

The School Board of Broward County, Florida
AUDIT COMMITTEE

MINUTES OF AUDIT COMMITTEE MEETING

November 17, 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
Mr. Ken Evans
Ms. Mary Fertig
Ms. Charlotte Greenbarg
Mr. Steve Hurst, CFP
Mr. Andrew Medvin, CPA
Ms. Mary Lou Ruderman, CPA

Staff Present: Mr. Robert W. Runcie, Superintendent of Schools
Mr. Donnie Carter, Chief Operations Officer
Mr. Ben Leong, Chief Financial Officer
Mr. Paul Carland, General Counsel, Office of General Counsel
Mr. Thomas Cooney, Office of General Counsel
Mr. Thomas Lindner, Deputy Superintendent, F&CM
Mr. Jeff Moquin, Chief of Staff
Ms. Gracie Diaz, Associate Superintendent, Human Resources
Mr. David Golt, Executive Director, SIU
Mr. Oleg Gorokhovskiy, Accounting & Financial Reporting
Mr. Aston Henry, Jr., Risk Management
Mr. Eric Chisem, Risk Management
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. Cyrilla Bradley, Transportation Services
Ms. Nell Johnson, Director, Internal Accounts
Mr. Craig Kowalski, SIU
Ms. Angela Coluzzi, ETS
Mr. Chuck Stanley, ETS
Mr. Raymond Papa, Food & Nutrition Services
Mr. Scott Krutchik, Accounting & Financial Reporting
Ms. Mary Mulder, Food & Nutrition Services

Ms. Melissa Grimm, Director, ERP Project Management
Ms. Jane Landi, Food & Nutrition Services
Mr. David Rose, Food & Nutrition Services
Ms. Lynne Wells, Food & Nutrition Services
Mr. Mark Dorsett, PPO Maintenance
Mr. Raul Valero, PPO Maintenance
Mr. Greg Neiman, PPO Maintenance
Mr. Mark Mills, Food & Nutrition Services

Guests Present: Mr. Dan O’Keefe, Moore Stephens Lovelace, P.A.
Mr. Manuel Garcia, GLSC & Company, PLLC

Old Business

A motion was made to approve the minutes for the October 27, 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. Pat Reilly stated “At this time, there is no update. I would like to keep this item on the follow up matrix and we will provide any updates from the General Counsel’s office as they are received.”

Dr. Henry Mack stated “Ok.”

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

Mr. Reilly stated that this follow up was regarding the Change Orders ‘Other’ audit. Mr. Tom Cooney gave an update on the 47 items being pursued by the Facilities & Construction Management Division.

Mr. Cooney stated “We were asked to add a column to show the vendors that were involved in the litigation and we’ve done that. You’ll notice the colored portion of this document reflects the changes from the previous document. Previously, I expressed to the Committee that there were 47 matters being handled by the Facilities & Construction Management Division. That is true, but that is the universal population of all errors & omissions matters that didn’t rise to the level of being referred to Legal or that didn’t warrant litigation. Of those 47, there were approximately seven projects that were part of the audit. The specific response to the question of which 47 projects were part of the audit was listed at the bottom of this spreadsheet. Those specific projects with those specific vendors are the matters that are being handled by Facilities only. I’ve added some additional notations to explain. Of the items listed on Exhibit “D” of the “Other” audit, F&CM has handled seven (7) claims.”

Ms. Charlotte Greenberg stated “The projects on the bottom of the spreadsheet do not show the change order value or what we were asking for, what we recovered, what we settled for, or who the attorney was. There’s no information.”

Mr. Cooney stated “Those on the bottom of the spreadsheet are matters that were not referred to Legal.”

Ms. Greenberg asked “How can we find out how much money was involved and how much we received?”

Mr. Cooney replied “Facilities would have that information.”

Mr. Reilly stated “The audit report included fifteen (15) Change Orders that were audited and there were 133 Change Orders ‘Other’ that were not part of the audit scope, for a total of 148 change orders. The 133 items needed to be broken down as to what type of change orders they were. From that point, if they were errors and omissions, those were the ones they (Legal) were going to pursue from the vendor.”

Follow Up Item #3 – Property and Inventory Audits – September 8, 2011

Mr. Reilly stated “The Committee requested information on the use of the Computrace program (similar to the lo-jack system for laptop computers).”

Ms. Angela Coluzzi stated that there was an analysis done which showed that currently, District losses have not risen to the level that would make the Computrace system cost effective.

Mr. Steve Hurst asked about the possibility of placing a Computrace sticker on all laptop computers, but only having the system installed on one out of ten laptops; therefore, an individual would not know whether or not a computer was equipped with the tracking system.

Dr. Mack stated that one additional factor was the improvement in property and inventory control by schools and departments and the requirement of bi-annual inventory checks. “I would like to think that we would be experiencing a decrease in the loss of laptops because of the accountability we now have in place, right Mark?”

Mr. Mark Magli stated that with the use of Computrace, there were requirements for identifying and reporting the losses that weren’t being met. “The tightening of the internal control over inventory is definitely a factor in improving the safeguarding of assets.”

Mr. Robert Runcie asked if anyone had ever been prosecuted for computer theft.

Mr. Eric Chisem, from the Risk Management Department, answered “Yes”.

Dr. Mack thanked Ms. Coluzzi for her presentation and agreed that the system would not be cost effective at this time.

Regular Agenda

Moore Stephens Lovelace, P.A. – Comprehensive Annual Financial Report (CAFR) – June 30, 2011

Mr. Dan O’Keefe presented the Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2011 and thanked staff for providing all the information needed to meet the deadlines, so the CAFR could be presented to the School Board at the December 6, 2011 meeting. “We have the representation letter, but in order to finalize the report, we are awaiting the legal letter from the General Counsel’s office. The report indicates that we are rendering an unqualified opinion for the fiscal year ended June 30, 2011. This shows that your financial statements are fairly presented in all material respects. This year, we did not find any significant errors. In fact, this year, we didn’t even have any unadjusted differences.” Mr. O’Keefe asked if there were any questions concerning the report.

Dr. Mack stated “For the benefit of the new Audit Committee members, you have a memorandum from Mr. Oleg Gorokhovskiy. This document shows the changes from last year and Oleg, again, did a good job on this. This supplementary information summarizes the significant changes from the previous year.”

Ms. Greenberg thanked Mr. O’Keefe and staff for their hard work in preparing the report.

Mr. Ben Leong also thanked Mr. O’Keefe and his staff for their hard work and having this report finalized before Thanksgiving. He stated that the Association of School Business Officials notified the District last week that Broward County is one of only two Districts in Florida and one of fifty-nine Districts in the nation that has continuously received this award for good financial reporting for twenty-five years.

A motion was made to transmit the report. Motion carried.

Moore Stephens Lovelace, P.A. – Management Letter for the Year Ended June 30, 2011

Mr. O’Keefe stated “On page 3 of the Management Letter, you’ll see Appendix A, which talks about the comments that have been cleared and those that are still in progress. Last year, if you recall, the Audit Committee asked us to beef up the work in the Information Technology area. We did a few things differently. Our IT team that came in this year was extremely impressed with how many comments were resolved and cleared since last year. You can see in the second column, the ones that have been corrected. The first column shows items that are still outstanding. They are in progress and management has provided responses for these items.” Mr. O’Keefe asked if there were any questions.

Dr. Mack asked “In regard to security controls, in the past, we had individuals who left the District, but still had access to the systems. Has that been corrected?”

Mr. O’Keefe said “Yes, our IT testing supported that security controls for employees who have left the District are in place.”

Mr. Reilly commented on the payroll time management finding and advised the Committee that the District is in the process of implementing an electronic payroll approval system for all

Principals and Directors. He continued “This change will eliminate the paper method and improve internal control over the payroll approval function.”

A motion was made to transmit the report. Motion carried.

Moore Stephens Lovelace, P.A. – Auditors’ Reports Required by the Office of Management and Budget (OMB) Circular A-133 (Single Audit Report) for the Year Ended June 30, 2011

Mr. O’Keefe presented the Single Audit Report for the year ended June 30, 2011. He stated “This report is on compliance and on internal control for your major Federal programs. Page 9 shows the Schedule of Findings and Questioned Costs. The bottom of this schedule lists the major programs. As you can see, the District has many major programs, including the ARRA funds that were still in this period. We consider the ARRA money as high risk in nature. We were very pleasantly surprised, based upon the tests we performed, that there were no findings for this program. This shows that there was good monitoring of these programs.”

Dr. Mack thanked Mr. O’Keefe and his firm for an excellent job with the financial audits.

A motion was made to transmit the report. Motion carried.

Internal Audit Report – Property and Inventory Audits of Selected Locations

Mr. Reilly stated “Our property audit report contained twenty-nine locations; twenty-four contained no audit exceptions and complied with the current procedures for property and inventory control. Five locations contained audit exceptions; however, property audits in general have shown improvement. One thing we have been seeing is more assets that are physically observed, but are not shown on the property inventory records of the locations. These assets need to be added to the property records.”

Ms. Greenberg asked, “Is there anyone here to answer questions from Facilities?”

Dr. Mack stated that no staff members from Facilities and Construction Management were in attendance.

Ms. Greenberg re-directed her questions to Mark Magli in their absence. “On page 15, it is stated (regarding the property audit of the Facilities and Construction Department Audit) ‘no corrective measures have been delineated’. The school locations have made progress, but the departments still need improvement. Page 22 noted that incomplete forms were provided to the audit staff. Page 23 stated that no documentation was provided and page 24 stated that things were not on the original document. Mark, what do you think it is going to take?”

Mr. Magli replied, “Will. The District, overall, has made a tremendous effort to improve monitoring of assets. The audits provided in the report do not certify that all the actions and processes have been “perfectly” executed, but that there has been considerable growth. Despite the guidance of the Audit Committee and management, some departments and administrators do not effectively comply with the monitoring standards. Some people don’t listen. Many reports have indicated the fundamental need for locations to download their inventory reports and review them regularly. If there are any discrepancies, there is a vehicle to get those items corrected. They have a task to do, but it’s not going to happen by itself. Support is also available

for all locations via the Office of the Chief Auditor as well as Financial Reporting Department when concerns are identified. In addition, Business Practice Bulletin O-100 was provided for staff, last year, as a reference if they are still not clear of the District’s expectations regarding monitoring and safeguarding assets.”

A motion was made to transmit the report. Motion carried.

Annual Audits of Charter Schools for the Fiscal Year Ended June 30, 2011

Mr. Reilly stated “There were four Charter schools that had financial situations that required a follow up or a financial recovery plan. The schools each had a deficit fund balance, which per Section 218.503(1)(e) of the Florida Statutes, requires that a detailed financial recovery plan be submitted to the State. The matrix you received provides comments on each individual school.”

Mr. Andrew Medvin asked “What is the procedure for the schools that have a financial emergency?”

Mr. Reilly stated “We meet with them, review their plans and assist them with their recovery plans to improve their financial positions.”

Mr. De Meo asked “Do the external auditors get involved?”

Mr. O’Keefe responded “No.”

Mr. De Meo asked “Do you verify the student enrollment that affects FTE to ensure that it is not over-inflated?”

Mr. Reilly responded “The Budget Department has controls in place to ensure that registered students’ information is obtained prior to the beginning of each school year.”

Mr. Medvin asked “Do you have enough staff to monitor the financial positions of the Charter Schools?”

Mr. Reilly replied “We do the best we can with the limited staff we have.”

Discussion followed.

Other Discussions

Mr. Reilly stated that the current external financial auditing contract would be expiring this year. He stated a new RFP would be issued soon and a Committee would be formed to review the new proposals. He also stated that several Audit Committee members would be needed on the selection committee.

Dr. Mack asked Mr. Runcie to address the PPO - Zone 4 Maintenance Facility Audit.

Mr. Runcie stated “This past Tuesday, the Board received the audit of the PPO - Zone 4 Maintenance Facility. This is a project where the District piggy-backed from another county to hire Royal Concrete Concepts (RCC) for design, build and installation of modular buildings for Zone 4. I’d like to thank Pat (Reilly) and his team for the excellent work they’ve done on getting the details for this and laying out the issues and working with the Facilities group. There are

several areas here that need to be looked at; first, the whole construction and procurement process, the administration of the project and how that was actually conducted. We're looking at the contract terms and seeing irregularities there, as well. We're looking at the applicable codes, regulations and laws around the construction of the facility. Also, the DCA at the State has identified irregularities, and is performing its own investigation. Given where we are with the financial future of this project, I'm not sure of the exact dollar amount, what has been issued, or what's committed versus the full contract amount. Actually, it isn't really a valid contract anyway. I'd like to move forward and try to terminate this project. We'd like to look into where we are and get with our Legal Department and Pat and figure out where we stand. We'd like, at this point, to cut our losses and re-direct those dollars to other capital needs. I'd like to make a decision by the end of the month."

Ms. Mary Fertig stated "I was at the meeting Tuesday (11/15/11 RSBM) when this was brought up and there was one part of this that really troubled me. An individual came to the microphone; I think he was a Project Manager that so much has been written about. He was very supportive of what Mr. Reilly and Mr. Rhodes had done. He was not supportive of the response to the audit. I think when we talk about how we take corrective action so we don't make the same mistakes again, we rely heavily upon the responses from the Departments, so to me, even though that's not the main issue, the main issue is if we are going to proceed or not, I think it's an important issue whether or not the process was followed. If he does have signed documents to show he received certain permission to do this (project), then many of the things you suggested for corrective action become appropriate, whereas, if you didn't, you may not need those corrective actions. We don't have this on our follow up any more. I would hate to lose that, but I think it is really important how accurate the responses are and whether the corrective actions that are suggested even by the Auditors or the Audit Committee are necessary or not. I was really astounded to see that happen where someone approaches the microphone. I absolutely agree with the auditors, but if the Project Manager states that he has documents that no one asked for that substantiates that he did what he was supposed to do, that's a concern."

Dr. Mack stated "I would hope that the District could establish a best practice so this doesn't happen in the future. The responses would not be particular to this project, but a generic kind of approach."

Ms. Fertig stated "I would like an update to make sure the process is as clear as possible."

Ms. Greenberg asked "These documents that he (Project Manager) was referring to, weren't they part of your research?"

Mr. Dave Rhodes responded "Yes."

Ms. Greenberg stated "Thank you."

Mr. Rhodes stated "I would not want to speak for him, but I could speak to the issue he brought up."

Dr. Mack stated "We're not going to speak to that, we're done with that."

Ms. Greenberg stated "I would like to state to the Committee that we support Superintendent Runcie and the decision to terminate the project."

Final – Approved at the February 2, 2012 Audit Committee Meeting

Dr. Mack stated “Make that a motion.”

Ms. Greenbarg stated “I would like to make a motion that the Audit Committee support Superintendent Runcie’s decision to terminate the project.”

Mr. Hurst seconded the motion. The motion passed unanimously.

Dr. Mack asked about the delay with the Broward Education Foundation’s (BEF) financial statements that should have been in the CAFR. Discussions followed.

Mr. Reilly stated “The BEF’s financial statements are included each year in the CAFR and this year they were late; however, they will be included in the final CAFR being presented to the Board on December 6, 2011.

Meeting adjourned at 1:30 p.m.