

The School Board of Broward County, Florida
AUDIT COMMITTEE

MINUTES OF AUDIT COMMITTEE MEETING

September 8, 2011

Dr. Henry Mack, 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. Mary Fertig
Ms. Charlotte Greenbarg
Mr. John Herbst, CPA
Mr. Steve Hurst, CFP
Dr. Henry Mack
Mr. Andrew Medvin, CPA
Ms. Cynthia Samuel

Staff Present: Mr. Donnie Carter, Interim Superintendent of Schools
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. Jeff Moquin, Support Operations
Mr. Patrick Reilly, Chief Auditor, Office of the Chief Auditor (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
Dr. Leontine Butler, Deputy Superintendent, Curriculum
Ms. Cyrilla Bradley, Transportation Services
Ms. Nell Johnson, Director, Internal Accounts
Ms. Sayra Hughes, Early Learning, ESOL & CTACE
Ms. Vicki Saldada, ESOL & Pre-K-2

Guests Present: Mr. Pablo Llerena, GLSC & Company, PLLC
Mr. Dan O'Keefe, Moore Stephens Lovelace, P.A.
Mr. Ronald Thompkins, TCBA Watson Rice LLP
Ms. Laura Figueroa, Miami Herald
Ms. Cara Fitzpatrick, Sun Sentinel

Old Business

A motion was made to approve the minutes for the June 23, 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. Tom Cooney began “The last time we met, I mentioned that our building department had concluded with the roofing inspections. We’ve determined that none of the roofs that were installed are acceptable for various reasons. They don’t meet the building code. We’ve confirmed our suspicions that we need to push recovery for the costs of those roofs. We’ve also added Nations Roofs, who is the actual installing contractor on those roofs as a third party defendant. They’ve been served with a third party complaint and they just recently answered the complaint. Other than litigation, since we have Nations Roof in the mix, it’s going to add some length to our discovery, as far as depositions and document recovery in review from that entity. We were at the tail end of discovery with Ashbritt, we are beginning anew with Nations Roof. Mr. Oscar Soto and his office are assisting as co-counsel in this effort. They’re moving along quite quickly.”

Dr. Mack asked “What is the next step?”

Mr. Cooney replied “We’ve got a couple of options we’re looking at, from a legal angle. We can seek monetary recovery or we can ask for them to be re-roofed, or perhaps a mix of the two. It’s going to take all three parties to make a determination of what’s most equitable for my client, the School Board.”

Mr. Steve Hurst asked “Did they have a bond posted, the construction companies, that we can go to?”

Mr. Cooney answered “I’m not sure if they have a bond specific to these hurricane restoration efforts or not. There has been no bond involved in the complaint. We’ve not filed a complaint against a bonding company. Obviously, the two defendants in this case, the third party defendant and the original defendant have insurance companies that they would seek coverage from, but we don’t have any bond to go after in this case.”

Ms. Charlotte Greenburg stated “We’re pursuing Nations, we’ve added Nations to the suit. When do we find out if they have any bonds posted?”

Mr. Cooney replied “I think that’s already been investigated by Mr. Soto’s group and there are no bonds to seek recovery from. This is not a typical construction project where we have bonds up front. This was the hurricane remediation accomplished under different circumstances. Obviously, that’s why we’re in the mess we’re in, because we weren’t prepared to deal with this vast extent of repairs necessary.

Ms. Greenburg asked when the Committee would receive another update.

Mr. Cooney replied “Since the discoveries are not complete, I don’t know how much can be brought to the Audit Committee, when it comes to discovery issues, but if there’s anything significant, we’d be happy to share that with you.”

Mr. Reilly asked “On the Nations Roof being added, since they’re a sub-contractor of C&B and really C&B no longer exists, and since Ashbritt took over the billing of that project, is that an issue where Nations would say ‘we didn’t have a contract with them’?”

Mr. Cooney replied “Legally speaking, it’s not an issue for us, for our purposes. That’s the reason we brought them in as a third party defendant. We were the intended third party beneficiary of their work.”

Ms. Greenberg added “How long has this been now? We really don’t know about an end date?”

Mr. Cooney stated “The litigation component of this, I believe it’s coming up on a year in December. The active litigation is what permits our office to then meet with the client and discuss the issues.”

Dr. Mack added “I’m glad to see we’re in litigation and doing something. We’re not expecting any solutions any time soon. I don’t want you to feel any pressure from us to do stuff. Come back with an update when you have something to report.”

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

Mr. Reilly stated “The Committee asked for an update on the recovery of the \$52,250 from the finding/recommendation reported in the PPO audit.”

Mr. Cooney began “There were two different components; one was the pursuit of the recovery of \$52,250, which concerns a company named Grau & Company. Mr. Carland will address that component. The second component of item #2 is the Change Orders Other, and we were asked to provide a line item breakdown status of the fifteen projects that were audited, which identified the Change Orders Other. I looked at the change order categorization matrix that Mr. Reilly’s department prepared. I isolated those projects that had the Change Orders Other categorization that totaled on this matrix \$744,836. When I actually added these numbers up, it was off by \$3,892, which is indicated as a negative number by Twin Lakes. Perhaps that’s why my numbers were off by exactly that amount. The total number that was derived from the matrix was \$740,944. It’s worthy to note to the Committee members that when change orders are identified in this fashion, this would be the gross amount of the change order. It does not involve any kind of breakdown or analysis. In our office, we would typically do a post-betterment type of analysis, which means take the gross number, determine what our cost would have been had this been included in our contract from ‘day 1’ and then the premium cost would be the amount we would seek as recovery. Those are pre-betterment, not post-betterment numbers. Going through this list, I’ve prepared a hand-out, which has sorted these items alphabetically, so it may not follow on the matrix. These matters were either assigned a cadre attorney or are being handled in-house. Blanche Ely High is the first project. Mr. Soto was the assigned cadre and as recently as March of this year, a settlement of \$130,000 was accepted and approved by the Board. The \$130,000 recovered reflects the post-betterment analysis. Deerfield Beach High School was assigned to Mr. David Valdini in 2007. At that time, we advised Mr. Marko, after post-betterment analysis, that we were not advised to pursue that, based on the small amount of dollars after the post-

betterment. Everglades High School, Mr. Steven Lesser, with the law firm of Becker & Poliakoff, was the assigned cadre in that matter. This was part of a settlement with SBR Joint Venture that would have been Board approved back in October, 2007. In my understanding of the case, we had some issues with SBR Joint Venture; we were withholding contract amounts, we were withholding potential liquidated damages against that firm. The result of negotiations and the ultimate settlement that the Board approved in October 2007 contained some sort of release of contract monies being held. I believe liquidated damages were negotiated, so the settlement agreement public record is available on line. It doesn't really spell out the amounts as far as the negotiation. Ultimately, funds were released back to SBR Joint Venture. I am currently handling Lake Forest Elementary School in-house. SFCS is the general contractor in that case. They sued the School Board for release of monies that we're still holding, pending close-out of the project. We are on the eve of bringing in the architect in that case as a third party defendant under our indemnity provision of our contracts. We will also seek the errors and omissions under that mechanism. Lauderdale Manors was part of a global settlement that Mr. Lesser, from Becker & Poliakoff, was handling for us. If you look at the note below the table, it speaks about this particular matter. There was a settlement that was approved by the Board on February 17, 2011. It involved the settlement of five separate projects, all of which contained some form of errors and omissions. For Palm Cove Elementary, Robert C. Markham Elementary, Broward Estates Elementary, Lauderdale Manors Elementary and Margate Elementary Schools, Zelch and McMahon was the architect of record on those projects. When we filed suit on those five, he counterclaimed for an entitlement of \$132,769 and after evaluation and advice from Mr. Lesser, it was determined that the settlement for the difference between the counterclaim and the amount we were seeking, which was the post-betterment number of \$75,390, should be disbursed. That was approved by the Board and payment was made on that settlement. Pompano Beach High School, which appeared to be two separate items on the matrix, but is actually the same project, is in active litigation, as we speak. Mr. Lesser is handling that case for us. Royal Palm Elementary was assigned to Mr. Soto and his firm. We were advised shortly after post-betterment that it was not worthy to pursue litigation. Twin Lakes Administration is currently in active litigation with Mr. Malcolm Cunningham. We are, I believe, close to resolution in this matter. My suspicion is that this will be going to trial. Walter C. Young Middle School is the last item on this list. Mr. David Valdini was assigned to this back in 2007. He advised our office, after post-betterment analysis, that this case was not worthy of litigation expense to try to recover the small amounts. On the bottom of the list, I have some statistics, an overview with the total number of cases that are currently being handled outside and in-house. By my count, we have approximately fifty-nine matters that are currently being handled by our cadre or in-house. Forty-seven matters, separate and distinct, are being handled by Facilities and Construction Management folks. Those would be those matters that are not worthy of litigation, the smaller amounts. Under the current practices, they issue demand letters to the architects of record seeking reimbursement for whatever those final numbers would be. Finally, thirty-one matters have been settled or closed.

Ms. Greenberg asked "Are those settlements net of the fees that the outside attorneys would charge?"

Mr. Cooney replied "No, that is not net of fees."

Dr. Mack asked “The forty-seven that you stated were not worthy of litigation, would that include the \$942 from Deerfield Beach?”

Mr. Cooney answered “In this particular matrix, it would, but I’ll suggest that this is only one change order of many that would be subject to that analysis, so, yes, that would come under that category of what Facilities would handle.”

Dr. Mack asked “What about Royal Palm Elementary?”

Mr. Cooney replied “Yes, that would have been part of the forty-seven items that went back to Facilities.”

Dr. Mack asked for an update at the next meeting from the Facilities Department regarding these forty-seven items.

Mr. Reilly added “On these, during the report, they were originally classified as Change Orders Other. Have the actual categories been identified, (i.e. errors and omissions, owner’s requests, or unforeseen)?”

Mr. Cooney stated “Each of the cadre counsel that were assigned these cases looked at the Change Orders Other and made a determination with the assistance of their experts or consultants whether or not they fit in the errors and omissions category. I really don’t have that kind of information in front of me for the Committee. That process and evaluation absolutely were done.”

Mr. Paul Carland stated “In Part A of Follow Up #2, regarding the pursuit of \$52,250 concerning a firm named Grau & Company, after discussing this with Mr. Cooney and reviewing our files, I discovered that back in 2009; specifically, a memo dated October 20, 2009, the General Counsel’s office through Mr. Marko and Mr. Vignola provided a memo and an opinion to the Committee and staff regarding the matter and the ultimate conclusion at that time was that the matter should not be pursued for any collection. Because of that, I called Mr. Reilly prior to today’s meeting and he sent me copies of notes from the Audit Committee. It appears it was discussed on several occasions, the latest being October 22, 2009. I reviewed the minutes from the October 22, 2009 Audit Committee meeting and there was no indication from those minutes that there was to be any additional follow-up from the General Counsel’s office. There was a motion made by Mr. Wolter, but it concerned some procedural issues, not anything relative to additional legal action; therefore, the status is that nothing has been done since that memo from the General Counsel’s office in October, 2009.”

Ms. Greenbarg stated “My memory is different. I remember that we were very disappointed when Mr. Marko said he was only going to ask for \$10,000 and we never decided that it shouldn’t be pursued.”

Ms. Mary Fertig stated “I commend you for going back and reviewing all the discussions and getting them together in one place, although I’m a little concerned that it was not all together before that, since this has been a hot topic for this Committee. I would hope that when we have something like this that we discuss meeting after meeting, that it would be kept all together, rather than having to reconstruct the entire item to give us an update. Maybe that’s the problem

and the reason it was never pursued. I guess we'll discuss this later when we get to the Grand Jury's report and recommendations.”

Dr. Mack stated “The notion that this Committee went along with Mr. Marko's recommendation to not pursue the \$52,250 is not true.”

Mr. Carland stated “I don't believe that I said that the Committee approved it; I was just reflecting what the records show. I apologize for any misunderstanding. It was clear from what I looked at there was no approval by the Committee; I'm just providing information indicated in a memo from our office. When I looked at the October 2009 discussion, the minutes of this Committee, I concur that the Committee was not happy with that conclusion, but there was no clear direction to pursue it any further. As I mentioned, there was a motion made by Mr. Wolter concerning developing and implementing more aggressive, efficient and timely collection efforts and processes, and that was passed, but that was not specific to the Grau matter. That's why no further action was taken by this office.”

Dr. Mack continued “Please let it be known on record that the Committee is still concerned about that amount of money and we wish to pursue it. In your legal efforts, if you determine that it shouldn't be pursued, then of course we'll expect that you come back and justify it to us, but it's still an open item and will continue to be until resolved.”

Ms. Fertig asked “Is it possible at this point to pursue something that is this old?”

Mr. Carland replied “That certainly will be part of any analysis, the issues concerning the claim being stale, the statutes of limitations, that would certainly necessitate review as well.”

Follow Up Item #3 – Internal Fund Audits – March 24, 2011

Vending Machine topic scheduled for follow up at the November 17, 2011 meeting.

Follow Up Item #4 – Internal Fund Audits – June 23, 2011

Mr. Reilly stated “The Audit Committee requested a follow up regarding South Plantation High School, specifically, the policies that are being changed. Also, copies were requested of checks written by the PTSO to be distributed to members of the Audit Committee. Staff has been revising Standard Practice Bulletin I-101. You had asked us about the cancelled checks; however, at this point the PTSO is not responding to us. We have the cash disbursement journal listing the checks written, but we don't have the checks. At the last meeting, we presented the South Plantation High School audit and discussed aspects of the policies that were not followed. If the Committee wants to pursue this further, the matter would have to be turned over to an outside law enforcement agency having subpoena power. We have no jurisdiction to receive that information.”

Dr. Mack asked about the policies that were being revised.

Mr. Reilly replied “The policy is being updated to provide a clearer understanding regarding non-school vs. school funds and what monies should be deposited into the internal funds and additional items having to do with allowing the outside organization to collect monies at the school on certain days. In the workshop held a couple of weeks ago, the PTO representatives

wanted that option. The rules and procedures have not changed. There is still a distinct line between what monies have to go into internal funds and what constitutes non-school funds.”

Ms. Greenbarg added “I understand that you can’t force an outside organization to give you access to their books. I’m looking at this voluminous list of payments from this PTSO, and they’re really very vague, because you don’t know what was spent. There was a lot of money given to one particular teacher for camps, but we don’t really know from this and I guess we’ll never know.”

Mr. Reilly replied “Again when we looked at that, there are activities that were done by the PTSO that are their functions, but the problem was there were instances where monies were co-mingled, and instances where the recordkeeping for certain accounts were handled by the PTSO instead of the school. Those are the areas we want to make sure we get back in line with the policies and procedures that we have regarding what has to go into internal funds. They have plenty of their booster club activities in their PTSO accounts, but we also have our Principal’s Discretionary account in there, the Student Government account, the Drama Club ran a lot of their activities through the PTSO account. There were a lot of employees who received reimbursement checks through the PTSO account that could have been legitimate expenses, but we cannot verify that.”

Ms. Greenbarg asked “You said there was a Principal’s Discretionary Account?”

Mr. Reilly replied “Yes, there was a Principal’s Discretionary Account. That was one of the things we wanted to make sure, since that’s been made very clear now, that account is no longer a part of the internal funds. That’s probably why it was run through the PTSO, because that’s been eliminated from internal funds.”

Ms. Greenbarg asked “What about the other schools? I know you can’t walk into a school and say ‘Let me see your PTA/PTO booster accounts. I guess this wasn’t the only school where this was happening. What happens with the other schools?’”

Mr. Reilly answered “It could be happening. We have certain audit procedures to ensure that’s not happening, but again, if you have a second set of books that we are not aware of, it’s really not that easy to detect, unless someone comes forward. Hopefully, since this became a district-wide issue, everyone is looking to make sure they are following the policies and procedures for internal funds.”

Ms. Fertig stated “There was not only one school; we’ve been having these conversations for a couple of years. The answer was that everyone knew that they weren’t supposed to have a Principal’s Discretionary fund, but in spite of that, these problems are persisting. I really think the procedures need to be repeated whenever there’s a Principals’ meeting on how to collect money, how the money is to be deposited and who has the ability to disburse it. We heard a year and a half ago that this was absolutely not happening anymore and had been taken care of in every school. My bigger concern is that older or mentoring Principals are saying ‘here’s how we’ve always done it’, and the newer Principals are picking that up. The only safeguard I can see against that is stating the procedures as many times as you can and state that there will be no exceptions.”

Mr. Hurst stated “Everyone has to have permission to be on a school campus. If the PTA or PTO felt that they wouldn’t be allowed on campus if this was a penalty for them, would that be a motivational tool? Can we recommend that?”

Mr. Reilly replied “That was also emphasized in the Standard Practice Bulletin that the Principal of the school must approve any outside organization’s fundraisers. We tried to make it clear that the school should know what benefit they will receive if they allow someone to have a fundraiser. In the past, there have been incidents where a school allowed continuous fundraising by an outside organization to occur; however, what the school got back was a very small amount. That’s another area where we want to tighten the rules. They don’t have to follow our rules; therefore, if they make \$5,000 on a fundraiser, that doesn’t mean they are going to give \$5,000 back to the school. It’s at the discretion of that outside group. They may want to buy something for the school instead of giving a monetary donation. You must remember that we can only have policies and procedures for our employees. As for the outside groups, if anyone saw the workshop a couple of weeks ago, the outside groups have their rules and regulations that they follow and they clearly don’t want to mix their money with our money. We need those outside groups to help the schools; however, there must be a fine line about how the money is handled. There have been many instances where items were delivered to the school for outside groups, and the schools got stuck paying the invoices.”

Ms. Greenberg added “I think the issue is the outside entities know they are supposed to keep the money separate, but if the internal administration of the school wants to run money through the PTO or PTA, that was the problem here. We need to make sure that the administration knows and follows the rules.”

Mr. Reilly said “The bookkeepers too.”

Ms. Greenberg agreed “Yes, the bookkeepers too. The bookkeeper didn’t have much work to do, since all the money was going to the PTSO.”

Follow Up Item #5 – Internal Fund Audits – Audit of the Facilities and Construction Management Division’s Bidding and Bid Opening Process - June 23, 2011

Mr. Reilly began “The Audit Committee asked how many years of construction experience there was in the Office of the Chief Auditor. Each of the Facilities Audit staff members has an average of over 25 years of construction experience.”

Ms. Greenberg added “Someone made a comment at the last meeting that the auditors had no construction experience, and I wanted to clarify that. Thank you.”

Regular Agenda

Moore Stephens Lovelace, P.A. – Communication with the Audit Committee on Audit Planning 2011 – Year Ended June 30, 2011

Mr. Dan O’Keefe began “We have completed our interim work and the planning on the engagement. We will begin our fieldwork on Monday (September 12, 2011). On page 1 of the hand-out, this is provided to you in accordance with Government Auditing Standards and

Generally Accepted Auditing Standards. It addresses areas dealing with Federal requirements, laws, OMB Circular A-133 and also the rules of the Auditor General, State of Florida. Our Auditor General has designed specific rules related to School Districts, which we have addressed in this document, as well. Page 2 shows the elements of the financial statements and how we're going to report on those particular elements. It addresses the different standards that I had mentioned, on how we will perform the audit. Page 4 shows some of the audit procedures that we will perform. Page 5 shows internal control audit procedures. Most of this is standard information that you've seen before, that I have to provide to you. Page 5 discusses the different types of compliance areas we'll have to focus on. Page 6 is a continuation of this information. The last bullet is pretty critical in order for us to meet this aggressive timeframe that we have. That will be to try to obtain the responses from last year's comments from the different departments. I'm hoping the Chief Auditor will help coordinate this. We really need to have that information by September 30, 2011, so we can do verification procedures to ensure that what they are telling us is accurate, because we don't just get responses to the comments, we follow up and make certain that we can verify and validate those comments. As you know, there were quite a few in the IT area, and that will slow up the process if we don't get that information by September 30th."

Dr. Mack asked "On page 8, you refer to Information Technology, would you please elaborate on that?"

Mr. O'Keefe replied "As you know, your IT system is essential to your organizational structure and your operations. Not to give this some type of attention would not be doing an appropriate audit. We will continue to give this the attention we've given it in the past, which is, first, to follow up on the comments in the previous years, and then verify if there were any changes in the system in the current year. If there were, we'll apply some procedures to determine if those changes were appropriate."

Dr. Mack stated "We've been asking the Chief Auditor for years about Information Technology. We've been given the answer that your firm would be doing some things, but we've yet to see what those things are. When we went through our big IT reorganization with the new programs, things, in our opinion, are not being controlled."

Mr. O'Keefe replied "We extended the procedures in that area, and if you recall, we had quite a few more comments in that area than we had in the past. That was addressing some of the issues of the Audit Committee to dig deeper. It will be interesting to see how they respond to the comments from the previous year. I know you're anxious for them to implement some of the recommendations that we made. At the next meeting, if we get some of these responses in, I'll come back and give you an update."

Discussion followed.

Mr. O'Keefe continued "Page 7 mentions some different requirements we have to address per the rules of the Auditor General. Page 8 talks about major programs. Last year, the District had quite a bit of ARRA funding. We spent a lot of time doing additional verification on the ARRA programs. Actually, we were very pleased and had no findings in that area. We'll be doing some

limited testing on the ARRA monies, not as extensive as we've done in the past, unless we see some critical issues. Some recurring significant reporting issues are listed here. As far as current year audit issues, as you know, it seems every year the legislature gets together and makes changes to the property taxes and things of this nature. We'll check for adequate compliance there. There's obviously a continued emphasis related to the economic turndown and it has had a tremendous impact on the school districts, in particular. We'll be performing different cut off procedures than we've had in the past, because we don't want to see expenditures trying to get pushed into the next period that belong in this period or revenue trying to get recognized that shouldn't be recognized in this period. Again, it's a control feature to address audit risk in a situation like this. Budgetary constraints, obviously, will be focused on quite a bit. Page 11 addresses the schedule, which is extremely aggressive. We've never had the audit report issued this quickly. Our goal is to have everything done, including the Single Audit, by this period of time. We've got the team and the hours budgeted and scheduled. If we get the cooperation, we can get this done. We've had extensive conversations with staff and they believe they can provide the information we've requested and that we can get it done in this time period. This is probably the first time ever that the Board will receive the audit report before December 31st. It will certainly be the first time this Audit Committee has ever received the draft in November. A lot of things need to happen; we'll have to have new comments drafted and sent to staff no later than October 31, 2011, so they have time to respond, because those have always been required as part of the draft we submit to the Audit Committee. The Audit Committee agenda packets are due before November 17, so this has to be done before November 17th, in order to give the Committee time to review before the meeting.”

Dr. Mack asked Mr. O'Keefe about security issues.

Mr. O'Keefe stated that they would be focused on quite a bit.

Mr. Reilly asked about the due date for legal confirmation letters.

Mr. O'Keefe replied “That is what could hold up the issuance; it won't hold up the draft coming to the Audit Committee, but it could hold up the final issuance of the report, so they really should be getting the legal letters to us no later than November 17th. I'd like to get them sooner, if possible. If we could have them by November 10th, that would be even better.”

Mr. John Herbst asked “Will the new SSAE 16, which superseded SAS 70, have any impact this year?”

Mr. O'Keefe replied “There is nothing that the School Board has; they're pretty much self-sufficient. They don't use any service organizations outside for anything substantial.”

Mr. De Meo asked “On page 8, “If un-remediated this year, could any of these items rise to a significant weakness, a material weakness?”

Mr. O'Keefe replied “We're going to focus a lot of attention in these areas. If we have a finding, we have to evaluate that finding to determine if it's a significant deficiency or material weakness or something else that could impact our opinion.”

Discussion followed.

Mr. De Meo asked “Could you give me some insight on how you might use the work of the internal auditors and does this reduce the amount of work that you have to do?”

Mr. O’Keefe replied “Just the fact that you have an active Internal Audit Department, as you do, reduces the amount of time we need to spend on this audit. They do a substantial amount of monitoring and recording throughout the year. We look at the work they’ve done and actually drill into their work papers and back up documentation and rely on that information. That gives us the comfort that they are monitoring controls throughout the organization in the key areas that we are looking at.”

Mr. De Meo asked “So, this reduces the amount of hours that your firm has to perform, so this is a significant amount.”

Mr. O’Keefe answered “Yes, it is a significant amount. Also, there is a GASB Statement 54 that has to be implemented this year. This relates to the fund balance component of the governmental funds. They’ve re-designed this to re-classify the different areas of the fund balance. It’s not as big of a deal for school districts, because, frankly, school districts don’t have a lot of fund balance. It’s more complicated for cities and counties, but it will be implemented. It does change. We have seen it implemented in other school districts this year. I don’t think it will be a big problem to implement, but it will change the appearance of the financial statements a little bit.”

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

Mr. Reilly began “This audit included thirty schools; twenty-four complied with policies and procedures for internal funds, which represents more than 80% having no exceptions. There were six schools which contained some exceptions related to yearbooks, deposits, fundraising, late remittances, vending commissions and disbursements. One school had an issue with the co-mingling of funds. One thing the schools are allowed to do now is to have an outside group handle their yearbook, similar to P.E. uniform sales, bookstore sales, etc. In this instance, the middle school had a yearbook run by an outside group and there was some co-mingling of some of the money. This was another instance of non-compliance with Policy 3.1 for the handling of non-school funds and Policy I-101 relating to what monies should be deposited into the internal funds and ensuring that invoices are paid through the internal funds. One of the high schools, Northeast, had a lot of red flags and should be monitored closely relating to deposits, such as numerous overages and shortages, delays in deposits.”

Ms. Fertig asked “Regarding Northeast High and funds used for breakfasts and lunches for staff, similar to the eliminated Principal’s Discretionary Account, what has been done and is this the same Principal and Bookkeeper?”

Ms. Sharon Airaghi stated “In reviewing the past audits with Northeast High, this is the same Principal; it is the same Bookkeeper, but they have made and instituted many changes. I have had my office staff out there and if you notice, they had no payroll exceptions. There was a big

one (payroll exception) in their last internal audit. My office is monitoring, we've changed some duties also. Some of the duties were creating a burden on certain employees and either the remittance was late or the payroll was not given the attention to detail that we had asked it be given. We're working closely with that school to remedy it. We also found out that the Bookkeeper hadn't been to training in many years. We're sending her back to the battery of training and the refreshers. She's already been through that. On August 15th, I had the team in my office; they clearly understand what needs to be changed and they assured me that with the delineation of the new duties and responsibilities, this would be achievable. If not, they know the process we will take."

Mr. De Meo asked "Are the rules clear? Is there one person responsible for approving the hours of each and every School Board employee, including compensated absences?"

Ms. Airaghi replied "At a school site, it is ultimately the responsibility of the Principal."

Mr. De Meo asked "Are the rules clear on how to control their time sheets and so forth? I see recurring, not only in schools, but in some offices, the lack of recording of certain absences. That seems to be a problem that could easily be fixed by someone approving the hours on a weekly or daily basis. I'm just curious if there are controls in place and is that system operating efficiently?"

Mr. Reilly replied "We do have policies and procedures in place; we've actually updated our Payroll Processing and Timekeeping Policy. The District is in the process of making that a little stronger. There have been, in the past, some issues about attendance sheets. I'm very adamant about the need for attendance sheets. Attendance sheets are a key item to be able to substantiate your payroll and also from the employee's point of view, it's helped us a lot. Just recently, where a couple of School Board meetings relating to disciplinary action, where if you didn't have the timesheets and hourly sign-offs by the supervisor, you wouldn't have been able to support your case. I think in the past, there were some areas, due to some regulations, depending on the bargaining unit, where employees felt they didn't have to sign in or out, but I feel it's a critical point. We really do have written procedures, including overtime, we have documents now that clearly require approval in advance. We've been testing for years now to see that the payroll is approved every payroll period. It's not an electronic system, like we would like, so the District would know if you approved your payroll. We do have a manual system with the document called the ZTIM report, which the Principal or Department head needs to review and approve the payroll each payroll period. Those are the controls that eliminate the issues that result in hours being overpaid. I always say payroll is the biggest expense of the District and therefore needs the strongest controls."

Mr. De Meo said "If you take time off and it's not recorded, that's a theft of a resource. This creates bad moral and results in a large cost to the District. In a large District like this, without controls, there could be a lot of money lost."

Ms. Fertig asked "Regarding Piper High School's vending machines, I'm looking at the response on page 97. I hope that as these contracts are being re-negotiated by the vendor, that the Principals are telling the vendors the School Board rules."

Mr. Reilly stated “One of the things we’re looking at on vending commissions is the arrangements that are made with the schools. The faculty rules are very clear; it’s even in their bargaining agreement that the only monies that the faculty should receive are monies that are made from machines in the faculty lounge. When a school gets \$50,000, and the school arbitrarily puts \$15,000 into the faculty account, that’s the issue.”

Ms. Fertig added “In a couple of these cases, it’s the vendor who states where to allocate the monies, and that puts the school in a very difficult position. Our Principals should have to follow the policies, as well as the vendors who are making money from the schools. If they haven’t been producing reports in a timely manner so Principals can allocate the money properly, all of that needs to be considered as you’re re-negotiating these contracts.”

Mr. Reilly stated “I agree. They shouldn’t be telling the schools how to allocate these funds. There was a while there where we were not receiving the breakdowns on a monthly basis of monies the machines produced. I don’t think we’re having that problem anymore.”

Mr. Donnie Carter added “We’ve had that situation in the past, where we’ve gone back and recouped monies from these vendors.”

Ms. Greenberg added “I think the main thing I’m seeing here is similar to the property audits, when year after year, we’ve asked them to write down the serial numbers to have some identification, that it’s logged in and someone has a record. This is the same thing with writing contracts. The Principals need to know that they are in the driver’s seat. They have the right to demand that the vendors follow the policies. If there are no consequences, they are not going to do it. If there are consequences, something will happen.”

Mr. De Meo asked “Is the District allowed to express their views on how well the payroll oversight is operating?”

Ms. Airaghi replied “We do follow up. Our Area Business Analysts also monitor and work with schools. Many of the sessions that they do, they do directly with the person who is responsible for performing the payroll duties. Ultimately, the approval process is the responsibility of the Principals. We do monthly Principal agendas where we do reminders of their responsibilities and everything we take here, we take back and we control those agendas that are done every month at our Area Principals’ meetings.”

Dr. Mack added “I’d like to be sure that you three are meeting and sharing communication regarding exceptions with each other.”

Ms. Airaghi said “Absolutely, we meet on a regular basis.”

A motion was made to transmit. Motion carried.

Internal Audit Report – Property and Inventory Audits of Selected Locations

Mr. Reilly began “This report contains sixty-two locations, thirty-five schools and twenty-seven departments. There was one exception with a school and six with departments. With the North, South and Central, those areas had twelve schools with no exceptions at all, which was very

good. The total audit consisted of \$48 million worth of property; the results were that seventy-nine items could not be accounted for.

Mr. De Meo stated “I’d like to comment about the Board offices. The first two digits of the BPI report, does that represent the year?”

Mr. Reilly stated “Yes.”

Mr. De Meo continued “So a lot of this stuff is 10-15 years old. Is the omission here that they didn’t properly dispose of the item?”

Mr. Reilly replied “When the auditors look at the items, if they are still on the location’s inventory, they are looking for it. If it’s something from 1997 or 1999, it’s likely that they did not follow the proper disposal procedure.”

Mr. Mark Magli added “That’s an example of some of the items that were unaccounted for. We can only make general assumptions as to what happened. For items that the locations did not reconcile or follow up on, when we can’t support something to establish what occurred, obviously we bring it to you as an unaccounted for item. We add in the accumulated depreciation to recognize that fact, but for me to say exactly what happened, I cannot, nor can the folks that were there. We have a transition that takes place in that particular group periodically. We’re not really sure that at a point that they were keeping up with having someone do that. Mr. Reilly and I have met with them and they have designated people to make sure that they will be doing that. There were some things that were on that list that were not from the 1990’s.”

Mr. De Meo asked “Item #25 is a 1994 Laser Printer. If an audit was performed in this area three years ago, you would have found this missing item, correct?”

Mr. Magli replied “I would say it’s likely that it wasn’t there.”

Mr. De Meo asked “How about if we clean that up so we are not reporting on the same items.”

Mr. Magli replied “We do start at a new point, allowing people to go forward ‘clean’, whether it’s agreeable or not. If there are things we were unable to resolve during an audit for various reasons, it would be the expectation that the department would continue to work on it, but obviously, from a control standpoint, with us taking a snapshot view, we work through quite a bit, as we can, but still it represents that there’s probably not been a monitoring or control issue over time.”

Mr. De Meo asked “The amount of exceptions that you find, do they ever rise to the level of materiality as set by the external auditors?”

Mr. Reilly answered “Probably not. Our equipment on our balance sheet, from the District’s point of view, I think is \$800 million, but no it hasn’t.”

Ms. Fertig asked “When I first started on this Committee in 2007, there were millions of dollars in computers missing, but I’ve seen that Mark has cleaned up tremendously and that’s why the schools are looking so good. Now we’re starting with the District offices (departments) as so, hopefully, in another two to three years, they will look like the schools, with very few exceptions. I think you’ve done a remarkable job, Mark, on the schools.”

Mr. Magli replied “I appreciate that and we are certainly proud of some of our contributions in this area. The actions that are taken have involved some of the executive leaders, which have produced these results, as well as an awareness, overall, of what’s occurred. There are certainly people who have not complied, but hopefully, the locations will continue to improve. We worked on the Business Practice Bulletin, which is a lot clearer.”

Dr. Mack praised the response from the School Board’s chairperson and suggested that the Area Superintendents use the response as a model. “I’d like to commend Mr. Williams for doing this.”

Ms. Greenberg commented “The age of the missing equipment sometimes might pop out at you, but nobody knows when it went missing or was surplused or what happened to it. I guess that’s the point. Unless you have proof, it could have gone missing the day after it arrived at the facility. As the Chair always says, if it’s 99 cents or over, we’re interested in it. No matter how much it is in relation to the total inventory of this District, we’re still interested.”

Mr. Ken Evans asked “About the security of laptops, is there anything being done to beef that up in the schools?”

Mr. Magli answered “Based on some of the reporting that took place with law enforcement, we are looking at a process that eliminates loss, the same as reporting things when they occur. Some schools have hundreds of laptops, and they roll those out to staff on a daily basis, so we’ve suggested to see that they are logging those items in. Some areas are higher risk areas than others. This may require you to check every hour. We can expect that they can implement that, without having to come to us to talk about losses.”

Discussion followed.

Mr. John Herbst asked “An affiliated organization that I won’t mention, recently had several laptops ‘walk out the door’ and they have lo-jack on them and they were able to recover them and arrest the individuals involved in the theft. Do we have something similar to that?”

Mr. Magli stated “There is a program that has that capability. A cost analysis has been done to determine where our losses are. In some high risk areas, that has been implemented, but not on every computer in the county.”

Mr. John Herbst stated “Perhaps a consideration to implement this system, District wide, should be considered. I’m not sure what your pattern for computer replacement is, but if you’re replacing equipment every 3 to 4 years, that might be something that should come standard with this anti-theft device on the new equipment as part of the acquisition, rather than retrofitting everything you already have, which could be cost prohibitive.”

Ms. Fertig added “One thing I see happening is when we started doing this, there weren’t that many reports of theft being made to the police.”

Mr. Magli replied “One of the issues is the timely nature of reporting and knowing that the item even disappeared. One of the concerns that we had was in the program that was implemented, they required the location to identify the loss, with the local agency as a reporting piece, so that they could go about tracking those items. It all goes back to how controlled your environment is, and that’s the best security we have.”

Dr. Mack stated “I’d like you to follow up on John’s (Herbst) comments, talk to IT and get their input on the suggestion. Come back and give us an update on how feasible this would be.”

Mr. Andrew Medvin asked “Mark, is there a procedure to verify and maintain the security of the storage areas, especially for computers? Is there a specific procedure for that?”

Mr. Magli replied “No, not that I’m aware of.”

Mr. Medvin replied “Ok, to take that a step further, if an incident like that happens, how is it reflected in these reports? Is it, as a matter of course, entered into the inventory as something that is missing, and therefore, is not reflected as an exception?”

Mr. Magli replied “If it was accurately reported in compliance with the standards that are stated in Business Practice Bulletin O-100, it will not show up in the report.”

Ms. Greenberg added “We’ve been talking about tracking those laptops for a long time. I’m glad something is finally going to be done to implement some type of tracking device. Mark, I know that some schools actually ask you to do the inventory for them, work that you shouldn’t be doing as an auditor. Are you still running into that?”

Mr. Magli replied “To a degree. We had a mountain to climb a few years back, with bad or incomplete records. Catching up and cleaning up their records has helped. We still have a couple of things here and there, but we’ll work with the locations. We’re not going to undo something that you should not have done or say it’s appropriate; however, if it’s something that we can reconcile, we do that. Certainly, the volume has been extremely reduced.”

A motion was made to transmit. Motion carried.

Internal Audit Report – Audit of the Payroll and Timekeeping Practices of the Design Services Department For the Period from December 27, 2010 through July 10, 2011

Mr. Reilly began “This is an audit we performed at the request of Mr. Lindner. He called me and identified some payroll irregularities he had noted in some of the payroll periods in his Design Department. Based on our audit, we did see significant indications that the payroll processing and recording of payroll absences, (i.e. vacation and sick leave), were not being properly recorded and documented. We expanded our sample to include fourteen consecutive pay periods. Some of the things we noted were significant weaknesses in internal control procedures and deviations from the District’s policies and procedures. These procedures were not being followed by the payroll processor or the payroll supervisor in that department. For the six month period, fourteen payroll periods, there were over 2,000 hours of leave time that were not entered into the SAP system. The monetary value of that is approximately \$65,000. What this means is that employees were paid for time not worked. There were many employees who indicated their absences on the attendance sheets and completed the Vacation/Leave Request forms, which were then signed by the Supervisor; however, the Payroll Processor still failed to enter the absences into the SAP system. This happened 87 times and there were 222 instances where the time was not entered for full or partial days of leave taken. We saw instances where the Payroll Supervisor did not sign or approve the ZTIM and Zearnings reports and other instances where they were signed and approved late, after the check disbursement date. We had some issues with

leave forms that were not completed, but the actual absences were recorded. We recommended an SIU investigation and that an effort be made to record those absences. We recommended training be reiterated to the Payroll Processor and Payroll Supervisor as to their duties and responsibilities.”

Dr. Mack asked Mr. Lindner “Do you feel that the results of this audit have given you the kinds of tools to correct the situation that you suspected when you requested the audit?”

Mr. Tom Lindner replied “Yes.”

Dr. Mack asked Mr. Reilly “For years, you have been trying to get the supervisors to sign off on the payroll and you have not been successful. What’s it going to take to get that to be a practice in this School District?”

Mr. Reilly replied “One thing that Tom (Lindner) had were the attendance sheets or we wouldn’t have been able to conduct the audit. I’ve been getting some feedback from various locations questioning why we need attendance sheets. This is a critical document that supports the payroll as well as the employee’s position. We have a unique payroll system that is by exception. If you are a full-time employee, you automatically get paid for the ten day period, without making any entries into the SAP system. It’s critical that the Payroll Processor have attendance sheets to determine when employees are absent or have overtime, etc. That was one of the adjustments to the Payroll Time Entry Business Practice Bulletin to make that clearer that timesheets need to be maintained. In my opinion, that is the most important document in the payroll process. The other issue about the approval of payroll is an electronic approval system, which we used to have, which ensures that payroll is approved on a timely basis. When there’s a problem, it always comes down to the ZTIM’s not being printed and approved timely. That’s one of the first red flags. There are checks and balances, the Payroll Processor knows that the Supervisor is approving the payroll and may occasionally look at a vacation/leave form to verify that it is posted. One thing in this audit that we did not see was employees coming forward to state that the leave time they used was not deducted from their leave balances. If it was the other way around, if they earned vacation time that wasn’t posted, they would surely bring that to the Payroll Processor’s attention. We have procedures in place and we want to make sure that they are followed, but I would like to see the electronic payroll approval, where you cannot deny that you were late approving the payroll.”

Dr. Mack asked “What’s it going to take to fix it?”

Mr. Reilly replied “It’s really an IT issue that would require some funding.”

Dr. Mack said “We’ve spent hundreds of millions of dollars on technology and we can’t come up with a solution to a simple payroll problem. It makes no sense to me.”

Mr. Reilly replied “It really has been a deliverable for a while, but wasn’t a show-stopper when it (SAP 6.0) went live. The manual system, if followed, is working, but it’s not as efficient as it could be if we had the electronic approval process.”

Dr. Mack asked the Superintendent to come back with a recommendation on how to automate the system. “This, to me, is a basic and fundamental issue that should have been included when we first started BRITE and the rest of these fancy programs. I want to see this brought to a

conclusion. I believe I'm speaking for my colleagues. I'll give you two Audit Committee meetings to come back with a solution.”

Ms. Fertig stated “I'd like to state that 309 instances among 43 employees is a large problem. I'm wondering how often you've done this in other departments and if you found similar results.”

Mr. Reilly replied “We are planning to perform additional payroll audits. Actually, we looked at the six locations within the Facilities & Construction Management Division in March, 2010, and we did identify some of these identical findings, not consistently approving ZTIMs, not showing attendances, etc. There was a subsequent follow up and we did see some improvements. The initial time we looked at this, there were some different people responsible for approval. I don't know the reason for the major breakdown.”

Mr. Lindner added “We met with the employees who were affected by this, those who are still employed by Facilities, and there are fourteen that were laid off who we will approach. Of the twenty-six employees, twenty-two have already agreed to have their leave time corrected, because they did submit the documentation and they did take the time and they recognize that. Several of them stated that they thought they were present for part of the time, and that will be researched through their computer sign on records and the swipe card system. If necessary, we will adjust our records accordingly. Of the \$65,000, employees have agreed to repay approximately \$30,000. As a result of this, there have been some personnel changes. The person who was responsible for that has been removed from that position. There has been a specific directive issued that establishes set start and stop times for the work day that will help avoid some of this other confusion. I know what the Federal statutes say about exempt employees who have the right to set start and stop times, but you have to be accountable for where you are. You don't necessarily have to punch a clock, but you have to be accountable for where you are and where you're going, which is why we have sign in sheets. There was some reluctance by some staff, especially the senior ones, who felt that they didn't need to sign in or sign out. I've corrected that and I hope not to have these issues again.”

A motion was made to transmit. Motion carried.

Update on the Grand Jury Report Responses

Mr. Reilly began “In May or June, we sent you the original Grand Jury Report and the District's responses. Jeff Moquin has prepared a matrix following up on the progress of responding to the recommendations made by the Grand Jury. There are 51 findings and recommendations that are outlined in the matrix. There are certain things that affect our department. One issue was the bidding and bid process for construction projects. They had asked us to take a look at that process. We reviewed that process and Dave (Rhodes) produced a report in June and made some recommendations. We are monitoring that process. There are other areas with policies and procedures relating to construction, for example, plant surveys, retainage release, etc.”

Mr. Jeff Moquin began “The Grand Jury Report came out in late February (2011). The Commissioner of Education requested that we provide a response to the audit by March 2nd, to which we complied. We had labeled it as a preliminary response because it had just been released and there was a sense of urgency to have some kind of response from the District.

Almost immediately, the Commissioner asked us for a final response and had outlined a March 31, 2011 deadline, which we complied with. That has become the District's plan of action to respond to it. To remind the Committee that the Grand Jury Report itself was broken into two sections, one dealt heavily with construction and TCOs; the second half dealt with alleged inappropriate behavior. As Mr. Reilly mentioned, we have outlined 51 action items in our Plan of Action to address the concerns for nineteen findings, twenty recommendations within the report. The Commissioner of Education sent the Inspector General from the Department of Education to review and ask for a lot of back up to document that what we said was in our Plan of Action, particularly with the items that we stated had already been completed to date. They sent a team of three people in March. The response from the Commissioner of Education stated that it appeared that we were diligent in executing our Plan of Action and any minor concerns that they had were primarily addressed in our final response on March 31st. The Commissioner indicated that he would also be monitoring or would ask the Inspector General's office to monitor the District's progress for a six month period. Since that time, we've produced two comprehensive status updates that followed a similar format to our initial response, giving the status of implementation, as well as providing back-up documentation to support that. The District's remedy is primarily in two categories; one, with the revision and/or creation of new policy and, second, dealing with training at the Board and staff level on a variety of issues regarding governance and ethics. The most recent update we provided was on August 19, 2011. In addition to those two formal updates, there has been a series of requests for specific documentation or questions regarding information we provided and the District has responded, in accordance with that. As of right now, we continue to be on target with the deadlines we set. The last, most significant rollout was this summer for ethics training for all Principals and Directors and leaders throughout the District. That on-line ethics training course was developed in collaboration with Florida State University and the Florida Commission on Ethics. We've taken that training and turned it into three modules. Probably, the largest outstanding item, and I've spoken to Mr. Reilly, is that we had indicated that we were going to have an independent, outside consultant come in and perform ethics testing for the District. We had said we would initiate the first phase of that at the conclusion of this current fiscal year. Obviously, the reason for that is that we were introducing these new policies, we wanted to have an opportunity to implement the plan of action and increase awareness throughout the District on some of these issues, particularly the ethics piece, before we had an independent consultant come in. That's basically where we're at. The last notice that I received from the new Commissioner of Education (obviously, we've had a change in administration) acknowledged the fact that we've been diligently responding to their requests and that their six month monitoring period would be concluding in October. At that point, they will provide a status report of where they believe we are in responding to the Grand Jury Report."

Dr. Mack stated "As you know, the Audit Committee only responds to audit reports, but the Grand Jury Report is an eye-opener for everybody. Thank you for the update."

Ms. Fertig asked "On page 9, the General Counsel reviewed the legality of prohibiting contractors with unresolved items from bidding on future business. This seems to be something that there's no real response for at this point. That seems to be an over-arching theme on many of our conversations, not just about contractors, but overall, what can we do to ensure accountability from the people who are doing business with the School Board? Is there any more

information about that? I should have asked this while the General Counsel was still here. Is there some date on the correspondence that's being prepared?"

Mr. Moquin replied "The update you're looking at was August 19, 2011; this was the last comprehensive submission. Subsequent to that, the Inspector General's Office did inquire about that. That was one of their follow up questions. The response that we received is that the General Counsel's Office had asked if we had looked at other Districts and their processes for prohibiting contractors from participating, when they've had problems with them. The General Counsel's response was that they believed the existing pre-qualification process and the contracts we have, if executed faithfully, address this problem."

Mr. Hurst asked "So, if Mr. Smith is with Company A and Company A fails to complete a job and has taken money from the School Board, we're chasing him legally, he dissolves that company or disbands in some way and forms Company B and comes back and bids, that would be acceptable?"

Mr. Lindner replied "Only if he pre-qualifies, and that's what the attorney is saying. You would detect that in the pre-qualification phase."

Mr. Hurst asked "Is it detected?"

Mr. Lindner replied "I think it would be detected if we looked at his licensure. If he was the qualifying agent for that company, and the other thing, it's a very small group of contractors that bid on our type of work, so I think it would come up. In the past two years, we've implemented project feedback that weighs the performance of the contractor. We have leverage that in pre-qualification, to reduce the bid amounts that we are allowing contractors to bid on or denying their requests to increase the bid amounts. We, I think, for the first time, have used the pre-qualification process to, I don't want to say, apply some type of punitive measure, but to maybe use that feedback to maintain the status quo, so to speak."

Mr. Hurst asked "So, the pre-qualifying would eliminate as best as possible the need to have legal counsel."

Mr. Lindner continued "I think the other issue is if you disqualify the company, and we are in the process of doing that with one contractor. That's going to happen next week. If you disqualify that contractor, they can no longer bid on your work and we're taking action to do that with the contractor for the first time. This is unproven ground, we've never had this issue before. Dave you may have more information on this than I do."

Mr. Hurst asked "In your response to that, will that also be followed up by letting Dade and Palm Beach counties know our feelings about that company?"

Mr. Lindner replied "I think legally we can do that, because the meetings are public. The documentation is public. I'm not sure I'd want to get into the business of calling people, saying 'can you let these guys go'. I guess there are other ways around that."

Mr. Rhodes added "To follow up on what Tom was saying from our perspective is to look at the pre-qualification application and the information that's requested in that application. Mr. Lindner knows that we've asked on several different occasions, whether it be a contractor or a design

professional, who is the qualifying agent of the company and who is on the Board of Directors of that company. That's very important. Let's say the guy was with Company A, and has problems with the District, closes up and opens another company and now we're no longer tracking his license because he has a qualifying agent who's got a different name and license number. We wouldn't detect it that way, but if we identify through the Board of Directors that this person matches up, we would then have the opportunity to at least say 'this is another factor to take into consideration'. I think it's really about advising, making a more comprehensive review, although fair and something that doesn't get the District into any trouble, regarding that pre-qualification application to catch that in two different ways."

Mr. Hurst asked "So, there wouldn't be anything that would be needed for #48?"

Mr. Lindner added "There are other things that involve that pre-qualification as well. There's a Dunn & Bradstreet, there's a credit check, we ask them for three references, we ask them if they've done any other type of School District work. There are a lot of questions that go into that process, litigation and pending litigation."

Mr. De Meo asked "Recommendation #13 was to create an internal office of the Inspector General. The response stated that we are checking into it. Is there any new information on that and how would that affect this Committee and your office?"

Mr. Carter stated "I think initially there were some requirements from the County. I will get with Counsel to see if they have moved any further on that. If not, I'll find out what our options would be."

Mr. De Meo asked "How would that affect the Committee and Mr. Reilly's office?"

Mr. Reilly replied "In Dade County, they had an Inspector General at one time, but it was eliminated. They still had an internal audit department. There's more of an investigative side with the IG side, vs. compliance with policies, procedures and internal control, which is more on the internal side. There are all kinds of combinations. I know Palm Beach is looking at that now. There are other municipalities that have the School District incorporated as another one of their County's IG office."

Ms. Greenberg stated "Regarding #48, I know from experience it is tough to disqualify a contractor, even if you've had numerous problems with them. I don't think the pre-qualification solves this problem. The existing contracts do not solve the problem. Tom knows what you have to go through to disqualify a contractor. There's got to be a way to look at past performance and get something legally done, that you can use."

Mr. Lindner added "Part of the issue in the contracting world, particularly in construction, is that there is litigation. It is a by-product of the process. Unless it's a significant amount of litigation, it's really not a negative. It revolves around how the litigation was resolved. Many times, that resolution is in an agreement that you can't discuss. It's closed or sealed, which protects the contractor and that's the way the law is written, to protect the contractor. Public service contracting, we have to open it up to those contractors who are qualified. Unless there's some glaring reason to disqualify them, you really do have to show cause not to qualify them, and that cause is subject to appeal and re-submission. It is a difficult process. Part of the issue, as a result of the Grand Jury, was the execution of the contract, and that's an internal management issue."

That really contributed a lot to the situations we had that led to some of the errors in execution. The key is to execute the contract the way it's written and remember that you're the customer and hold the contractor accountable, based on what his requirements are in the contract. I'm not sure we did a really good job on that back in 2005 through 2008. We are trying to do that now, with the Audit Committee and Dave Rhodes and his staff; we've looked at a lot of these issues, we've tried to get people up to speed. It's never going to be perfect, but as we move forward, we establish internal controls and ask the right questions. These checklists force you to ask the right questions to minimize the District's exposure to the types of issues that resulted in the Grand Jury investigation."

Ms. Greenberg stated "At the last meeting, I asked Mr. Notter if he would involve the General Counsel's Office in helping to go over these contract revisions, so we could get a matrix. I know you and your staff don't have the time. Have we heard anything back about that? He said he would do it."

Mr. Lindner replied "I actually have staff working on a matrix so we can track it internally. I will get that to you, but I don't have a timeline right now. There's a new person working on that job and it's on the to-do list. We've been going over contracts as we put them out and we've asked General Counsel and the Audit Department to look at those contracts to make sure they meet the requirements that protect the District without being unfair and/or requiring something out of the ordinary or that violates statutes."

Ms. Greenberg said "That's the matrix I was talking about. There were no underlined strikeouts."

Mr. Lindner replied "We are looking at that and we will have it."

Mr. Carter said he would follow up on that item also.

Ms. Fertig said "I think it would be more meaningful if the name of the person they are making recovery from was on this chart. Seeing that chart for the hundred or so matters might be interesting in view of the conversation we just had."

Meeting adjourned at 2:52 p.m.