools across the board last year in program funding. It is very significant even though percentage wise it doesn't seem very significant. This big report that we didn't talk about, what we didn't talk about is the number of schools. This really boils down to several areas where problems occurred. What corrective actions are being taken in the schools to make sure the problems are corrected, so we don't find ourselves in the same situation next year? This does seem to be escalating and increasing every year, and does seem like something we need to address. Finally, being able to enter attendance in advance, I found that very troubling. I can see where it's useful if someone's going to be out and you know that ahead of time, but I would think that the dangers in that would far outweigh the benefits."

Ms. Greenberg stated "I echo your comments. It's also of particular concern to me, because I used to be on the ESE executive committee, before the extravaganza occurred, and we had particular concerns about the ESE matrices and what's going on with these kids' IEPs. This is an ongoing problem, the parents have been talking about it for many years, and we really do need to do something about it."

Mr. Reilly added "The original report does have management's responses, and we created this advisory a little while after so we do have more current responses in there. We do have representatives here, who may be able to answer any questions you may have."

Ms. Greenberg stated "It's becoming more severe, that's what the problem is."

Ms. Fertig stated "If we were looking at this the way we look at property, how many computers are missing at each school? How many schools are in here? The majority of high schools are represented in here."

Mr. Reilly replied "I believe they looked at 46 schools in their sample."

Dr. Mack added "I think the management responses in the advisory are much better than the others in the big report, because they address the majority of the issues. There are a couple of items that are of interest to me on page 5 under Transportation; the second and the fifth bullets. I didn't see how these were addressed in their response on page 19."

Mr. Carter replied "Is the concern about whether or not they were addressed in the response on 19? We have basically implemented all the changes that the findings spoke to. Typically we have looked at a best practice using electronic scanning as opposed to manual entries. We're doing the training. We're also formally reminding parents by Parent Link to ensure the students ride the bus during the survey period."

Dr. Mack continued “That’s not the issue I’m looking at. Look at the second bullet on page 5. It has to do with the medical condition.”

Ms. Conway added “That’s an ongoing problem, medical type justification, because it’s not written on the IEP during the audit, they disallow the weighted funding for the student because the issue isn’t fully described as a medical issue in the IEP.”

Dr. Mack commented “That’s the basis of my question.”

Mr. Carter asked “Are there specific examples so that we could go back and review the IEP to determine why it’s not there in the first place?”

Ms. Conway replied “There tends to be a very general description of the transportation required, such as ... ‘because he needs it for positioning in the seat’...that’s not really a medical description of a condition that requires the use of a supportive device. So if we want to get funding for the use of a harness, we’re going to have to spell it out on the IEP in that transportation section, what exactly it is that requires the use of that harness, and it’s got to be medical.”

Mr. Carter replied “We’ll do follow up on that to make sure that there is specificity as it relates to the students’ conditions.”

Ms. Conway added “That is coming from the ESE specialists in the schools. That’s who’s writing the IEP’s.”

Mr. Carter stated “We still need to follow up to ensure the process for determining that is there. If not, it needs to be updated.”

Mr. Notter stated “Denise Rusnak is present. She heads up ESE. It seems to me that we should be able to get from one of the big 5 Districts in Florida, what type of documentation and statements they use in their IEP’s, so that we can generate the appropriate funding for the harnesses.”

Ms. Rusnak said “We’ve added a drop-down menu to do that in Easy IEP and that is addressed in the response from Transportation, specifically, Dade County.”

Mr. Notter stated “I’d like to get some information from the North of me. Double check it. I’d like more than one benchmark.”

Dr. Mack added “What you just said should be included in management’s response on page 19.”

Mr. Notter said “Absolutely”.

Mr. Carter added “We’ll go back and revise it.”

Dr. Mack stated “Yes, go back and add it. And item #5 sounds more like a policy statement. Is there a lack of documentation or violation of process?”

Mr. Carter replied “I’ll go back and look at it.”

Dr. Mack added “If it was a management response, I wouldn’t ask that question.”

Ms. Greenberg asked “Denise, with the drop down menu, if you get the specific condition message to satisfy the requirement, is it possible that you might find from that medical condition that the child might need more services than had previously been in the IEP?”

Ms. Rusnak answered “No. The issue with this is that we were claiming the weighted funding simply on the basis of having a harness; some of our students who are wearing a harness are not going to have a medical condition. They wear a harness for other reasons. The parents may prefer that their child have a harness as they’re being transported. Some students wander. That’s not a medical condition. If there’s a medical condition for a harness, that will now be documented. I can’t guarantee that every student riding a bus with a harness will have a medical condition.

Mr. Wolter made a motion to transmit the Auditor General’s FTE report and add the Audit Advisory report as a supplementary document with the revised responses. Motion carried.

Update of Charter Schools for the Fiscal Year Ended June 30, 2010 – Operated by Municipalities

Mr. Reilly stated “We have two Charter Schools run by municipalities, the City of Coral Springs Charter School and the City of Pembroke Pines, Florida, Charter Schools. I reviewed these annual financial audit reports and these schools were in good financial condition. They had a positive fund balance and net assets for the year ended June 30, 2010.”

Mr. Hurst asked whether the issue concerning capital funds was still unresolved.

Ms. Greenberg stated that it was still ongoing.

Mr. Notter stated “Would there be any strong opposition from the Audit Committee if the Superintendent looked at some way to modify the Charter School State statutes to support our School District’s auditing of Charter Schools. We’ve gotten cutbacks over the last few years. The 5% administrative overhead that the statute allows us to collect, at one point, it included all students, and then it dropped to the first 500, now it’s the first 250. We have 69 Charter Schools; we will be adding approximately sixteen or seventeen next year. The trend shows a 10% increase each year. It’s clearly a direct impact on our audit department, if we continue to do what we’re expected to do. That is to ensure the fiscal stability of public taxpayers’ dollars. Almost at every meeting, there’s been a concern, rightfully so, about the increase in Charter Schools, the increased workload for the Audit Department in particular, and who’s going to fund it.”

Dr. Mack said “We’ve been talking about this since 1999. We asked back then if Pat’s Department could get an auditor, specifically, for Charter Schools. I would recommend and support any effort that would help to get an auditor for that purpose. The Audit Department cannot continue to take on any more Charters, because they’re overloaded now. Also, please speak to the Board about stopping the calls to the Audit Department to ask for stuff, because when they do that, it interferes with the Audit Plan that the Board and the Audit Committee approved.”

Mr. Reilly stated “We do a lot of work with Charter schools that are in a financial emergency which requires monitoring those Charter schools’ financial recovery plans and all Charter school financial reports on a monthly, quarterly and annual basis.”

Mr. Wolter made a motion to support the Superintendent’s activities moving toward establishing by law that some of the funding by Charter schools be used to fund an auditor for the financial areas.

Other Discussions

Dr. Mack discussed the insulting response letter that was in the Property and Inventory Report that was submitted at the December 13, 2010 Audit Committee meeting. “We expressed our displeasure when we determined that the named writer of the response letter was not Mr. Israel Canales, but was actually written by the Department head, Mr. Thomas Lindner. We asked that the letter be removed and re-written in a dignified professional manner. The response was re-written; however, Mr. Reilly included a follow-up letter that addressed some of the negative comments in the second response.” Dr. Mack stated that the responses were revised and he emphasized that he did not want to see these types of responses again at an Audit Committee meeting.

Ms. Greenbarg stated she was glad to see that Pat’s letter emphasized that the procedures were in place for some time and all they had to do is avail themselves of them.

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

Meeting adjourned at 2:30 p.m.