

The School Board of Broward County, Florida  
**AUDIT COMMITTEE**

MINUTES OF AUDIT COMMITTEE MEETING

March 29, 2012

Mr. Steve Hurst, Vice Chair, called the Audit Committee meeting to order at 12:30 p.m. at the Kathleen C. Wright Building in the 1<sup>st</sup> Floor Board Room. Members and guests were introduced.

Members Present      Mr. Ken Evans  
                                 Ms. Mary Fertig  
                                 Ms. Charlotte Greenbarg  
                                 Mr. John Herbst, CPA  
                                 Mr. Steve Hurst, CFP  
                                 Mr. Andrew Medvin, CPA  
                                 Ms. Cynthia Samuel  
                                 Mr. Duane Wolter

Staff Present:            Mr. Jeff Moquin, Chief of Staff  
                                 Ms. Gracie Diaz, Associate Superintendent, Human Resources  
                                 Ms. Kathrine Francis, Student Services  
                                 Mr. Patrick Reilly, Chief Auditor, Office of the Chief Auditor (OCA)  
                                 Ms. Ann Conway, Director, Operational Audits (OCA)  
                                 Ms. Delores McKinley, Director, Internal Audits (OCA)  
                                 Mr. Joe Wright, 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

**Old Business**

A motion was made to approve the minutes for the February 2, 2012 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, after checking with our legal staff, there is no update for this meeting.”

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

Mr. Reilly stated “On this follow up, the last request was to include the timeframe to reach the settlements and which attorney handled the settlements. Mr. Carland sent this update to us

yesterday, and you received an electronic copy. Also, hard copies were distributed to you today. For the seven items that you requested, he gave us a schedule and a breakdown of which attorney handled each one and how long it took to reach a settlement. On the handout, the first item related to the Atlantic Tech project was stated that it was handled by staff and took four months to finalize the second item. Items 2 through 5 were related to one particular architect and there was a settlement agreement regarding the change orders. There was \$75,390 that was settled through the Dispute Resolution Committee. Additional items were added to that settlement. Regarding the Change Orders Other, the settlement was \$75,390. That ran from August, 2007 and was finalized February 15, 2011. Item #6 was related to the Dave Thomas Educational Center that was settled by staff in two months. It did not go to litigation. Item #7 was Whiddon Rogers and that was handled by attorney Steve Lesser on May 6, 2011. Both the statute and damages threshold limitations precluded litigation, and the item was returned to Facilities & Construction Management staff on May 20, 2011, so that one is basically still open.”

Several Audit Committee members asked questions about the schedule furnished by Mr. Carland and about the authorization of the Dispute Resolution Committee; however, since there was no representative from Legal Counsel or the Facilities & Construction Management Division, this will be added to the Audit Committee’s follow up items to be addressed at the next meeting on May 17, 2012.

### **Regular Agenda**

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

Mr. Reilly stated “There are sixteen schools in this audit report; thirteen complied with all policies and procedures. There were three schools that had some exceptions, two related to payroll issues regarding authorization and approvals on the bi-weekly payroll. One school had issues relating to handling donations and the proper documentation for disbursements.”

Ms. Charlotte Greenberg asked “Regarding Hallandale High, I’ve met the new Principal and I have a feeling that you won’t be seeing any problems again, based on what she said. The two prior Principals obviously had some problems in these areas. She sounded, by her comments to me, to be ‘by the book’.”

Ms. Mary Fertig stated “I know we’ve had several Principals who received letters from vending companies, stating how they should use their money. The schools were not spending this money in accordance with School Board policies. In here, it clearly states that when a donor sends you money, you’re supposed to spend it according to the donor’s wishes. I see a conflict in that.”

Mr. Reilly stated “A donation is a donation. A vending commission is like a contract, where the vendor is providing a service and the District is benefiting from it; therefore, it’s not really a donation. That’s why there’s a restriction when a vending company states how they want the school to use their money. They shouldn’t be telling the schools how to distribute the profits. We’re working to get those contracts revised to omit that type of language.”

Mr. Steve Hurst asked “Was this treated as a true donation; was it a tax break for the company?”

Several Audit Committee members stated “It’s a commission.”

Mr. Hurst said “But it’s called a donation. I realize the cash tax break they receive if it’s a donation.”

Mr. Reilly stated “The vending is an arm’s length transaction. They’re getting something and we’re getting something. A donation should have ‘no strings attached’ except that the donor can say how they would like that money spent. That’s how our policy is written.”

Ms. Fertig added “So none of these monies came from any type of vending?”

Mr. Reilly replied “If it’s not earmarked, it’s supposed to be placed in the General Fund.”

Mr. Hurst added “Did it come from a vending machine company?”

Mr. Reilly replied “I don’t believe these monies came from vending companies.”

Ms. Fertig added “These were straight donations to the school and did not come from vending companies?”

Mr. Reilly stated “Correct”.

Mr. John Herbst added “I’d like to clarify the donations vs. commissions. We look at things from a perspective of exchange transactions and non-exchange transactions. Governments typically engage in a lot of non-exchange transactions. We take tax revenue from you; you get nothing specific in return. That’s the concept of a donation. In a donation, there’s no exchange or value on either side of the transaction. If there is something in the contract that states ‘I will pay you a percentage of this, in exchange for your allowing me to put it there, by definition, that is an exchange transaction, not a donation. They are both tax deductible. Donations are tax deductible and commissions are tax deductible. For our purposes, those are not donations.”

Mr. Duane Wolter asked “It was mentioned that there is a new Principal at this school. I’d like to know where the former Principals are now. On page 70, there are comments regarding \$11,000 in disbursements that did not indicate the purpose; \$4,000 was inappropriate. Was this just the Principal moving things around to look good or is there any indication of fraud involved in this process?”

Mr. Reilly replied “I would think the inappropriate expenditure shows a desire to continue with the Principal’s Discretionary Fund that was eliminated. The other items were not properly detailed as to the purpose.”

Mr. Wolter asked “There was no indication of personal gain by the Principal, was there?”

Mr. Reilly answered “No.”

Mr. Jeff Moquin responded “The former Principal’s employment has been separated.”

Ms. Fertig added “I’d like to clarify that the Principal was removed for a non-School Board related matter earlier in the year. There were a lot of dynamics in the school that really could have influenced what happened during that audit year, which may or may not be typical in other schools.”

Mr. Herbst added “On page 59, regarding the purchase of t-shirts, you talk about a couple of Standard Practice Bulletins, about purchasing for personal privileges, discounts, sales tax exemptions, donations, etc. Regarding the \$1,665 for t-shirts, does the audit imply that the purchase of the t-shirts was improper? I’m not getting that from what I’m seeing here. It states that they purchased t-shirts and you’re referring to several sections of the Standard Practice Bulletins about tax exemption, etc. Help me understand why this t-shirt purchase was inappropriate in the first place.”

Ms. Delores McKinley stated “If you look on pages 61-62, they have a very limited fund balance, so we thought it was material to spend \$1,600 or 25% of their year-end balance for t-shirts, when it should have been better used for the students.”

Mr. Herbst asked “Is there a prohibition on buying t-shirts?”

Ms. McKinley replied “Yes, we cannot purchase anything that’s considered a teacher accommodation.”

Mr. Reilly added “That’s why we quoted Standard Practice Bulletin I-311. Any purchases for staff accommodations would have to come from the Faculty account. That’s where the elimination of the Principal’s Discretionary Account ended and they added it into the Donations section of that Standard Practice Bulletin.”

Mr. Herbst asked “On page 68, there was some discussion about the Principal making requests for donations for various purposes. I know I have responded to requests in the past from various organizations and I don’t think I have ever included anything with my check to state that it was specifically in response to this fundraising letter. If a Principal were to send out a fundraising letter, stating they were raising money for t-shirts, and a number of donations coincide with that fundraising request, can it not be inferred that those donations are for t-shirts without a letter accompanying the check to state ‘this donation is specifically for a t-shirt?’ Most people aren’t going to send a letter with their check, so I’m throwing that out for discussion.”

Mr. Reilly stated “I’ve seen cases like that where the school would attach the donation request to the check. Usually if the dates are close, that would be acceptable. It’s different when an unsolicited donation comes in. We would ask the donor to send a letter if the donation was to be used for a specific purpose; otherwise, it would be deposited into the General Fund.”

Mr. Herbst added “I’m looking at this \$71,000 that was allocated by the Principal. Was there any way to ascertain how the Principal arrived at that allocation?”

Mr. Reilly replied “We stated that the donor’s letter was not earmarked, so that automatically should have gone to the General Fund.”

Mr. Herbst added “That policy may not reflect how people actually make donations. This may be something to think about.”

Ms. Greenberg asked “On page 68, it states that \$16,000 in donations was earmarked for the camp, football and video, but part went to something that it was not earmarked for. Is that what that means? Should the entire \$16,000 have gone into camp, football and video, and not into the Student Incentive Donation, yearbook and class of 2010 accounts?”

Mr. Reilly answered “Items 1 & 2 are two different things. On the first item, we’re saying that \$2,500 was receipted into the Student Incentive Donation Account, and it should have been in the other accounts.”

Discussion followed.

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

### **Internal Audit Report – Property and Inventory Audits of Selected Locations**

Mr. Reilly stated “There were fifty locations audited; forty schools and ten departments. None of the locations had audit exceptions. Thirty-two locations had no items missing at all; the other eighteen each had one or two items missing. This shows that we have written policies now. From our standpoint, we have the audit function of physical inventories; we’ve got management’s oversight. We have new tools such as Optispool to let locations know when transactions occur to their inventory, positively or negatively. We’ve worked on this over the years and this shows that property and inventory is under control in general in the District.”

Mr. Hurst asked “Is it still general practice to send a note to the schools when there are no exceptions?”

Mr. Reilly stated “Yes.”

Several Audit Committee members congratulated Mr. Reilly, Mr. Magli and the audit staff for their hard work and for the perfect report.

Mr. Magli thanked the Audit Committee for their support.

Ms. Greenberg stated “I had a conversation with Lisa Maxwell, who represents the Principals. She had asked if we could sit and talk with some of the Principals and the people about the issues that the Principals were complaining about regarding the property and inventory audits. Some of the things were that there are vendors who don’t want to provide all the necessary information. I talked to Pat (Reilly) about it and he said that was true. One of the other things she brought up was that they wanted advance notice prior to an audit. Well that’s the whole point of an audit, that you don’t get advance notice. I am concerned that this audit process is going to be downgraded to data collection, because Mark is leaving. I’m distressed about this shift. I know this audit was perfect, but obviously, since I hear from their lobbyists, there are a lot of complaints from Principals that they haven’t embraced the process. I’m concerned that this is going to be a course direction in this District that’s not going to be a good one.”

Mr. Reilly stated “I think, after speaking with the Superintendent, his emphasis is on teaching and learning. He recognizes that the management of the finance side needs to be continued, but he wants to take some of that away from the Principals. I don’t think it will change our audit requirements. We still need to account for the inventory. We’d still, per statute, be performing physical inventories, but there may be a different way of looking at it. Right now would be a good time, since we do have policies and procedures now. Even Jeff (Moquin) was involved in helping management get the needed policies and procedures in place for handling inventory. It may just be a different way by having someone else handling it, other than the Principal. The basics will still be the same. Maybe someone who will routinely be doing that on a daily basis

will be able to handle multiple locations and still be ‘on top of it’. It’s a different paradigm shift, as they say, but still, each location must account for their assets.”

Ms. Greenberg stated “In relationship to the Audit Department, what would happen?”

Mr. Reilly stated “I don’t really think there would be anything different. We would still be auditing. We would do a download of each location’s inventory; we would verify what’s there and what’s not there. I don’t think it would be significantly different, other than the outcome. It will be a different style of management. Will it be as good as it is now? Will it be managed well?”

Ms. Greenberg asked “Would we still get a report?”

Mr. Reilly stated “Sure.”

Ms. Greenberg stated “I told her (Ms. Maxwell) I’d bring it up at the meeting. Obviously, there’s going to be a paradigm shift, which will preclude what she’s requesting.”

Mr. Magli stated “I don’t want to get into a deep discussion on that. Obviously, that’s been trailing me all the way to where we are today. A lot of the issues that are still being brought up, I’ll tell you, are dated concerns, in the sense that, when you have an awareness and an expectation of how to purchase a piece of equipment, or how to follow through. Jeff has been instrumental in helping to get this Optispool report that we now have. If you’re receipting the goods correctly, which is one facet of managing an asset; you buy it, you put the numbers in accurately, then you don’t really need any of that vendor support paperwork. Those conditions arise when the first part, which was the purchase piece was failed, the second part, which is monitoring the records, which now we have an automated report that comes forth from Optispool to tell you that a new asset has been added to your roster of assets and it can be certified for its correctness. At that point, you could interject, or any part thereafter, when you’re doing your hands-on verification of equipment periodically throughout the year. I understand the concerns, and they’re legitimate. Certainly, there are occasions much more than when we started this, years back, where the vendors are like ‘it’s not our problem’ and to a degree, if our receiving practices were followed correctly, it wouldn’t be anyone’s problem. We’ve gotten a lot better. Those are legitimate concerns, but certainly, we can’t control vendors, but there are means by which you can avoid those problems, but that’s just one segment of the situation. I certainly have taken a lot of time to individually address concerns from Principals and to help direct them into areas, but as you well know, and years ago, we put in a report to show you the discrepancies and the corrections. Without the corrections, this thing is a lot easier. When you’re rebuilding a process, it’s very demanding. We’re not rebuilding, we’re maintaining.”

Mr. Moquin stated “Clearly, the Superintendent, in terms of his organizational structure, intends to try to remove some of the administrative burden from the schools, from the Principals, specifically, so they can focus on teaching and learning, and then also customer service. It is their recognition that Principals need to be more active in customer service and community outreach. Aside from who is designated as the property custodian, there will still be accountability around property and inventory. As Pat said, there are statutory requirements on doing annual physical inventories; there will be continued reports on missing items, exceptions due to not following standard protocols and Business Practice Bulletins. I don’t think that’s

changing, so I don't think whether the Principal is designated as property custodian or the organization designates someone else, that and accountability are not mutually exclusive."

Ms. Greenberg stated "I agree with Mr. Runcie's vision, but I want to make sure everyone understood that the reason I brought her was if we had concerns, would be to sit, if anyone is interested in talking about it, but now that we're expressing it, we see that there are answers to those questions."

Ms. Fertig stated "I've spoken with Lisa, as well. After I spoke with her, I was at Stranahan High School. I saw some inventory there being held in the back of a classroom, because it couldn't be surplused. I know a lot of equipment on these campuses is really old, but some is old equipment that they really don't want. How do they surplus that? Are there times when it becomes difficult to surplus the equipment and they become responsible for it?"

Mr. Magli replied "There are no restrictions on when they can request a surplus. We've tried to encourage them, from a management perspective. One of the big problems we've had is, in the school itself, staff and teachers would just start moving stuff out in the hallway, a closet, the garbage. There's a specific way in which we have to document the final disposal piece. There's a condition related to useful life of a piece of equipment as it relates to warranties. You should be able to substantiate that, say for instance, a computer, inside of five years of age, is covered under warranty, we wouldn't want you to just surplus it. Why not send it in to get it fixed? We paid for the warranty, so get it fixed. That's an in-house decision. There are reasons why, there were some suggestions made regarding that, because what you would have is, little clumps, then they throw them into a closet, or up on the stage, there are also safety concerns. We said 'let's try to limit this' so we can, in an organized fashion, not to interrupt the teaching and learning function on a daily basis when one at a time, we go to classrooms and clean the stuff out. Give a little extra staff assistance to do it properly and get it out. I'm not sure of the situation at Stranahan. I'm sure because there were some circumstances in the past with that, she's probably more hesitant to just have a free for all and just move equipment around that's antiquated, but certainly, we could help direct that, but I think maybe that's just a personal choice. If there's something different there that she's telling you, I'm not real certain."

Mr. Hurst asked "When the equipment is sitting there in the back of the room, who comes to pick it up?"

Mr. Magli replied "In most situations, they try to earmark it for period aligning it with their quarterly checks, let's say November is their choice month to do surplus, they would inform their staff, they would schedule a time for the equipment to be picked up. Usually an Assistant Principal or a Tech person goes in there, gets that stuff put together, completes the documentation, sends it right out to our B-Stock group at the North Central warehouse."

Mr. Hurst added "So, theoretically, it could be sitting for a period of time."

Mr. Magli replied "It's vastly better than it was back then."

Mr. Moquin replied "Those are some of the efficiencies we can garner through centralizing some of this stuff. The level of vigilance around property and inventory, and rightfully so right now, I think some of the Principals think 'here comes the warehouse outlaw, I'm not picking up anything, cause I don't want it being on my inventory' and vice versa. So now, if the person

coming out to do the pick-up, providing that there are controls and checks and balances, is the one making sure that it gets off the property records appropriately, hopefully, we can streamline some of that bureaucracy through centralizing this, as well.”

Ms. Fertig stated “It sounds like you have this under control.”

Mr. Moquin replied “I don’t want to say that this is under control; we’re still developing it and it’s not going to roll out right away, but I do have a unique perspective on this issue.”

Ms. Greenberg added “There obviously is a process; there has been a process for removing things from inventory, which is one of the questions she asked me.”

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

### **Internal Audit Report – Current Status of the Audit Advisory of Supplements for 2010-2011 – March 2012**

Mr. Reilly stated “We performed a current status of the Audit Advisory of Supplements from 2010-2011. Last year, we did a quick review of supplements. This year, we performed a comparison with some of the findings that we had previously. We felt there were a couple of supplements that were no longer needed because a lot of electronic processes have replaced the need for them. For example, employees can go onto the ESS website for insurance open enrollment; therefore, the Benefits Coordinator supplement is no longer needed. In addition, the Human Resources Department formed a Supplement Review Committee that is looking at all types of issues related to the non-specific supplements. They review the job duties and what supplements would be appropriate. There are some supplements, such as Athletic Director, Basketball coaches, which are standard, but there are other ones on the business side. The idea is that the duties for supplements should be performed outside of an employee’s regular work hours vs. during the work hours. As we compared, last year we had 217 types of supplements; this year, that’s been reduced to 198. We included a matrix and the comparison with last year showed a reduction in cost of \$332,000. We did a report as of February 2012. For the District, the total was approximately \$14 million, which is about \$740,000 less than last year; however, the year is still in progress. Of the nine findings last year, there are three that have been completed and six ongoing, because they still have to look at whether those supplements are justified. For example, the HR Action Processor supplement has thirteen employees receiving this supplement in the entire District, so it makes you question whether this supplement is really needed if only thirteen employees receive it. This supplement is part of the payroll process, used for changes in staffing, such as terminations, job reclassifications, etc. The matrix shows various comments and management’s responses. We ran into some other issues, such as the waivers, which are needed when an employee has more than two supplements. There were several cases where the Principal approved the waivers, but there was no approval by the Area Superintendent or SLT member and other cases where no waivers were found. There were instances where the wrong amounts were being paid. In other cases, the dates were entered incorrectly, resulting in numerous employees receiving supplemental pay for an additional pay period, an overpayment of \$3,410.00. We saw several other inconsistencies, but overall, there was improvement in the supplement area.”

Ms. Greenberg stated “I’m looking at the whole issue of supplements. I would like to see the same kind of examination of all supplements by the Superintendent, as some other things have



been examined, to determine the need for so many supplements. Are they appropriate, what's the standard, what should be the standard? It looks like with \$14 million, there is an awful lot of money being spent on supplements. Perhaps, some of these things should be done as part of the regular working hours, instead of supplements."

Ms. Gracie Diaz stated "That is what this Committee has been charged with, aside from its original charge, which was to look at the non-specific supplements, those that are not outlined in any collective bargaining agreement. They include additional office duties, the payroll actions, but we are also looking at the specific supplements. These are supplements that are outlined in the collective bargaining agreements. We've negotiated these supplements and quite a few of them are just paid because you hold a position, such as Speech Language Pathologist. There's a supplement to be a Speech Language Pathologist. These are agreements that have been made over the years, because at one time, and we still have difficulty hiring Speech Language Pathologists and School Psychologists. The National Board Certification supplement totals \$4.1 million that we've agreed to pay because they hold this particular certification that they've earned. There are some, where we have some latitude, there are others where we have negotiated and as we look at potentially changing compensation, which we are charged to do by 2014 by State law, we can consider all of these different supplements, including advanced degree payments, where we spend about \$20 million. It's a big picture and we do spend a lot of money. This will be comprehensively looked at as we look at the entire compensation."

Ms. Greenberg added "I know there are things that have been negotiated, but there are re-negotiations that can be done, reconsiderations in light of the fiscal problems. I'm glad that you will be looking into this, because this is one area that really needs close examination."

Ms. Fertig added "I'd like to include in that examination the supplements that don't go through the school system, that are being done through booster clubs and other organizations and question whether the people who are being hired and paid through those off the books arrangements, but are in charge of our children. How does that fit into the rule of only getting two supplements? Are their qualifications scrutinized to the same degree as an employee's qualifications, since they are dealing with public school students?"

Mr. Reilly stated that the District has no jurisdiction over booster club activities.

Mr. Moquin asked "Doesn't any volunteer have to go through the same clearing process?"

Mr. Reilly stated "Yes, if you're a volunteer coach, you have to go through the security check process. We're talking about cash supplements, not the security screening process."

Ms. Diaz added "If an outside person is hired, he/she would be processed as a temporary coach and would be in our system if they are being paid by school board funds."

Mr. Medvin stated "When looking over this extensive list of different supplements, I noticed some have to do with Social Studies, others are office workers. What are the procedures for an employee to be given a supplement?"

Ms. Diaz stated "We process the recommendation. The Principal has to advertise within the school. If no one is interested within the school, we run an ad outside the school to attract candidates to the position, but generally, they are filled within the school. After they've been

advertised to staff, the Principal can select the employees for each supplement. The item then goes to the Board for approval.”

Mr. Medvin asked “How much examination is done as far as the appropriateness of the supplement? Are they really needed? Is the person really adequate to do the job or is it pretty much based on what the Principal says?”

Ms. Diaz replied “That is the administrator’s responsibility.”

Mr. Hurst asked “But there are criteria on how to implement the supplement, correct? Is there a procedure as far as the type of person needed and the expectations of that job? It’s up to the Principal to choose the employee that fits the criteria, right?”

Ms. Diaz replied “Yes and no. In some cases, there is a supplement, for example, we have one titled Additional Office Assignment. That’s part of what our Committee is looking at. That’s very vague. We found teachers who had that supplement and we questioned those Principals. We have cleaned that up and now we’re looking at the need for this supplement. It’s too vague; we want to be specific so it’s clear to the individual being assigned what the duties entail. We then can monitor what is being assigned and why the supplement is needed. Generally, a department chair is given responsibilities; you have to meet the criteria outlined in the contract to be selected for department chair. A math chair must have an advanced degree or fifteen hours of college credits. There are many that do have specific criteria outlined.”

Mr. Hurst asked “Would it be fair to say that there are administrative periods of time during the school year where there’s a need for a part time person? For example, when students are first starting, there are two census weeks for FTE purposes. There is probably more accountability during that time. Are supplements used for that type of thing, rather than hiring someone?”

Ms. Diaz replied “That would be a temporary duty. Under the Fair Labor Standards Act, you should pay someone overtime. It would not be appropriate to use a supplement for that, because we’d be in violation of the Fair Labor Standards Act.”

Ms. Greenburg added “The overview committee is in-house?”

Ms. Diaz replied “Yes.”

Mr. Ken Evans asked “On page 18, line 183, it seems like everything else on here has been reduced, but this one has increased. What is that position?”

Ms. Diaz replied “That’s the Curricular Activities. That’s another one where I think the school has used to assist with various activities of the school, if there’s a reading program and they’re having someone do additional lessons, professional development, additional activities related to whatever curricular changes they’re doing at the school. It is one that’s a little open, as well, that our group has identified as needing better definition. Honestly, that has been used for example, for an individual who the Principal feels has done a lot of additional work, who has gone above and beyond, and sometimes they use these supplements as a catch all to be able to compensate that individual. That’s what we’re trying to do, define these better, so that the person clearly knows his/her role and that we know exactly what they’re being compensated for.”

Mr. Hurst asked “Is there a timeframe for completion?”

Ms. Diaz replied “Our initial review and recommendations will be done by the end of May. We said June in the report, so we could implement the first round of changes for July. The group will continue to review.”

Mr. Hurst added “Are you getting good cooperation, as far as people saying whether something is necessary to keep or not keep. Is that pretty much your decision?”

Ms. Diaz answered “We are. We have a large group, some District staff, some principals, some clerical staff; we have a good mix of individuals who know the charge and are really working hard to improve the process.”

Mr. Hurst asked “So, will we be seeing a final report?”

Mr. Reilly replied “We’re basically finished with this. We’ve done a snapshot of what occurred and did a comparison. I’ve heard additional requests that could be an offshoot of this, but this is completed from our standpoint.”

Mr. Hurst asked “So we wouldn’t be seeing a final report in June?”

Mr. Reilly replied “We can report new things that may change, but this is a review of the changes they implemented on September 2, 2011 and the Committee’s recommendations for this school year. We audited some of those changes and looked at some of the processes they implemented as part of this audit. What they do during the next school year we can look at as a follow up.”

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

### **Internal Audit Report – 2009 State FTE Audit Advisory Update**

Mr. Reilly stated “We discussed this at the last meeting, the 2009 State FTE Audit Advisory Update. There was new information after our appeal. This is the money side, what occurred, the initial impact to the District, and what steps we took to try to reduce that amount, the appeal board’s decision, the final amount of FTE Funding we originally had, and their final amount.” Mr. Reilly asked Ms. Conway to provide an update.

Ms. Ann Conway stated “There was an FTE Audit. After the audit was completed and the report was issued, the Office of Funding and Financial Reporting calculates the penalty and sends us a notice. We send them our notice of our intent to appeal. We send the appropriate documentation to support our defense and why they shouldn’t take the money away from us. We did that. Subsequently, they issued us a revised notice. The penalty was recalculated to be a pretty significant reduction. A lot of people participated in the process, which I listed in the Advisory Update. We had two video conferences with the Department of Education. About \$3.9 million of that originally proposed penalty was due to a vendor called Drop Back In not producing their source attendance documentation and not leaving it with us after we canceled their contract. That produced a lot of problems, not having the source attendance documents. About \$1.3 million was due to an ESE matrix issue, of which we got back about \$500,000, leaving a remaining penalty of approximately \$842,000. We had some issues with the Baudhin School. One of their teachers

didn't complete one of the required certification steps. Because they have all ESE students in that school, the weighted FTE funding is very heavy. The penalty was going to be almost \$100,000 for that one teacher. The Baudhin School worked on that and we were able to reduce that penalty to about \$30,000, instead of the \$100,000. Many people worked really hard on that, particularly, Randi Berger, from the Drop Out Prevention Department, who was really instrumental. She had a proactive approach at the time Drop Back In was here. She was very meticulous in going out and confirming their attendance, about scrutinizing what they had reported and documenting that. She and Lee Black from the Budget Department laid the groundwork, which went a long way in convincing the Department of Education that all those students actually did exist and that we were properly entitled to the money. We produced some alternate attendance documentation that they were satisfied with. The ESE Department, Tara Rodger and Lida Yocum worked really hard on this and they had a team of ESE Specialists that went back out to the schools that had students who were involved in the findings and they reassessed about 100 students. They reproduced extensive documentation, and the Department of Education was satisfied. The documentation was sufficient to convince them to reinstate the weighted funding for those students. Many people did a lot of work to retrieve this money and prevent this loss, about \$4.5 million. Another point, Mr. Reilly and I were helping the Pre-K Department with the Baudhin School and looking at all the terms in the contract reminded me that we really need to have terms and conditions in the contracts that we make with vendors, with outside agencies and with Charter schools that would allow us to recoup this type of funding loss when we encounter it. The FTE auditors can come and audit Charter schools. I think they intend to expand their audits of Charter schools. I think our Charter school agreements need to be written with an eye toward the defense of the District's funding position, in the event that the Charter school has failed to adequately document the students, for example, if they are over claiming students. Our contracts need to address that specifically and need to address a process for the recovery of our funding losses, if they occur. I think that the Auditor General has moved away from rigid cyclical auditing of the FTE reporting and have gone to a risk-based approach. When they come here and produce a lot of findings, the risk-based approach dictates that they will come back more often than they would have and review larger samples. This can spiral or escalate in a very unfortunate fashion. If we don't get these types of documentation and reporting errors under control, it can become worse. We really don't need to be losing any of this money."

Ms. Greenberg stated "I'm just observing that there needs to be supervision. I know a lot of ESE personnel in the schools and I think that's their responsibility. We need to ensure that these are rigidly adhered to and classified correctly. The contracts need to be written properly, that's Legal."

Mr. Medvin asked "In reference to the report, were these Charter schools audited or deficient, which caused you to mention them specifically?"

Ms. Conway replied "They were part of the sample. They picked Pembroke Pines Charter School in the past. They did pretty well, they had very few findings. North University High had several more findings. Some of them were weighted funding. They had a couple of teacher certification issues, so they weren't perfect, but they were just one school. They picked that one school. They like to pick the Baudhin School, because it's all Level 255 Pre-K students."

Mr. Medvin asked "So they just looked at these two particular Charter schools?"

Ms. Conway replied “They may look at others; they are authorized to look at others. I suspect they will expand their sample to include more and more Charter schools as time goes by.”

Mr. Medvin asked “To follow up on the comment you made earlier, talking about the contracts between the School District and the Charter schools, is it possible to state in the contract that they will be audited under your auspices and charged back for it? We’ve had this discussion before. There are ongoing problems with the policing of Charter schools. Can you do that to give you the upper hand to control them?”

Ms. Conway replied “That’s a possibility, I suppose.”

Mr. Medvin added “But does the language in the contracts permit that?”

Mr. Hurst asked “There’s no control for that now. The question is can we as a Committee make a recommendation to suggest having School Board Counsel give us an answer whether this can be done to alleviate a potential problem in the future.”

Mr. Reilly commented “As Ann mentioned, when we looked at that one contract, we saw the experience that happened with the Baudhin School. The loss comes back to us, not that particular location. That’s the language we need, to say that if you are running your FTE information incorrectly, it will affect you monetarily, not the District. I think, due to the number of Charter schools we have now, the State Auditor General will start auditing Charter schools because there’s a lot more volume.”

Ms. Kathrine Francis stated “The Baudhin contract has been updated, so any loss thereof we can collect from Baudhin at this time.”

Mr. Hurst asked “So, has that been added to the contract language?”

Ms. Francis replied “The Baudhin contract specifically.”

Mr. Hurst asked “Is there an indication that this will carry forward to the other Charter schools in the expectation of being proactive, instead of reactive?”

Ms. Francis answered “Yes, we have discussed looking at that. That would have to go through the Charter Department, but those recommendations have been made, based on what we experienced. We have updated our contract and the ESE piece specifically.”

Ms. Fertig congratulated staff for their hard work with the appeal process.

Ms. Greenbarg stated “I believe we were talking about letting the District audit the Charter schools for compliance. Is that permissible by State law and do you have the personnel to do it?”

Mr. Hurst asked “Obviously, there’s been an addition made to the contract, so what’s the procedure for tracking this?”

Ms. Francis replied “That I do not know, because that falls under the Charter guidelines and that’s a separate department.”

Mr. Moquin stated “We disburse the FTE monies to Charter schools; we keep our component of it. If ultimately that is lost, we have to take that loss?”

Ms. Conway replied “Yes, and if we want to recoup that money, we have to take it back from the Charter schools.”

Mr. Moquin asked “Why are we not just taking it back?”

Ms. Conway replied “We need a process for the recovery of losses written into the contract, in the event that we experience a loss.”

Mr. Hurst said “What you’re saying is something that would be the equivalent, in the contracting world, of a surety bond of some sort that would say ‘if you mismanage these FTE’s, we’re accountable for them. The surety bond will ensure that we get that money back. The Charter pays for the surety bond and we get the money. Is that correct?”

Ms. Fertig added “I’d like this Committee to make that recommendation to the Board to memorialize it and move ahead. I’m moving that we recommend to the Board the implementation of provisions for the Charter schools for the recovery of any lost funds that we suffer due to incorrect reporting of FTE information.”

Mr. Hurst made the recommendation, which was seconded.

Ms. Conway added “As you suggest, if some arm of the School Board, either this office or the Charter School office, were to go out and do our own reviews of FTE reporting in the Charter schools, if we discovered something, I think we would be obligated to report that to the Office of Funding and Financial Reporting. We would be obligated to correct the FTE reporting, which means we would then lose that funding. While we’re talking about contractual provisions, I think those provisions should address what would happen in the event that we discovered that they had mis-reported FTE.”

Ms. Fertig added “My motion was simply to address if under the current situation, we pay the Charter school money, and then later we get penalized that amount of money, due to a reporting error on their part, that there is some provision in the contract for the District to recoup those funds.”

Mr. Hurst added “That motion’s been made and seconded. Motion carries. If we, the School Board, through whatever means, discover a shortcoming, we would then be compelled to report it, thereby shooting ourselves in our collective foot. If we’ve got the surety bond, that would not present a problem.”

Ms. Greenberg stated “Does State law allow the District to perform an FTE audit of a Charter school? If so, do you have the personnel?”

Ms. Conway replied “The contracts that I’ve seen pertaining to Charter schools seem to include our right to look at any documentation. We have the right to review things; I think that would include FTE.”

Ms. Greenberg said “Let’s get an opinion from Legal Counsel.”

Mr. Reilly added “We have a Right to Audit Clause in all contracts.”

Ms. Greenberg asked “You could perform an FTE audit?”

Mr. Reilly stated “Yes.”

Ms. Greenberg asked “Do you have the staff to do that?”

Mr. Reilly stated “No.”

Mr. Hurst stated “The first part was a motion made if there’s a way to add a surety bond to the contract for Charter schools for the purposes of covering any FTE shortfalls. Can that be on our agenda for next month? Is that too soon?”

Mr. Reilly replied “I think we can get an answer to that by the next meeting on May 17, 2012.”

Mr. Medvin asked “I think we all have some knowledge regarding Charter schools; maybe it’s appropriate to request a brief presentation from the Charter School office. That might be helpful.”

Ms. Fertig agreed. “I’d like to know the dollar value of what they get, not just on the operational side, but also on the capital side, so we can see the impact on the School Board. If you don’t have staff to do an audit of that many millions of dollars, then it may be that you need to do that.”

Ms. Fertig added “We need to ask our delegation in Tallahassee about getting stronger controls on the audits of Charter schools to give the District more control of Charter schools.”

Mr. Wolter asked “Of the \$1 million penalty, how much relates to Charter schools in other areas that are not directly under our control?”

Ms. Conway replied “Of what’s remaining, about \$30,000 is from the Baudhin school.”

Mr. Wolter asked “So, the bulk of it belongs under our purview, so to speak?”

Ms. Conway said “It does.”

Mr. Wolter asked “I’d like to know what the Superintendent is going to do to keep us from losing FTE dollars, as a result of these State FTE audits. We have two years open and another year started. I know we’ve had losses in the past in this area that you’ve worked on to mitigate.”

Mr. Moquin replied “From my perspective, I don’t know why, if ultimately, a Charter school loses funding that we’ve given them, then two years later, it turns out that they shouldn’t have received that funding, why we couldn’t just withhold that amount from them in a subsequent year. If that’s not possible, then clearly we need to add some language in our contractual agreements stating that’s what we’re going to do.”

Mr. Wolter added “If I understand this correctly, \$30,000 of this million is out of the house and the rest is in-house, so this is under our control. We need to take action. I don’t see us being the ones that do the drill down and the analysis to fix it. My request is that the Superintendent develop a plan to fix this.”

Mr. Moquin stated “On the ESE side, we think this has been fixed, but the second audit was done too soon to reap the benefits in the changes in the IEP process.”

Ms. Francis stated “This particular audit was the first; the second was the 2010. We had them back to back. There were initial plans put into place to eliminate some of the matrix funding, specifically, or to align that. When that went into place, you must go through a year cycle of IEP meetings, where you view that matrix. In 2010, they came back and audited again. We weren’t quite through that entire cycle. Unfortunately, you may or may not see some of that again in 2010; however, those plans have been in place. The DOE has also changed their form and language in the handbook. That was some of the error. DOE has updated; we have trained on that matrix and again, this year, DOE has further clarified some of the matrix issues in their handbook and we are going to be trained and do extensive training with our staff. That has come into place, as you said for two years now, and again, we’re starting an additional year, so we are putting those plans into place for the matrix. Specifically, we are addressing the individual schools that may have had a repeated issue with more than one student in their sample.”

Mr. Wolter added “We’re going to lose some more money for 2010 and 2011, but hopefully, we’ll have closed the barn door for 2012.”

Ms. Francis stated “No, in 2010, that was the second audit that was back to back, so really it’s just those two years, 2009 being the first and 2010 being the second year, because we were not able to get through that entire cycle of IEP’s. Should this item come again with any dollars attached to it, we did appeal that again. In 2011, we should have those things amended because the plans and corrections have been in place now for two years.”

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

### **Other Discussions**

Ms. Greenberg asked “I’m requesting an audit of the pricing and operational standards of the allocation of FF&E. How do these things get allocated? Who makes the decision on what gets in, what you buy, how you change, what was originally ordered? There are a lot of interesting things going on in FF&E areas. Would that be agreeable with everyone?”

There were no objections.

Ms. Greenberg continued “I have a question for Jeff. Did you give us prior information that putting the tracking on the laptops would be cost effective?”

Mr. Hurst said “No, they said it would not be cost effective. They probably found the most expensive program known to mankind. They said that at a cost of \$1,600 per unit lost, it wasn’t worth it. I was thinking it doesn’t cost that much. I would like to have heard from other companies to give us a cost estimate on these tracking devices.”

Ms. Greenberg added “Can we put that on the agenda to find answers to that? Are there less expensive tracking devices?”

Mr. Hurst added “Again, my idea was to put a sticker on every laptop, but only one out of every ten would have the device.”

Mr. Magli stated “My opinion, based on data, is that putting in processes and controls and asking people to lock things up is far more effective than the tracking devices. A major concern is where



they did implement, with some volume, the school was not tracking, not locking these things up; the school did not even know these things were disappearing and the requirement for them to inform the local police agency. So, it wasn't cost effective that way either. As we've refined that process of securing things, certainly the theft will go down. The problems we had in 2005 through 2008 are more limited today, just because of awareness and understanding and the change in the culture of what's going on in each location. Regardless, Principals at the smaller schools may be involved in this process; for the most part, it's too vast, so they obviously incorporate staff to do this stuff. The one thing I will not miss is being told that I'm dragging down the teaching and learning by having people lock things up, but the issue is just having people who care, using simple modifications to use some common sense goes a lot further, whether it's \$2 or \$1,600 per unit. That's just something that trickles down from leadership to say just use some common sense. We have to utilize this equipment longer. As it relates to the security mechanism, there may be a lot cheaper mechanism, maybe even more robust systems to do that. It was determined with what Ms. Coluzzi had expressed was that in total, based on our projected losses, it would not be cost effective."

Meeting adjourned at 2:05 p.m.