

The School Board of Broward County, Florida
AUDIT COMMITTEE

MINUTES OF AUDIT COMMITTEE MEETING

June 23, 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: Mr. Anthony De Meo, CPA
Mr. Ken Evans
Ms. Charlotte Greenberg
Mr. John Herbst, CPA
Mr. Steve Hurst, CFP
Dr. Henry Mack
Mr. Andrew Medvin, CPA
Ms. Alex Mores, CPA
Ms. Mary Lou Ruderman, CPA
Ms. Cynthia Samuel

Staff Present: Mr. James F. Notter, Superintendent, Superintendent of Schools
Mr. Donnie Carter, Chief Operations Officer
Mr. Ben Leong, Chief Financial Officer
Mr. Dave Thomas, School Board Member
Mr. Paul Carland, General Counsel, Office of General Counsel
Mr. Thomas Cooney, Office of General Counsel
Mr. Thomas Lindner, Acting Deputy Superintendent, F&CM
Mr. Denis Herrmann, F&CM
Mr. Jeff Moquin, Support Operations
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 Audits, OCA
Mr. Gerardo Usallan, Facility Audits, 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
Ms. Cyrilla Bradley, Transportation Services
Ms. Melissa Grimm, Director, ERP Project Management
Ms. Sue Rockelman, Director, Instructional Staffing
Ms. Nell Johnson, Director, Internal Accounts

Guests Present: Mr. Bob Norman, WPLG-Channel 10 News

Old Business

A motion was made to approve the minutes for the May 5, 2011 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 requested an update on this item from Mr. Thomas Cooney.

Mr. Cooney began “At the last meeting, we discussed the discovery process of litigation. We stated it was approximately 50% done on the document discovery phase and that we’d be going into the deposition phase of discovery. We have since completed our document discovery phase, from our position. We have not received any requests from Ashbritt at this point. It is our understanding that the inspections on the roof portables have been completed. We do not yet have a report on the results of their inspections on those 83 portables. As I discussed last time, once we receive those results, we’re going to convene internally with the new General Counsel, Mr. Carland and cadre counsel, Oscar Soto to discuss our legal strategies. Then we will meet with our client, the School Board, in a closed door session. Then we will proceed forward. We’ve made good progress on the inspections. I am pleased that we’re on schedule with those.”

Dr. Henry Mack asked “Have you made disclosure yet to the opposing counsel as to who is doing your inspections?”

Mr. Cooney replied “There are two groups of inspections. We have our ongoing building department inspections, which stand on their own. Those are the ones that are performed for the District. The other inspection firm I referred to at the last meeting hasn’t been disclosed.”

Ms. Charlotte Greenberg asked “How long do you estimate that this item will go on before we get to some kind of resolution?”

Mr. Cooney answered “This will certainly come to a head shortly after we have our meeting. Before we have the meeting with our client in a closed door session, we’re going to know, legally speaking, where we want to go. After we seek and obtain direction from the School Board, we’ll have a much better understanding of the timeframe involved. Right now, it’s pure speculation. I can tell you from the discovery side, it’s been pretty accurate. I’m guessing about a month from now or the next available Board meeting, so we’re right on track.”

Follow Up Item #2 – Miscellaneous Discussions – May 5, 2011

Mr. Reilly stated “The Audit Committee requested a status/final disposition on the pursuit of the recovery of \$52,250 from the PPO Audit.”

Mr. Cooney stated he was not familiar with the issues related to this topic. He stated he would research the item and prepare an update at a subsequent meeting.

Mr. Reilly stated “In addition, the Committee requested a line-by-line breakdown on the Change Orders ‘Other’ audit showing the cases where litigation is pending. There were originally fifteen change orders ‘other’ items for which an update was requested.”

Mr. Cooney replied “We received this request on May 24, 2011, knowing the new General Counsel was coming on board; we did not have an opportunity to debrief him on these issues. I can state that the items contained in the ‘other’ categorization are a combination of several stages; they’re in litigation; they’ve been assigned a cadre counsel to recoup or have been settled. I need to discuss that with General Counsel first to be able to advise the Committee. There was some information I can provide to the Committee related to recovery on errors and omissions issues, which has some overlap to the issue of the ‘other’ categorization. The last update was provided in May of last year. Those items, (I think there were 10 projects where we recovered errors and omissions damages), are up to date.”

Mr. Reilly stated there would be another update at the next meeting on both of those items.

Follow Up #4 - Current Status Update of the Operational Audit of the Facilities & Construction Management Division – March 24, 2011

(Follow up #4 was discussed prior to #3)

Mr. Reilly stated “There were two follow up items. It was discussed that District staff would meet to improve the contract language to ensure compliance for each construction delivery method. It was stated that a written status update would be provided at the next Audit Committee meeting, which would include a timeframe. In addition, an update was requested to show the four contracts that were already in the process of being revised. Since the May 5, 2011 meeting, it was requested that a matrix be included which identifies additions/deletions to the contracts. Mr. Lindner provided some information that was included in your package which details what has been done. As far as the matrix, that will not be available for this meeting. He also provided information regarding the litigation and issues reported in the Facilities audit pertaining to requests for reimbursement from a couple of vendors relating to projects that were closed out.”

Mr. Lindner added “I think my (written) statements were pretty succinct. I can add an update to that. The staff that was working in this department on those things has decided to retire, which was driven by some HR issues for both of those people. There will be new staff bumping into those positions who have no contract writing experience for the second year in a row.”

Dr. Mack asked the General Counsel “I see that the administration and the auditors agree that we should receive \$75,357 back from James A. Cummings, Inc. (JAC). Have we sent a demand letter for that yet?”

Mr. Lindner replied “We just received a request for a legal opinion on the 16th. Is that correct, Tom (Cooney)?”

Mr. Cooney replied “Yes, that is correct. We had previously issued an opinion on this entire TPM contract, which outlined where the entitlement was, and where it was not, but we’ve not been asked to provide an opinion on this specific \$75,000 until very recently.”

Mr. Lindner added “We did issue a demand letter. The contractor issued a counter letter and we referred this issue to General Counsel in the hopes of providing some guidance on how best to proceed.”

Dr. Mack asked “On page 2, where you talk about systems and controls that have been established to detect overpayments in the future, what are we talking about there?”

Mr. Lindner answered “We’re not doing CM at Risk any longer; we’re doing hard bids. Secondly, every time we issue a payment, it’s required to have documentation sent to Financial Accounting. Appropriate documentation is to include NTP’s, ATP’s, etc. Every time we transfer funds from contingency, this requires a Contingency Use Directive signed by me and discussed with staff at our leadership team. Going forward, already in place, we’re also using change orders to document changes in scope, as well as changes in funding to every project that is currently under construction.”

Dr. Mack asked “On the same page, you state you’ve taken steps to strengthen the contract language. Has that been done yet?”

Mr. Lindner stated “That’s in progress and was addressed in the first item. We started to work on four contracts. We had some issues with the person that was doing that. That person retired. We will have to bring in another person from the layoff list, who is qualified to do that. Hopefully, we’ll get a strong person who has the appropriate background to assist us in this endeavor.”

Dr. Mack asked a question about surveys.

Mr. Lindner answered “That’s related to the Cummings project. We sent that to Counsel to ask for guidance on how best to proceed. The surveys were requested, they were delivered to us, the work was performed. We want to know the best way to pay for work that was performed, short of having them sue us and take us to court. We’re trying to solve this problem without litigation.”

Dr. Mack asked “What are we doing to ensure the surveys are done when required?”

Mr. Lindner replied “Hopefully, before we start the project, we do the homework up front. I don’t think we’ve had any issues with that on a go forward basis. There may be times when you do have to have those surveys to start work. Those surveys should be added as scope of work and funded through a change order. If it’s not part of the original contracted scope of work, then you’re contract bound to add it and request additional funding via change order, which is what should have happened.”

Dr. Mack added “You state that a change order should have been issued in this case. What are we going to do now to correct this?”

Mr. Lindner replied “Issue a change order.”

Mr. Reilly added “When we spoke with Counsel, there were a couple of items we didn’t agree with that I would like Dave Rhodes to address.”

Mr. Rhodes began “Looking at the item entitled ‘Bidding and Award’, this item shows that there was an actual invoiced amount of \$3,950. It says the audit erroneously stated that JAC was paid

\$4,622, instead of the \$3,950, when in fact, the audit actually states we were only able to obtain three of the four guaranteed maximum price manuals with an overall breakdown of the cost of those four. In our search of the project files at that time, there was no breakdown of project by project cost. The subsequent status update identified the breakdown of those costs. We don't have any problem with the \$3,950; we haven't seen that back up. We simply did the 25% breakdown, because it was all provided as a lump sum on four projects. We were only able to document three out of four.”

Secondly, in the topographic survey, there's a comment here that states 'staff consulted with General Counsel's office in the matter and it was decided that the TPM was entitled to the payment for the topographic surveys'. I think they just clearly stated that they haven't gotten a complete legal opinion yet, much less General Counsel to opine that they were entitled to these items that were not properly processed with a change order. If General Counsel opines that way, we're still waiting to hear that ourselves. Meanwhile, the appropriate contract documentation to change the scope of the work, as well as procedures to ensure that since it was the owner's responsibility (in writing) in the contract to provide the topographical surveys that we not even put those out to bid until we know that we have what we're supposed to be supplying or make an arrangement to put it in the actual scope of work for them to provide.

Thirdly, it states the root pruning for tree location; the auditors acknowledged that the \$2,270 payment for root pruning was appropriate; that is not correct. In fact, in the audit, it shows in the actual background of the root pruning that the root pruning was paid against a proposal, as opposed to an invoice, and that proposal was dated one year and seven days after the one year contract, when the project still wasn't even permitted. You don't pay against a proposal, as opposed to the invoice, and the project had already, by the current contract period, expired by the time they incurred that cost. We totally did not agree with allowing that, so that's an erroneous statement.

When we look at the additional design services, the first statement states 'JAC indicates it has provided the work product to the auditors'. That is not correct. I have a documented email trail going back and forth with the manager of Operations. We asked them to provide us with a copy of the School Board authorized person's signature on the original site location of the building. They never provided that for us. They stated that their architect was out of town. We followed up on three occasions to obtain those, and even let them know that if they had provided us that documentation that showed that it was authorized by the School Board's authorized person, that finding would be removed. In conjunction with our telling them that, they still never provided us with that documentation. It doesn't exist in the School Board files; it doesn't exist with the contractor. The fact that it states here that they indicated that they provided the work product to the auditors, they did not do that, and that was a \$24,000 item. As far as that whole thing breaks down, there's still a problem with compliance regarding timely processing of purchase orders for changes in scope and the necessary authorizations and approvals by staff. To say, first of all, that we were going to put the buildings in 'Place A', then later we were asked with the \$24,000 to put it in 'Place B'. We didn't even have the approval for 'Place A', much less a responsibility to pay them to move it to 'B'. Those are the overall comments on these items that have been identified in this document prepared by them for you.”

Dr. Mack stated he didn't like to see departments disagree.

Mr. Lindner stated “We try to do that, Sir, but we also have to provide the proper audit trail and it’s difficult trying to go back. A statement was just made that there is a problem. I think a more appropriate statement would be that back in 2007-08, there was a problem. We are aware of that. Now we are trying to make sure when we resolve those issues, we resolve them so that we are essentially air tight. We’ve looked at both the legal and contractual obligations, based on what the contract said at that time, as well as, we know we have them, loose procedures that created exposure for the District that involve proper documentation, proper authorization to perform work and in many cases, staff will confirm and we have, work product that was not properly authorized in accordance with the contractual documents that counsel has said, and I’ll provide the letter that says that, Dave, that those items could be considered for payment. Staff went back and looked at whether or not we received the work product and whether or not we held it in hand, and what value it has to the District. The statutes prohibit us from seeing what’s called undue enrichment. We’re trying to come to an agreement on the value of that item and when we come to that value, if necessary, I’ll have no problem submitting a change order for a project that we attempted to close out and documenting what the change order was for.”

Ms. Greenberg stated “I’m not convinced that they will be able to do this, because I’m seeing that the dispute resolution process says that Cummings is entitled, and yet we obviously have the auditors telling us that they weren’t entitled, so what was the dispute resolution process?”

Mr. Lindner replied “That’s not what the auditors said. The auditors didn’t say they weren’t entitled. The auditors said that there wasn’t appropriate written authorization for back up to support their entitlement, but the Dispute Resolution Committee is formed and is constituted to resolve disputes. The dispute arose when we sent the letter saying ‘you owe us this money as a result of the audit’. We’re trying to solve a problem that was created because people ordered work and didn’t send the documents, but if you tell somebody, ‘Hey, I need this done’, and they do it, they deliver it to you, you use it, OK, as the basis for your project, then you owe them the money for it, particularly when it was clearly outside the original scope of the contract. How we went about paying for it was the wrong way; what we need to do is correct it, refund the method of entitlement or the amount of entitlement, and we need to agree on how best to document the payment. That’s what we’re asking General Counsel to do. Are we entitled, based upon the fact that we own the product and we have it in hand? How do we resolve the issue so that it’s transparent and close the books on this? It’s not that we’re trying to pay someone for something they didn’t do; we’re trying to resolve the issue on how to close out the project, which happened years ago, and pay a contractor who performed work for us, when we are at fault for not issuing the proper documents.”

Ms. Greenberg stated “So, in your management response, in March 2010, you say sloppy implementation created the environment, which we all agree. The Contract Administrator, who was involved, was overseeing this?”

Mr. Lindner replied “I wasn’t there, but we paid someone to administer that contract, that is correct.”

Ms. Greenberg asked “Was that Denis?”

Mr. Lindner answered “No Ma’am, it wasn’t. It was a Project Manager. Denis is responsible for ensuring the paperwork is correct and updating the current contracts and those types of things, not the agent or the person who executed the project.”

Ms. Greenbarg replied “So, the paperwork would involve the proper . . .”

Mr. Lindner continued “The three senior people who were involved in the execution of this contract are no longer employed by the District.”

Mr. Rhodes added “He (Mr. Lindner) was talking about what the audit was actually saying. Part of that was correct and part missed the target. We were stating that the School District controls the scope and if the scope is changed without agreement by both parties, and then the District incurs additional expense, then we opt to pay the vendor without their having been an agreement for that change in scope reduced to writing. Essentially, we are setting a precedent that the contract is secondary to what it is that we do on site, real time. We’re saying, on site, real time, the documents need to be updated, and the approvals need to happen, so that we have the appropriate authorization for any changes in the scope. We do believe that the District is entitled back those dollars that we’ve identified. We believe in some cases, it was simply done out of compliance with the terms and conditions of the TPM.”

Ms. Greenbarg stated “I also have a question on the matrix. We really do need to see what these contracts were, what the changes are and what the new contract says. You talked about bumping people into that position who haven’t a clue, and we agree that is insane to expect someone to bump into a position where they have no experience and expect them to be able to do this. I’m wondering if our General Counsel’s office may be able to help us, since we really do need to see these contracts, what was, what you changed, and what it is, in a matrix.”

Mr. Cooney replied “To whatever extent we are asked to participate, we will, absolutely.”

Mr. Lindner added “I’ll do whatever the Superintendent asks me to do. The person who really was good at this was bumped out of his position and had 25 years of experience. I brought some examples of things that were not even approved by Legal that were posted on the website that we had to take down.”

Ms. Greenbarg said “I understand that, that’s why I’m asking if General Counsel can help. May they do that, Mr. Superintendent?”

Mr. James Notter said he would meet with General Counsel to see how it could be worked out and stated he would do that within the next four days.

Mr. John Herbst asked “What is the level of approval authority for change orders? How does that work?”

Mr. Lindner replied “In the past, the level for approval of change orders was the Project Manager, if they didn’t exceed a certain dollar value. I currently take every change order to the School Board for approval, even ones for \$800.”

Mr. John Herbst asked “Were the change orders that were approved by the Project Manager within the scope of his authority?”

Mr. Lindner replied “As far as I know, yes. I know I have authority to approve change orders up to a pretty high amount, but I take them to the Board because it creates the environment that nothing can be done on a project without Board approval. It makes it more transparent; it’s almost like a deterrent to try to chisel away at the contingency, using change orders. It also specifically defines who’s responsible for it and makes it a matter of public record.”

Mr. John Herbst stated “I agree and I’d like to make a recommendation that this become an adopted policy, within reason, perhaps anything above \$5,000 be presented for Board approval. I don’t want to inhibit the ability to do day to day changes of a minor and immaterial nature. You can pick a threshold that makes sense, but it should be a reasonably low threshold for all the reasons you enumerated of transparency, clarity, and policy level decisions, etc.”

Mr. Wolter asked “Are you making a recommendation or a motion?”

Mr. John Herbst replied “I’ll make that motion.”

Ms. Greenberg seconded the motion. Motion passed.

Dr. Mack asked General Counsel “We challenged the former General Counsel regarding the disproportionate amount of work given to Poliakoff and Soto. What are you doing to give some of the other cadre attorneys some experience in doing School Board work?”

Mr. Cooney replied “We have taken that on and are allocating the work fairly and equally and depending upon their unique strengths, have allocated jobs across the board as equally as we could and will continue that process.”

Mr. Andrew Medvin asked “Is this dispute partially due to poorly drafted contracts?”

Mr. Lindner said “I don’t think it goes back to the contract; I think it was that we authorized work outside the scope of the contract and did not document it adequately and properly. We used this contract to do several projects, and we didn’t run into the same issues. Most issues were not the result of the way the contract was written; it was actually the result of not enforcing the contract as written, and using the proper vehicles to add scope and execute changes in the project execution.”

Mr. Rhodes added “The only exception in the scope of what we looked at was that there were some problems in the language regarding when bid and award could actually be charged, because all we needed was receipt of a guaranteed maximum price manual, whether that guaranteed maximum price manual was approved by the Board or was adequate. That was one of the weaknesses that we saw. Other than that, I agree with what he (Mr. Lindner) said, in terms of the way staff administered that contract and the way the overall oversight happened within that group.”

Mr. Medvin stated “I’d like to address your initial comments where you stated you don’t have adequate staff to draft future contracts. Is that correct?”

Mr. Lindner stated “I don’t have adequate staff to do it immediately. I’m hoping we can get the staff that bumps into this position up to speed quickly. We do get assistance from General Counsel, when necessary, but we have 39 different contracts. We are also doing day to day work

involving re-writing those contracts as they come up for use. We've tried to adjust and update those contracts per the Audit Committee and General Counsel's recommendations, but updating all those contracts without dedicated help, without someone who knows what they are doing, pushes the timeline significantly. If I had someone like I had a year and a half ago, we could probably do this in six months, but I'm looking now at having lost six months, spending another three months correcting what was already done, improperly posted, then bringing someone up to speed for another three months. The other issue is, for example, Pat (Reilly) hired a new auditor a month ago. I know this auditor. This auditor has been at every meeting that Joe (Wright) normally goes to; he's learning his craft. He used to be a Project Manager for Facilities. He's the only guy in the Auditing Department that has construction experience. I think it's great, but he's getting the benefit of accompanying Joe to all the meetings and seeing what he does, what to look for and how the processes all work in the District; processes he's never been exposed to. I don't know how long he'll get to do that, what you call, under instruction. I don't get that benefit. My guy leaves on the 30th and some other guy shows up on the 1st, with no benefit of being hand held and walked around. That's a legitimate setback for the organization. This is not a guy I got to interview, make sure he's qualified, and make sure he's got the skill sets. It's not like a business, where you get to screen 20 resumes. This guy's appointed by someone outside the organization and they parachute him in here."

Mr. Medvin added "I think because of your situation, we'll be having this conversation a year or two from now, unless we find someone who can adequately do the job. I don't know the answer, if it's the General Counsel's office, but I think this problem needs to be addressed."

Mr. Lindner stated "The majority of issues does not go back to how adequate our contract was, it really goes back to how adequately we executed the contract that we had."

Mr. Medvin stated "Going forward, the contracts should be clear, succinct, and understandable so everyone can follow them."

Mr. Lindner replied "I don't have a problem following the contract now the way it's written. The contracts provide all the mechanisms and vehicles to do the right thing. The question was in the past working outside the scope of that contract, awarding work without using the proper vehicles."

Ms. Alex Mores asked "Regarding the cash disbursement side, who approves and monitors the original contract? Shouldn't that, in essence, catch some of these issues?"

Mr. Lindner replied "That process has also been strengthened by me to ensure that there is only one signature when items are presented for payment, and that's my signature. Also, the project file has to have a current signed Notice to Proceed or Authorization to Proceed that is in file and current before we can pay funds against that specific invoice and/or change order."

Ms. Mores asked "Is there any mechanism to measure how the disbursements are tracked in conjunction with the original contract in the change orders?"

Mr. Lindner answered "Yes, those are presented as a summary in the pay applications and every one of our invoices track the remaining balance on the original award, and what the current invoice is for, and tracks the remaining balance on the cover sheet, so you know you cannot exceed the amount of the original award. It's actually pretty tight, that process."

Ms. Mores asked “Does that include ensuring that the change order has been approved?”

Mr. Lindner replied “Yes, Ma’am. You can’t pay it until the Board item is attached to the issue that approved that change order. In some cases, it may be Contingency Use Directive or Construction Change Directive and the change order may follow, but you don’t make the payment until the change order is approved.”

Ms. Mores asked “Wouldn’t that have been caught, the fact that you paid something that was outside of the year of the contract?”

Mr. Lindner replied “It should have. I was in a meeting this morning closing out a project that went back to 2007, still not closed out. There are projects that are still open that we’re negotiating settlements on that go back several years.”

Mr. John Herbst asked “I’m trying to rationalize this with my work environment, though I know not everything is the same. Did these projects exceed the total budget that was allotted or were they coming in under budget, even after the change orders?”

Mr. Lindner replied “They were coming in under budget after the change orders.”

Mr. John Herbst added “OK, I’m trying to understand how the finance folks didn’t flag this, because if we (City of Ft. Lauderdale) are over budget, they won’t pay it.”

Mr. Lindner stated “That’s how it works now. I can ask the Board for additional funds if there’s additional scope. In a construction project, there’s a contingency. We get a budgeted amount, we agree to a maximum price, and then there are savings that come from direct owner purchase. There is money in that project that is built in for unforeseen conditions or issues that might arise during the construction process. Those are where the biggest opportunities for abuse come. The process exists for you to document that, but in the past, I know that in some of our projects, there was money moved, not necessarily in the TPM world. That’s a single contract to do several different pieces of work and the contractor is only responsible for ensuring that the price you’re paying is the total amount for all those projects. They may be projects for five or six different schools. In the other contracts, where we did move money around, CM at Risk projects, for instance, that wasn’t properly documented and was out of that contingency that exists as part of that project.”

Mr. John Herbst added “That’s interesting, when you say ‘move money around’. I’m assuming that’s not something that’s done by the department, but done by the budget staff. Do they send direction to the budget staff to realign the budget?”

Mr. Lindner said “It’s actually part of the original budget. It’s just a question of whether you used it to install plumbing or to upgrade air conditioning. It’s very interesting in some of our delivery methods; the contractor has a lot of freedom. He’s only responsible to us for the bottom line price. In some areas, there was scope increase and it was funded out of those documents. Dave has documented that in several audits.”

Mr. John Herbst asked “Do you budget the contingency as a separate line item?”

Mr. Lindner replied “As the project progresses, the money that’s unused, as a percentage basis, is moved back into the contingency.”

Mr. John Herbst asked “Movements into and out of contingency, how is that memorialized? Is that done again at a lower staff level?”

Mr. Lindner replied “It used to be. Now I sign it as a Contingency Use Directive. In the past, it was subject to audit by project management in the District.”

Mr. Rhodes added “Mr. Herbst, I think it’s important to recall that the four projects that we’re looking at here are all canceled projects that never got to the point of receiving a permit. When you asked if they were under budget, they were under budget and part of the problem was that change orders were occurring before it even got to construction.”

Mr. John Herbst added “I’m trying to understand, obviously, we had an override of controls at the departmental level. I’m looking for the compensating controls in the finance and accounts payable process to see if that also failed to identify and flag this early enough that it didn’t become a problem, but obviously not.”

Mr. Lindner stated “The change orders didn’t occur, the change in scope occurred, but the change orders never did.”

Mr. Rhodes added “The fees that were negotiated in this program, for example, were \$10 million. When they were dealing with the project that never got out of the design phase, they never even came close to that \$10 million dollar amount, and there were never any flags where that was concerned. The other internal control would have, should have, and from here on, we’re hoping we’ll catch that.”

Follow Up Item #3 – Internal Fund Audits – May 5, 2011

Mr. Reilly began “Several months ago, we discussed vending commissions and you asked us to give an update. We are in the process of this review. Delores McKinley on my staff has worked on this and has created a preliminary analysis of which vendor each school uses and where the profits are being coded for each school and a comparison for the three areas. There are several different arrangements. Some schools receive \$50,000 per year, while others have a deal where they’re only getting \$20,000. Many schools have over 30 machines and others have 10. There’s quite a variety. We have gone out to some sites where we did run into an obstacle with one vendor, although I think we cleared that. We plan to continue our review of the vending process during the next fiscal year.”

Ms. McKinley stated “Basically, the summary sheet shows each area is getting approximately \$500,000, so it’s pretty evenly distributed among the areas. The major area where the money is being credited is the General Fund account. The Faculty accounts overall, were only receiving about 5%. That was a major area of concern, how much money was going to the Faculty area. All of the schools have the vendors listed if you have any questions.”

Ms. Greenburg stated “It might be a good thing to let the schools know which vendors provide the most to which schools and which vendors provide less. There is, for example, a very large

school that has a vendor that is providing much less than you would think. I would send these matrices to the schools for their review. Let the schools see that they have a choice.”

Mr. Wolter stated “Cypress Bay, which is a huge school, has only \$28,000 in revenue. It could be timing, I understand, but it’s those issues where we could be leaving a lot of dollars on the table for the students. We’ll bring this back at the next meeting for another update.”

Regular Agenda

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

Mr. Reilly stated “There were twenty-five schools in the audit package. Nineteen schools followed the prescribed procedures required for internal accounting. There were six schools that had audit exceptions relating to fundraising, improper accounting activities, incorrect use of donations, and facility rental issues.”

Dr. Mack asked regarding page 71 “The training scheduled for May 4th, was it done?”

Dr. Desmond Blackburn replied “Yes.”

Dr. Mack asked about the misappropriation of facility rental fees shown on page 76.

Dr. Blackburn replied “The Bookkeeper was involved. There’s an SIU investigation going on right now and she’s been removed from her position.”

Dr. Mack asked if the bookkeeper was involved in the cash collections shown on page 78, and the missing tickets shown on page 80.

Dr. Blackburn said “Yes.”

Dr. Mack asked “On page 86, you say the Bookkeeper was transferred, but to what capacity?”

Dr. Blackburn answered “She was reassigned pending the SIU investigation.”

Dr. Mack asked “On page 96, South Plantation High, in the past, the Auditors have not audited the PTSO because they are not a part of the District. My first response to this, considering this has been going on for 10-15 years, why didn’t you pick it up before? There were two sets of books and give me a summary of what we’re going to do about this.”

Dr. Blackburn replied “In the spring of last year, Dr. Mack, that Principal raised a concern with his FTE Auditor. He received advice at that time that his bookkeeping processes were inconsistent with Standard Practice Bulletins. At that time, June and July, he put a cease and desist order to this practice and it has not been in practice since. Going forward, he’ll meet on an annual basis with PTA leadership, because it does change on an annual basis, and the practice will not continue.”

Ms. Greenbarg asked “Dr. Basile was the Principal for three years, correct?”

Dr. Blackburn replied “If I’m not mistaken, he’s been there now for maybe four or five years.”

Ms. Greenberg asked “This has been going on for ten years?”

Dr. Blackburn added “Actually, my investigation revealed it’s been going on for about nineteen years.”

Ms. Greenberg asked “Nineteen years? Who were the Principals involved? Who was the immediate past Principal?”

Dr. Blackburn replied “The first Principal back in . . . pause . . . Do you want me to respond?”

Ms. Greenberg added “Usually, they put a list of who the Principals were during the audit period. Apparently, there were a lot of them, so who was the immediate past Principal?”

Dr. Blackburn replied “I don’t think the audit period goes back that far?”

Ms. Greenberg continued “Who were the past two Principals?”

Dr. Blackburn replied “One past Principal was Dr. Joel Herbst and another past Principal, I’m not familiar with.”

Ms. Greenberg asked “While you were Principal, Dr. Herbst, this was going on? This was happening?”

Dr. Blackburn responded “That’s what it states, Ma’am.”

Ms. Greenberg added “May I ask Dr. Herbst?”

Mr. Notter responded “I think you heard the answer.”

Ms. Greenberg stated “I’m in shock. I guess what I’m thinking is this is something that obviously shouldn’t have happened. I guess what I’m asking is if the Principal is now an Area Superintendent and is issuing letters of reprimand to Principals who are doing this, I’m really shocked. If you say this is not the only school where this is happening, how can anyone who’s been doing this give a letter of reprimand to someone else who’s doing it? I don’t know, I’m in shock that this had gone on for 19 years.”

Mr. Wolter asked “Is there any additional history about how it started, how it happened, why it wasn’t disclosed? Can you provide more background?”

Dr. Blackburn replied “That’s correct. You’re accurate. I have reports dating back to 2001 of the Internal Accounts of that school and by all measures, the Audit Department can confirm or deny, but they were pretty clean audits. I can only imagine, being a former Principal myself, you walk into a school and begin to tackle the problems. When you walk into an environment and receive squeaky clean internal account audits, that doesn’t necessarily make the list of problems you address. You continue business as usual. As you continue to receive, in Dr. Basile’s case, exception free audits, you continue to believe as the leader of the school, all is well; however, at some point, the fine hairs on the back of that Principal’s neck stood up; he asked a question, rightfully so. I think it’s part of the culture of high expectations and collaboration that we develop in this District where we are questioning and second guessing our actions. He did a good

thing; he should be commended. He asked for advice, received the advice, and put a cease and desist to the practice.”

Ms. Greenberg asked Mr. Reilly “Do you have any history on this? There were two sets of books being kept, so when the auditors walked into the school, they never saw the PTSO’s books, they saw the school’s Bookkeeper’s books.”

Mr. Reilly replied “All auditors go out and audit the schools’ internal funds. Basically, these were activities for revenues being deposited and expenditures being issued through an outside set of books, not part of the school; therefore, we’re not looking at that. I can tell you as Dr. Basile came forward and questioned some of these items, we submitted to him all of the Standard Practice Bulletins, School Board policies and requirements of Internal Funds. As stated, the school shut it down. We initially thought there might have been a couple of accounts such as the previously discontinued Principal’s Discretionary Account that was being maintained outside of the realm of the Internal Funds of the school, but as we reviewed further with the cooperation of the PTSO, we determined that there were multiple accounts with numerous transactions of revenues and expenditures. As stated, we do not have jurisdiction to audit an outside organization’s records. Sometimes the schools come to us when they have an issue with an outside organization such as misappropriation of funds; however, we have no jurisdiction over their records. Since we were able to look at the last two years of this PTSO’s activities, the volume was intensive, over \$200,000 each year. I have no record of how large the volume was during the prior years. I can only report for the period reviewed. This took the cooperation of the school staff, because, for example, the school’s Bookkeeper assisted in collecting money that did come to the school and although she was required by School Board policies to deposit that money into the Internal Fund accounts, this money was not deposited into the school’s Internal Fund accounts. In fact, she assisted in making sure that the money was given to the PTSO for deposit. They knew the rules, but these activities were done outside so they could avoid following the School Board’s policies and the audit process. When we looked at that, I cannot say that I personally saw someone benefitting from it, but based on some of the documentation, we could not tell where the money had come from for the deposit side. On the disbursement side, the school did not have to sign off on the disbursements. It was very, very loose, and from what we saw, we had examples of expenditures that wouldn’t have been approved if done through the proper procedures we have for Internal Funds. They would have required sponsors and principals to sign. School Board procedures require the immediate deposit of funds and fundraising reports. There are checks and balances of monies coming in. The key issue is that the money that is supposed to be deposited and safeguarded by the school was not being safeguarded, because of allowing an outside organization to handle these funds. At one time, the money was invested in something a lot more risky than the District is allowed to invest in. This money was frozen for a while in this investment fund. The PTSO actually input some of their own money during this time, just so they could continue to handle activities and disbursements requested by the school. There were other issues, such as charging each club a fee of \$50 to handle the bookkeeping, when we have a Bookkeeper at the school being paid for this job.”

Ms. Greenberg asked “Shouldn’t that have raised a flag to someone?”

Mr. Reilly replied “No, it was the school and the outside organization working together. Even the deposit lockbox was held at the school. It was a method of bypassing the District’s policies and

procedures for accounting for the funds that came in and went out of the school. They didn't have to have the scrutiny of audits and safeguarding the assets.”

Ms. Greenberg asked “Can you tell me what caused the present Principal to think something was wrong?”

Dr. Blackburn replied “Having spoken to the Principal, and having a clear understanding of the expectations the school leaders have right now, we're in a culture where we question and second guess ourselves, and rightfully so, when it comes to asset management control processes. That encouraged that Principal to seek out the advice of an expert that was on his campus, the FTE Auditor.”

Ms. Greenberg asked “So, he violated those policies and procedures?”

Dr. Blackburn replied “Yes.”

Mr. Wolter asked Mr. Reilly “Did you or your staff go back to the last audit work papers and see, in hindsight, how this was missed?”

Mr. Reilly replied “Yes, for example, the Principal's Discretionary account, at one time, all the schools had that account, but it has now been eliminated. When we look at the records to ensure there is not a Principal's Discretionary Account, we're not thinking there would be one outside of the District. You look and you analyze the information; there might be slightly higher or lower amounts of money coming in, for example, for Athletics, but that has a lot to do with the types of events, home games, away games. Unless you had some reason to believe that there is money going somewhere else, you're not aware of that. If you have a situation where both parties are allowing and contributing to this, it's even harder to detect.”

Ms. Greenberg stated “You'd have no reason to ask the PTO ‘are you taking money you shouldn't be taking or handling money you shouldn't be handling?’”

Mr. Reilly stated “That's correct.”

Mr. Wolter asked “Do we confirm the bank balances? Is that one of our audit procedures?”

Mr. Reilly replied “Yes, we do bank reconciliations. We don't send out confirmations.”

Mr. Wolter asked “So, that cash was in our accounts?”

Mr. Reilly replied “No, the cash was in a separate PTSO bank account.”

Mr. Wolter asked “Why didn't we catch that if it wasn't in our bank account? Did we adjust our procedures to make sure we look for this in the future?”

Mr. Reilly stated “From an audit standpoint, something would have to trigger this, like if you saw a significant difference in revenues on a monthly basis, but again, some schools have a very extensive solar car program, some do not. There could be some activity, but unless you know that there is a certain amount of money that should be in there, you could not detect that. Sometimes, programs are not continued, not active. Today, there are many outside organizations for different clubs that are keeping the money separate. Even middle schools now have an

outside group handling their yearbook and picture sales, so you'd have to do forensic auditing. You'd need a reason to do that, rather than what we do in our internal audits."

Ms. Greenbarg added "I guess it's up to the Principal to make sure this doesn't happen. It's the Principal's responsibility. When this Principal saw something, or was told something, he apparently said 'this is not right'".

Mr. Reilly added "My understanding is that when he came to us, he had some questions about some of the outside organization's activities. I had no idea what the extent of it was. When we went out there, we reviewed it, and realized how large it was. As far as your question as to why it was reported, I can't speak for Dr. Basile, but he came forward and asked about it. He did shut it down, although he did run it for three to four years. I don't know if the PTSO decided they didn't want to do this anymore with this volume. We were able to look at two years; I don't know if it was a smaller activity nineteen years ago. I have no idea. I can only report on the snapshot that we took in the two year period that the PTSO allowed us to review."

Ms. Mores asked "Were some of these clubs running partial amounts of what they were receiving through the books, and some of the money through the PTSO, or was it just not there at all?"

Mr. Reilly replied "We saw that there was some activity in the clubs' Internal Accounts."

Mr. Steve Hurst asked "Could you explain further about the monies that were invested, but not authorized? Were they banks, brokerage firms, on page 96?"

Mr. Reilly replied "It was a bank during the banking crisis two years ago; their money was frozen. It was not a money market account, but some investment. I thought it was interesting that the PTSO put in some of its own money to keep the money flowing, since this money was tied up. It was a simple process, when one of the groups or clubs wanted a check cut, they would just give them a document stating what they wanted and what amount and a check would be cut through the PTSO."

Mr. Hurst replied "Those are corporate money management accounts; they're called adjustable and were never meant to be used by the public. Is that something, from a policy standpoint, that all these organizations should be, either electronically or on paper, providing confirmations or statements on any and all investments, or do we have any liability as a School Board?"

Mr. Reilly replied "We have no liability."

Ms. Greenbarg asked "When was the money frozen? What year was this?"

Mr. Hurst replied "It was March 2008."

Mr. Reilly replied "It was the 2008-09 year."

Ms. Greenbarg added "So they had to know that the money was frozen, obviously."

Mr. Reilly added "I believe it was around \$9,000 that they deposited."

Ms. Greenbarg stated "Back then, there must have been cooperation."

Mr. Hurst said “That would have been the brokerage side.”

Ms. Greenberg agreed “Yes, the brokerage side; that shouldn’t have been done.”

Mr. John Herbst stated “I’d like to make one overall observation. We have several instances of Bookkeepers diverting cash for their own personal use. I’d like to stress, that with the current economic conditions, that type of activity becomes far more prevalent and I think the Principals need to be cognizant of that and be looking more closely at what the Bookkeepers are doing. This is an activity that will continue to occur and will occur more frequently. I think the Principals really need to look at the work that the Bookkeepers are doing and not be overly reliant of their Bookkeepers. Too much faith is being placed with the Bookkeepers and in this day and age, that’s a dangerous thing. I’d like to encourage the administration to be more cognizant of this issue.”

Mr. Anthony De Meo asked Mr. Reilly “Is the source of the funds for many of these activities sanctioned School Board activities or are they a combination of the PTA’s efforts to raise money, where they’re allowed to raise funds, go into the classroom and have students bring in funds. Is it a combination of that plus funds actually going from the schools’ checking accounts, being transferred to the PTA?”

Mr. Reilly replied “For example, let’s say the school’s baseball coach and team with students and a School Board employee have a fundraiser, and instead of following the School Board process, whatever profits they make, they don’t run them through the school’s Internal bank account. They give the funds right to the PTSO. Then when they want to use that money, they don’t go through the internal funds; they go to the PTSO and say ‘I need a check for \$450’. Many of the purchases were related to equipment for athletics, etc., but as far as the rules, such as using the vendor on bid with the School Board, all the purchasing procedures were bypassed. At the end of the transaction, you really don’t have an accounting of where the money went, and sometimes the recordkeeping was not adequate enough to determine what the expenditure was for. Sometimes there were receipts; sometimes there were not. The key is that we have a District rule that if a School Board employee is handling money, it must be deposited into the internal funds of the school. You can’t hand it over to an outside group. When money changes hands, you have to make sure it’s accounted for.”

Mr. De Meo asked “Specifically, did funds go from an official School Board checking account into the PTA. Was there any evidence of transfers to the PTA? Is it possible that vending machine funds found their way into the PTA account?”

Mr. Reilly responded “Yes, we did find evidence of that. At that point, you don’t know if they actually had vending machines where the money was paid directly to the PTSO, rather than to the school. That’s another avenue to approach. For example, when a donation check came in, one of the clubs actually won a contest and received a check for \$10,000 which was payable to the school; however, those funds didn’t go to the school. They went to the outside organization.”

Mr. De Meo stated “I’m going to suggest and I don’t think this needs to be voted on, there needs to be some statement or affirmation that follows a checklist at the end of the year about property and inventory, about handling of funds, that references the school’s policies and have the Bookkeeper and the Principal affirm that funds have been properly accounted for and that all

proceeds that have been collected have been deposited in a timely basis in the proper accounts and that no funds were solicited by students inappropriately, and have them sign that. Make it easy; state it in English and then quote the policy. I think that's something that might drive home the training and the responsibility of the Principal, because without the Principal's oversight over this policy, there could be hundreds more violations. There has to be some separation between these groups and certain rules need to be observed and everyone needs to be trained."

Mr. Wolter asked "Do we have anything like that today?"

Mr. Reilly stated "Yes, for example, each month the Bookkeeper presents the final report to the Principal. The Principal needs to review and sign the report. That report goes to the Internal Accounting Department. They also have overview of that. As far as the property and inventory, it's been pretty intensive lately, even on the training in that area and the rules. As Mark's group goes out, there are exit conferences to discuss issues. When we audit the schools, many times there are discussion items to make sure the policies are understood. One incident like that doesn't rise to an audit exception. We're there on an annual basis. Even on requirements for FTE reporting, there are requirements on signing and making sure there are checks and balances to make sure the teachers are certified and are teaching the right classes, attendance records are kept, etc. There are checks and balances and monitoring processes in just about every area in the District."

Mr. Ken Evans asked "Is there enough training going on?"

Mr. Reilly answered "The District provides training through the HR Department, as well as periodic training by our office. There is a lot of training on line available also."

Ms. Mores stated "Our PTA's do some pretty big fundraisers. Whose responsibility is it to make sure that the PTA's money is being handled correctly? Is there someone who oversees this? It appears that the PTA's are running these fundraisers."

Mr. Reilly replied "For example, with the band boosters, a lot of money goes through their organization, and again, they have their own books and records, their Bookkeeper. Every couple of years, someone will come from one of those groups and tell us they suspect misuse of their booster club funds. We tell them to go to their local police, because we have no jurisdiction over what they do. That's a fine line, if a School Board employee is involved, the money has to go through internal funds. If it's an outside group, they're on their own. Those outside groups are very important to the schools. They provide extra money that the schools need; however, there's no guarantee that if that outside group makes \$50,000 in a year, that the school will receive \$50,000. That's the group's decision if they want to give \$10,000 or \$20,000. We have no control over that."

Ms. Mores stated "But, they're actually held at the school, in the name of the school. Our elementary school does a large fundraising event. Does anyone educate them on how the money should be handled?"

Mr. Reilly replied "We do have a checklist with rules for outside organizations that we distribute to the Principals. In the past, we've had instances where these groups presented themselves as if it was a school activity, in the school's name, when there was an outside group running the event. We do make recommendations, for example, that their Bookkeeper is bonded, that they

have dual signatures on checks, etc. As far as telling them how to operate, we really don't have the jurisdiction to do that with an outside organization.”

Mr. Notter stated “The PTSO, as a school allied group, takes the responsibility for doing, I believe, the training that you're asking about. They bring in some of their national people and they hold, twice a year, training conferences. I attended these at Piper High School. That's where staff is trained on how funds can be used and managed. It's not Pat's office, not the District that trains them; however, in a collaborative model, you heard Pat's answer also. They do try to alert the Assistant Principal or the person who may be the direct contact for that local PTA. It's really the PTA, in their conferences, they have training specifically for how and what funds can be allocated for, they have an adopted budget each year that is supposedly voted on by the PTA and that shows the designation of where the funds should be going.”

Ms. Mores asked “So, the funds should run through the school, correct?”

Mr. Reilly replied “No, they should be separate.”

Ms. Greenberg said “We're talking about training here, but when you're talking about so many years and two sets of books with the Bookkeeper apparently not having very much to do because the bookkeeping was being done by the PTSO, not the Bookkeeper, you're not talking about training any more than when you were talking about training for people who refused to put serial numbers on laptops. If you don't put serial numbers on them and don't record them, they don't exist, and then they 'walk' out of schools to the tune of millions of dollars. I don't think this has anything to do with training. This has to do with people who are acting unethically and irresponsibly, who are getting paid to know the policies and procedures. I was the PTA president in Dade and I know all about separation of funds. There were schools where the Principals were wonderful and made sure the PTA did not put their funds in the school's office and made sure they kept their funds in their own bank accounts. 'You can't handle our funds and we can't handle your funds.' There were other Principals who made it very clear to the PTA president that they were one and the same. 'If I ask you for money, you give it to me', so it all depends on who's in charge and how seriously they take their job. It's not about training, knowing the procedures and getting paid to follow them.”

Mr. Wolter asked Dr. Blackburn “In your professional opinion, do you believe that we should ask the PTSO for the \$50 per year per club that they collected for providing this service?”

Dr. Blackburn replied “That's a difficult question. I don't have an opinion on that matter.”

Mr. Wolter asked Mr. Notter if he would look into that question.

A motion was made to transmit. Motion carried.

Internal Audit Report – Property and Inventory Audits of Selected Locations

Mr. Reilly stated “This report contains thirty-seven locations. There were twenty-eight locations that complied with procedures and policies related to property and inventory. There were nine locations that had some type of audit exception noted during the physical inventory audit. Basically, there were eleven schools that had perfect inventories. There were three or four locations that represented the majority of the unaccounted for items.”

Ms. Greenberg asked “On page 25, Seagull Elementary, this is the fourth exception. You have to wonder what it’s going to take. On page 31, what appropriate disciplinary measures are you going to implement? I think it’s long past training. What do you do with four exceptions?”

Dr. Blackburn replied “There were three for this particular school. Our progressive discipline, when it comes to audit exceptions is; the first time, there is a conversation during the end of the year evaluation; the second time, there is a notation made on that end of the year evaluation, as well as a letter of concern. The third time, there is an ‘ineffective’ noted on the evaluation, so we follow progressive discipline with all employees.”

Ms. Greenberg asked “What happens after that last discipline?”

Dr. Blackburn stated “I will have to seek clarification on whether that is public information.”

Mr. John Herbst stated “On page 15, I’d like to discuss this response, which states ‘it should be noted that the 2011 Audit Report substantiates that they’ve demonstrated a 10% decrease in the dollar value of assets unaccounted for’. On the next line, it points out their ‘strive for excellence in managing our property and inventory.’ I find that somewhat amusing to say that ‘we’re doing a great job because we’re less bad than we were last year’. I think that represents the wrong attitude toward property control. We’ve got thirty-eight locations, and twenty-eight had no exceptions at all. That should be the standard. It’s obviously the standard.”

Mr. Mark Magli added “That is the standard.”

Mr. John Herbst added “Most of the locations can achieve that, so for the ones that can’t, I don’t want to see them say ‘We’re not as bad as we were last year.’”

Ms. Greenberg stated “Regarding page 52, (Transportation Services) we tried to talk about this at the last meeting. Do we have any better answers for the million dollars that they are looking for?”

Dr. Mack stated “Are you getting into my area, there? On page 69, the responses to the findings that I see here are about the best I’ve seen in many, many years. It addresses the findings and recommendations. There’s no question about what’s to be done and who it will be accomplished by. Donnie, I’d like to commend you for that. A person’s writing style is their signature.”

Ms. Greenberg asked Mr. Magli “What would you suggest for monitoring and following up?”

Mr. Magli replied “Doing what they said they were going to do. They need to start from scratch, get together with their individual component groups, make them aware of Mr. Carter’s expectations and move forward, with specific timelines for implementing and completing the process.”

Ms. Greenberg asked “Can we expect that back at the next meeting, the timelines, etc. Will you go back and review?”

Mr. Reilly replied “Many things on page 53 show what needs to be done, specifically, accurate recording of serial numbers at the time of purchase, correcting all errors with items on inventory and recording all assets that are not currently on the Property and Inventory report. The new policy for handling inventory from cradle to grave; if you follow that, you’re in good shape. The larger the department, the more risk of items being unaccounted for.”

Mr. Donnie Carter stated “I agree with Mr. Reilly. I think the key issue to note here is that, through this audit process, we have developed a departmental inventory management process, which was lacking in the past. We’ve assigned responsibilities to each terminal, and through Ms. Bradley, we have a single departmental oversight for property inventory and management. I will, along with her, continue to monitor this to ensure that the processes we’ve established are followed. I think part of the problem, too, was indicated in the response that there had not been an overall inventory probably in that area for a period of time. I don’t think there was the oversight to this particular function that there should have been. It has now risen to the level of responsibility that will remain. I think we will have good inventories going forward.”

A motion was made to transmit. Motion carried.

Internal Audit Report – Audit of the Facilities & Construction Management Division’s Bidding and Bid Opening Process – June 2011

Mr. Reilly began “The Grand Jury Report contained a recommendation that all bids be opened with an auditor present to certify the bid met minimums. I had Dave and Joe get involved in the bidding process, to determine SREF (State Requirements for Educational Facilities) and other requirements for handling bids. This report contains seven recommendations to assist with the bidding process. We observed the process, but have not physically observed a bid opening for various reasons. I’ll let Dave Rhodes outline the details of the audit report.”

Mr. Rhodes stated “We began by taking a look at the hard bid process, or the design build bid aspect of the bidding process. To get an understanding of the organization and their process, to be able to compare that to the requirements in the statutes, SREF, contracts, School Board policies, we took a close look at the SREF, which identifies how we first advertise and let the public know there will be a bid coming out. What are the requirements for the amount of time and how that has to be advertised in accordance with those requirements? What is the difference between an advertisement to bid and an invitation to bid? Then ultimately monitor whether or not those pieces have been complied with; take a look at the actual results in comparison to their own processes. We took a lot of time in the background of this report to identify, step by step, what the process is supposed to be, where SREF bleeds into statutes, where statutes bleed into policy, where policy bleeds into procedure. Finally, we need to determine how some different contracts we have are in place to help us gather and maintain the documentation necessary to, not only comply, but to document and prove compliance. That’s one of our burdens when we’re doing this advertisement process. We took a look at a sample of four different projects. Some were actual projects; others were open-end contracts, which means they’re a program for similar types of projects and we identified that, with one exception, they had met all the requirements to advertise. Based on the response we received from them on Finding #2, we saw that there was some misunderstanding. The projects that are under \$300,000 only have to be advertised for a single one week period. The projects that are over \$300,000 need to be advertised for three weeks in a row in a local newspaper, and that bid has to be opened no sooner than seven days from the last publication. They just had a situation where they postponed the bid the day before the bid was going to be opened. If you’ll look at the bottom of page 15, Section 4.2.(2)(b), item #2, it states ‘the original date set for bid opening can be changed or extended at any time within the final seven day period, provided notice to bidders is published again for one week’. . . The documentation that we obtained in the file and the follow up questions we asked identified that

they simply didn't do that follow up publication when they re-published the bid opening date. This resulted in only two bidders submitting a bid, and then they decided to go back out with that bid, because they felt it was not an appropriate amount. That was, by no means, a major problem, but it was one of the items that identifies what we think is the importance of why SREF is established the way that it is to ensure that bidders are properly notified and that we can ultimately solicit and entice the maximum number of bidders possible to get the greatest competitive process. The other thing is that, per SREF, we have to pre-qualify the construction contractors. When we do that, we also have a process where we take a look at whether or not that group has done projects before, and what the dollar value is for the projects they've done. Is the company solvent? Are they able to actually afford to do the projects that we would award them in the future? We had a situation where there were two bidders out of a group of about twelve, so we, by far, met the requirements for the minimum number of bidders to be notified and to submit bids. We made a recommendation that we come up with, as a District, some type of a percentage rule, because if a project has a probable cost of construction of \$15 million, and your company is only pre-qualified to do a project of \$2.5 million, SREF requires that if the bidders don't meet our pre-qualification requirements and the SREF's requirements, that we don't even open the bids. If there was no conceivable way for them to do that project per their bonding limits, we're recommending that those bids not be opened, because SREF is saying that they shouldn't be opened. Of the four bids we looked at, only one bid was awarded, the others for a multitude of reasons, were not. One that we thought was significant enough to bring to your attention was one that made it through the advertisement, through receiving the bids, and up to the bid opening process, before they identified that there was really only one pre-qualified bidder, (even on the list of pre-qualified bidders that could have submitted a bid for that). Rightfully, they canceled that bid and put out an all-call email to, again solicit and entice more bidders in that area of expertise and hopefully get them in that pool of possible bidders for the future. The problem we're pointing out is that we need to know on the front end if we even have the possibility of having a compliant bid opening process, or we're wasting those dollars on advertising, as well as staff's time; we're wasting the time and energy of the prospective bidders, while we don't have the necessary means to meet the requirements of the statutes. That's the overall idea of what we found. We feel that the recommendations that we made are not going to require that much change, based on what they're already doing. We think the recommendations we've made and the responses that we've received will help to improve that process where the hard bid or sealed bid process is concerned as time goes by. We'll continue to look at other aspects of how we bid projects to ensure that bids meet minimums as required by the recommendations of the Grand Jury."

Dr. Mack stated he was concerned about disagreements with the responses on several pages and wanted to see the differences resolved before the audit report is finalized in order to prevent the District from negative media coverage.

Mr. Reilly stated "These are not disagreements. It's an interpretation of what we stated. For example, on page 17, we agreed with them that they did that correctly; that they only needed one week. They thought we said they did not do that correctly. The bottom line, everyone is in agreement on what needs to be done. We're not arguing about what should be done."

Mr. Wolter stated “Your last sentence on page 17 states “Therefore, OCA maintains that SREF requirements were not met. What Dr. Mack is saying, and I agree, is that you two should sit down and agree to modify your comments. We don’t need the follow up response. There’s no indication of a disagreement. If there is a disagreement, we’ll deal with it. It looks like we’re arguing; it looks like we’re not in synch. I agree 100% with you, Dr. Mack; we’ve got to be in synch on this because of the source or cause of the audit, so I’ll say it differently but the same way. Before these things get brought, just sit down and figure out the response and tell us what’s right.”

Mr. Rhodes stated “We had an exit conference and if I could just point out that this is nothing more than a disagreement . . .”

Mr. Wolter stated “You’re not going to change my opinion.”

Mr. Rhodes said “I don’t think it would change your opinion . . .”

Mr. Wolter stated “We don’t want that on the report. That goes away. We will not accept a report with the additional comments on it. Please, two paragraphs.”

Ms. Greenberg asked “Are you talking about page 13?”

Dr. Mack said “We’re saying these issues should be resolved before putting them in the report.”

Mr. Wolter added “On page 13, the OCA follow up, and on page 17, OCA follow up. We don’t want them; we don’t need them. They should resolve the problem and come back with a response that they’re both happy with and that we can be happy with and then transmit to the Board.”

Mr. Lindner added “If you look at the intent and the comments we made, we basically agree with the audit. We don’t basically agree with some interpretations. They weren’t so clear to us without the secondary comments of the Chief Auditor. There are some issues where a statement was made; we interpreted it incorrectly, particularly the one with the single week for the \$90,000 bid. The auditor came back and said ‘yes, you did that right, you’re OK.’ Don’t do it for bids over \$300,000. We agree with that. I think that there are times when the auditors are wrong. There are times when we need to work those issues out. I had a conversation with Pat and with Dave. ‘Am I going to get an exit conference here, because I’d really like to know what this is?’ Then I had 4 or 5 days to put the response together in the midst of other items called layoffs, budget, and anything else. They get 3 months to do this and we get 4 days to respond. Sometimes the responses aren’t negotiated as well as they should be. The auditors never discussed any of this with me until they sent me the draft audit. Is that true, Pat?”

Mr. Reilly replied “This was a review which involved mapping out the bid and bid processing functions and required a lot of back and forth with staff. I know you were tied up with many budget issues and other work related issues, but your staff needed to provide you feedback on the areas that we discussed with them. For example, when the one bid went out and we only had one qualified bidder, it was shut down. We discussed the requirements that needed to be followed for

those instances. I want to make it clear that according to Policy 1002.1, Office of the Chief Auditor, the reports will not be brought to the Audit Committee unless there are audit findings, recommendations and management responses. Per policy, we have the right to provide a follow up comment if we feel it is needed. There is too much of a perception that this department is fighting with that department, and we're not. I think, as Tom said, we have made recommendations; we need to be able to have a follow up comment. I'm not going to submit a report that has something that we said that was misinterpreted by management, without our having a follow up comment to clarify the issue. The idea that we don't agree and that we're fighting is not correct. The auditee has the right to disagree with an audit. I don't think we should ever come here and say that when you come here to these meetings, you should agree with what the auditors say. That is not the way it should go at all. They are entitled to disagree. They may have a better solution. The auditors are not always right. We take a snapshot of what we see. We make a recommendation. In our cover letter, we felt that some of our observations needed to be clarified. I think we're putting a bad idea out there by saying that we don't get along and that they have to agree."

Discussion followed.

Mr. Lindner stated "I was overjoyed that the auditors actually came out and looked at a current process, instead of looking at something that happened four or five years ago, and the people who did it are now dead. We need to look at what we're doing today to prevent us from doing the bad stuff we did in the past. I think that's what auditors should be doing. In the construction industry, before you close out a project, you have an external auditor come in and audit that project before you give final settlement. That's the way it works in the real world. Eventually, we'll get there. There are school districts that do that. The fact that we looked at a current process is groundbreaking. There are things we're going to disagree on. I sit at the table with 200 years of construction experience on my management team. I have to rely on them. Pat sits at his table with zero construction experience, so we are going to have to work out some of these issues and say 'here's how we interpret this and here's why, SREF states this, or the contract says, or whatever, and we agree or discuss. We do that, but it's hard to articulate in an audit response. There is give and take. There is discussion. It's not two elks butting heads all the time. I hope to create a synergistic relationship that leads to process improvement, which is really important, since I have half as many people now as I did a year ago. We need to become leaner, meaner, more efficient, stop wasting time. They've helped us do some of those processes and make them cleaner. I've been under audit for the past year and a half from somebody. There's nobody else in the District who's written more audit responses or responses to other investigations than me. I'm getting really good at this."

Mr. Rhodes stated "What Tom said, not only do I agree with it, but it's exactly how we did this. We identified a mistake that Mr. Herrmann pointed out to us that identified that a project under \$300,000 required only one week. We went back and verified that was the case, we called out in the audit that they did do it correctly; then the response came back, they misunderstood the line that we said, and they responded saying that we said they did it wrong. We submitted a follow up response to clarify that we did state that they had done it correctly. I think we have a duty to do that because we were calling out in the beginning that they complied in that particular procurement."

Mr. Wolter stated “I have full confidence in both parties to do the right thing. I think I’m speaking for the Audit Committee. We are not asking you to not deal with conflict. What we’re asking, I think, is the way I look at audit responses being finalized, you do the audit, you find something that’s incorrect; you adjust the audit report. You write the response, and find something, for example, where you misinterpreted something, just go ahead and change the response, which eliminates the need for a follow up and it shows that everything is in synch, and that’s all we’re saying. We’re not asking you to change anything else, but if you could eliminate what looks, and remember, the person who reads this, does not have the benefit of this great discussion we just had, all they get is a piece of paper. That’s why I’m asking you to change your response.”

A motion was made to transmit. Motion carried.

Internal Audit Report – Current Status of the Desk Review of Overtime Expenditures for the 3rd Quarter of Fiscal Year (F/Y) 2008-09 for the Period from January 1, 2009 through March 31, 2009

Mr. Reilly stated “At the request of the Audit Committee, we are presenting a current status report on the original Desk Review that we performed in 2009. We asked management for an update on the original nine audit findings, which they provided. We reviewed the responses and did some preliminary field work on the existing original audit sample, and an additional sample of twenty-five employees with the highest overtime amounts. Basically, out of the nine recommendations, we feel that five are in progress, two are completed and two are closed. Regarding the ones in progress, those had to do with the scenario where the employee’s primary position’s hourly rate was used in the secondary position, or the primary position’s hourly rate was used after 40 hours was worked, in which case the assigned secondary position’s hourly rate would be dropped and the primary position’s rate was used to calculate overtime premium (OTP). That was the big fix. Right now, the group that dealt with those issues has set up a committee to review the audit findings and recommendations. They did a lot of research; they provided the District with a presentation on how they would handle those issues. Several School Board policies were changed or updated. There were new Business Practice Bulletins added on the handling of payroll processing. New forms were created to establish that the employees now understand that if they have a secondary job that is different from their primary job, any overtime will be calculated based on their secondary position. There will be a savings to the District in that area. These changes are planned to be implemented on July 1, 2011 for the start of the new fiscal year. One thing we observed, based on the new sample we reviewed, was the fact that the majority of the overtime is with the bus operators. We identified an item that’s in the FOPE contract, which allows that each bus operator be given an additional thirty minutes per day, if their route is over six and a half hours, for sweeping, fueling and recordkeeping. We noted that these functions are already a part of the District’s written job description for the bus operator position. At this point, that’s not really part of the audit process, but we felt that item should be considered at the negotiations table. It is really a perk. There may be some options. I haven’t confirmed this number, but after speaking to the Transportation administration, it could be about \$2 million for this extra half hour per day. This savings could be used to hire additional part time staff. Many of the bus operators are averaging between twelve and sixteen hours per day. After 40 hours in each week, this pay is time and a half. Many times this additional half hour per day

was paid at the overtime rate. The key thing is that they will discontinue paying overtime at a much higher rate when an employee has a secondary position that is different than the primary job. Overtime will be calculated based on the secondary position.”

Dr. Mack agreed that management should go back to the bargaining table if that half hour a day is part of the job description.

Mr. Reilly stated “That’s a negotiated arrangement for that group. I’m not saying it’s not correct, but there are alternatives. If they want to continue that process, they should review and change the job description so those tasks do not appear to be a regular part of the job. These tasks were identified as sweeping, fueling the bus and recordkeeping.”

Ms. Greenberg asked “How much do you think could be saved if all this could be negotiated the way it should be?”

Mr. Reilly replied “For the three month period we looked at (January to March 2011), there was approximately \$330,000 shown in the SAP system for that process. I estimated for the year that it would be about \$1.5 million, but through conversations, I was told it would be a \$2 million savings. Some people are receiving that as straight time and others as overtime.”

Ms. Greenberg asked “How about the other items?”

Mr. Reilly replied “If your primary job is the same as your secondary job, you have to pay them the same rate as their primary job. The group that was identified as having a different secondary job amounted to a savings of approximately \$100,000 every six months.”

Discussion followed. Tape inaudible.

Mr. Reilly stated “I’ve had conversations with Ben Leong and Melissa Grimm. If you don’t get the activity that occurred during that payroll period, then it becomes a retro issue and that is a problem that causes issues with retroactive payments. My comment originally was when an employee looks at his/her remuneration statement, it is very confusing. There are no dates shown for the overtime payments. It is the responsibility of each payroll processor at each location to ensure the timely input into SAP for all entries. There are deadlines for each payroll period. Another issue is the matter of paying employees in the pay period the time was worked and earned.”

Mr. Medvin asked if the system was overburdened.

Mr. Reilly replied “The process in the Transportation Department is very large due to the volume of people and the manual intervention that’s still involved in that department. That takes a long time to prepare the payroll. In the schools or departments, there should not be a problem.”

Mr. Medvin asked “Is that the same system?”

Mr. Reilly replied “It’s the same system, but the input before entries are made into the system is different.”

A motion was made to transmit. Motion carried.

Summary of Audit Activities for 2010-2011 and Proposed Audit Plan for the 2011-2012 Fiscal Year

Mr. Reilly explained “We do a Summary of Audit Activities and show what we did during the year, based on the Audit Plan. The Audit Plan is a living document and changes can be made throughout the year. This is an outline of what we plan to do in the upcoming year in the Internal Funds, Property and Operational areas.”

Mr. Wolter stated “Can you make some comments about your staff and also the Proposed Audit Plan.”

Mr. Reilly stated “I’m living in the real world of what we can do budget wise and as Tom mentioned earlier, Mr. Notter allowed us to add a Construction Auditor this year. We’ve designed the Plan to do what we can with the staff we have. As far as what we did last year, we did a lot of reports that provided assistance to management. This year, more than any year, I believe we had a lot more meetings with other departments and helped them with policies and procedures. In the past, some of our policies and procedures have become outdated. In many cases, management is referring to documents that don’t exist any longer, such as Certificates of Absence, which have been revised and changed to Vacation/Leave Request Forms. We assisted with Payroll and Property; even the Audit Committee assisted with the handling and procedures for loans that schools have from the General Fund. Many policies and procedures were updated this year, probably more than any other year.”

Mr. Wolter asked “You have 21 people now?”

Mr. Reilly replied “Yes, 21.”

Mr. Wolter asked “How many did you have 5 years ago?”

Mr. Reilly replied “We had 30 people in 2006.”

Dr. Mack commended Mr. Reilly and the Audit staff for being able to complete as many audits as they completed with the staff they have. “I’d like to see some follow up on that, because the Board members agree that his department, regardless of the budget situation, should be fully staffed, because that department, along with the Audit Committee, saves the District money and exposes when money is going through the cracks. Again, with regard to the extra projects, you may wish to speak to the Superintendent when you get those requests from School Board members. I think we all recognize now, as brought out by the Grand Jury, the Board gets too involved in the day to day operations, and that costs us money and it costs his (Pat’s) department resources. I would hope that with this year’s plan, you’ll have some relief. You say you are going to assist the external auditors with the IT audit. Maybe that was approved while I was in the hospital. Were the external auditors given the task of doing the ETS/IT audit?”

Mr. Reilly replied “No, not yet. When we met with Dan O’Keefe, he mentioned he has a new IT auditor and wants to discuss the IT audit. I did not include it in there because of the funding issues. We have to discuss this with the Superintendent after we have the scope of the audit.”

Dr. Mack stated “Ok, reword that particular item. I’ve been asking Pat to do an audit of the M/WBE utilization in this School District for 10 years. Would you please do this audit this year, even if you have to use an external auditor?”

Mr. Reilly said “I will try, but I don’t have the funding this year for an external auditor.”

Mr. De Meo asked “On page 16, you talk about assisting management and the School Board with their responsibilities and I think the next line defines that ‘provide recommendations, analyses, counsel and information’. Do you really have the time to do that?”

Mr. Reilly answered “We do that when we issue the report. We always give comments and recommendations. We do that all the time. Our Directors get calls constantly regarding property, internal accounts, construction, operations, etc.”

Mr. De Meo asked “Does the Yellow Book require any certification by the Board for a statement of billing?”

Mr. Reilly replied “There’s one statute that states the District must do whatever it takes regarding accountability, records, to operate the School District as one encompassing responsibility, but I wouldn’t say that they particularly have to follow the Yellow Book. We, the auditors, have to follow that.”

Mr. De Meo asked “Is the scope of your work based on a risk assessment and are you giving higher priority to areas that are more material and pose more risk?”

Mr. Reilly replied “Yes, we definitely do that. There are certain things we have to do that are required by law, such as the internal audits. As far as the high risk, we try to get into those areas. Payroll is our biggest expense in the District; we want to ensure we have controls over that, as well as the Construction area.”

Mr. De Meo asked “Is there a workshop for the scoping of your activities?”

Mr. Reilly replied “No, during our meetings, we have a breakdown of every location and what kind of expenditures they have. We know where the high volume dollars are. Since I’ve been here, there are still areas that we’d like to look at, but we haven’t had the opportunity. When we do an audit, we want to go back and do a current status in a timely manner. Those occupy a lot of our time. We try to do something different each year in an area that needs to be looked at.”

Mr. John Herbst stated “I think I know what you’re talking about. We switched over to that model, because we were using what sounds like somewhat anecdotal in nature, things that we knew by professional nature would be a high risk area. We formalized that process last year. We

set up a risk matrix. We established a risk criteria, I think there were nine items ranging from dollar amount to complexity of the operation, whether it's newsworthy, past audit history, length of time since last audit. We scored these on a 1 to 5 scale. It was interesting when we did this. There were some things that we thought would show up as high risk subjects, that actually didn't, when we actually scored them. If you ever have any interest, I'd be happy to share our matrix with you."

Mr. Reilly said "That would be good. Thank you."

A motion was made to transmit. Motion carried.

Other Discussions

2011-2012 Tentative Audit Committee Meeting Dates

Mr. Wolter began "Charlotte, you had requested that the June 28, 2012 meeting be held earlier. I asked a general comment about moving the meetings to Fridays, but I received a response from John (Herbst) that Fridays would not work for him.

Mr. Reilly stated he would try to accommodate Charlotte's request, if possible.

Audit Committee Elections

Mr. Reilly asked for nominations. Mr. Wolter nominated Dr. Mack. Motion was seconded. No other nominations were given.

Dr. Mack was elected Chairman of the Audit Committee.

Mr. Steve Hurst was elected as Vice Chair.

Meeting adjourned at 3:15 p.m.