

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

MINUTES OF AUDIT COMMITTEE MEETING

January 24, 2013

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. Moses Barnes  
Mr. Ken Evans  
Ms. Mary Fertig  
Ms. Charlotte Greenberg  
Mr. Steve Hurst  
Ms. Jeanne Jusevic  
Mr. Andrew Medvin  
Ms. Alex Mores  
Ms. Mary Lou Ruderman  
Mr. Nick Sakhnovsky

Staff Present: Mr. Robert W. Runcie, Superintendent  
Mr. Jeffrey Moquin, Chief of Staff  
Mr. Oleg Gorokhovskiy, Director, Accounting & Financial Reporting  
Mr. Omar Shim, Director, Capital Budget Department  
Ms. Shelley Meloni, Task Assigned Chief Facilities & Construction  
Officer, Office of Facilities & Construction  
Mr. Denis Herrmann, Manager, Design and Construction Contracts  
Mr. David Golt, Chief, Broward District Schools Police  
Mr. Craig Kowalski, Broward District Schools Police  
Mr. Maurice Woods, Chief Strategy & Operations Officer  
Ms. Cyrilla Bradley, Transportation  
Mr. John Hodge, Design and Construction Contracts  
Mr. Patrick Reilly, Chief Auditor, Office of the Chief Auditor (OCA)  
Ms. Delores McKinley, Director, Internal Audits (OCA)  
Mr. Joe Wright, Facility Audits, OCA  
Mr. Gerardo Usallan, Manager, Facility Audits, OCA  
Mr. Mark Magli, Manager, Property & Inventory Control, OCA  
Ms. Patricia McLaughlin, Confidential Clerk Specialist C, OCA  
Ms. Megan Gonzalez, Confidential Clerk Specialist B, OCA

Guests Present: Mr. Brett Friedman, McGladrey, LLP  
Ms. Chantelle Knowles, McGladrey, LLP  
Mr. Robert Mayersohn, District Advisory Committee  
Ms. Karen Yi, Sun Sentinel

**Old Business**

Mr. Steve Hurst, Vice Chair, introduced the new Audit Committee members, Mr. Moses Barnes, Ms. Jeanne Jusevic, Mr. Nick Sakhnovsky and Ms. Alex Mores, reappointed member.

A motion was made to approve the minutes for the November 15, 2012 Audit Committee meeting. Motion carried.

**FOLLOW-UP ITEMS**

**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. Reilly stated “The first follow-up is the Committee’s request to obtain an update on the Ashbritt audit. I received an email, which I’ve provided to you, from Mr. Carland. He stated that an attorney-client session occurred on November 7, 2012 and at this time, mediation is being scheduled by the parties tentatively for March 7, 2013. If mediation is unsuccessful, the matter will proceed to trial.”

Mr. Hurst stated “Should we expect communication of some sort after the March 7 mediation?”

Mr. Reilly stated “Yes.”

Ms. Charlotte Greenberg stated “I found some paperwork on this un-ending saga and as of December 22, 2010, the accounting fees from Berkowitz, Dick, Pollack and Brant alone, amounted to \$122,849. This was two years ago, and they’ve been working steadily ever since, so we may end up owing them money by the time this is over.”

Mr. Joe Wright stated “In regard to what Ms. Greenberg stated, the \$122,000, it was originally \$172,000, and the District received a \$50,000 professional discount. Also, will the Chief Auditor’s office be able to review the report that was done by the accounting firm?”

Mr. Reilly stated “At this time, they (General Counsel) prefer that we don’t look at the report during their preparation. My point to them, since we performed the audit, was that I think we could possibly assist them; however, Legal has decided not to let us look at the report at this point.”

Ms. Greenberg stated “What would it take to get General Counsel to allow you to look at the report? This puts us at a disadvantage.”

Mr. Hurst stated “The lawyers are working with information that they have and they may not have all the information. Is that what you’re saying?”

Ms. Greenberg stated “No, I’m saying that I think our auditors should be able to look at what they are claiming they are discovering and coming to conclusions about.”

Mr. Hurst asked “Pat, do you feel you could have a positive impact on that?”

Mr. Reilly replied “I think I could. Since we did the original audit, if they are bringing things that are new that could help the case, we may have additional information or may be able to clarify information that they have. Originally, at one time, I was told that if we were going to trial, the

firm would represent the District, but my understanding is the other side could ask us to speak at the trial.”

Mr. Hurst asked “What could happen is if Patrick had access to all the information, and assuming in discovery, both sides are exchanging information, there may be additional items that were not part of discovery because they were outside the scope. As such, a person testifying in court could testify only to the extent they were involved in the audit, where Patrick could be brought in to include outside the scope, so this could muddy the waters. Could you see that as an answer to the situation?”

Ms. Greenbarg stated “Since he did the original audit . . .”

Mr. Hurst asked the Superintendent to comment.

Mr. Robert Runcie asked Mr. Reilly for his recommendation.

Mr. Reilly stated “I think I could be a help by looking at the report. Originally, they were going to look at our audit to see if there was a justifiable case, then it turned that they would become our representative in court. Regardless, they provided a report. I don’t know what their position is. I see it that we are the client, because we have in-house counsel representing us. I don’t see how it couldn’t be helpful for us to see their conclusion, so I could be better prepared if I ever have to testify. Right now, if they asked me if I’ve read the report, I would have to say no.”

Mr. Runcie stated “I think we should move in that direction and have you take a look at it (report) and have an opportunity to review it and provide an opinion. Then we need to coordinate with our legal team, so we can move forward on this and not drag this out too much longer. The longer we spend on this, the more the fees pile up.”

Mr. Reilly added “The audit fee of \$122,000 has been paid. It was paid as a claim.”

Mr. Runcie stated “At this point, you need to review it and then provide your assessment and any additional information you have. Subsequent to that, we need to sit down with Legal Counsel and develop a strategy.”

Mr. Hurst asked “Do you want to do that in the form of a motion?”

Mr. Runcie stated “It can just be recorded in the minutes.”

**Follow Up Item #2 – October 11, 2012 - Current Status Review of the January 2011 Final Report of the Nineteenth Statewide Grand Jury**

Mr. Reilly stated “The Committee requested the status of the construction contract revisions and an estimated completion date. I’ll let Ms. Shelley Meloni give an update on this item.”

Ms. Shelley Meloni stated “We have completed our contract revisions and they have been reviewed by the Legal Department, Risk Management Department and will be reviewed by our Audit Department, as well. They have also been reviewed by the third party auditing firm. We are planning to take them to the Board for approval on February 20, 2013.”

Ms. Greenbarg stated “I have a concern regarding your reviews. On July 24, 2012, per Agenda Item DD-6, the Board made a motion that was seconded and passed, directing the Office of the

Chief Auditor to perform that follow up to ensure that those contracts were being revised as per the McGladrey Audit. I've subsequently learned that (I guess it was a contract, I don't think there was an engagement letter), McGladrey was engaged for \$25,000 to review the completion of the revision of the contracts. The School Board directed the Office of the Chief Auditor to do this. I don't know why we would pay \$25,000 to have that done."

Mr. Runcie replied "Let me provide some clarification on that. The School Board, I think had a discussion about this, but the School Board is a governance and policy unit. They don't necessarily direct staff directly. In this particular case, I asked the Facilities Department to bring the auditors back who actually produced the report, to determine the fidelity of the implementation of those procedures. That seemed appropriate to me. That's a common business practice. Secondly, the internal audit, their role would be to monitor, on an ongoing and future basis, to ensure that those procedures continue to stay in place, so they would work with the external auditor and provide an ongoing periodic review to ensure that we're consistent in that area. I think it makes sense that the original external auditors who produced the report could also review and determine if what they observed and recommended was actually being implemented. Subsequent to that, our internal auditors will perform periodic reviews to ensure that the fidelity of the implementation remains. That was the thinking behind doing that."

Ms. Greenbarg stated "I would not argue that you would expect McGladrey to also be involved. I don't know why we would pay them \$25,000 when this is an extension of the original audit."

Mr. Runcie stated "It's an extension, but it's a different piece of work. The work they did was completed upon their submission and our sign off on the report. This is additional work that we're asking them to do."

Ms. Greenbarg added "I understand what you're saying, but I respectfully would have asked them to do it without the fee."

Mr. Runcie stated "Looking back, maybe we could have included that as part of the original scope, but it was not included in the original scope. Given the size of the program, the issues that we've had in the past, the cost to the District in terms of dollars, reputation, trust and public good will, for us to spend another \$25,000 to ensure that the recommendations are being implemented, to me, is worth doing, in the near term, as well as the long run. I do understand what you're saying, but I try to weigh all those factors."

Ms. Mary Fertig stated "I was at the November 26, 2012 workshop. I guess my confusion is what part the attorney's office played in this, and what part Facilities played in this. I guess McGladrey is looking at what both have done, the final product?"

Ms. Meloni stated "That is correct. We have implemented changes to the contracts and also procedural changes have been written and revised. Our Legal Department has looked at the contracts; McGladrey has reviewed the contracts, as well as any procedural changes that were recommended."

Ms. Fertig stated "So we have a clear record of what actually transpired, did the Legal Department make changes to this contract? I know there was a lot of discussion at that Board meeting and at that point, I assumed that they had not gotten involved. What was the role of the Legal Department and Shelley, what was your role and then McGladrey's?"

Final – Approved at the March 7, 2013 Audit Committee Meeting

Ms. Meloni stated “Along with Denis (Herrmann), we implemented the recommended revisions. The Legal Department reviewed them to make sure they were in compliance with statutes and gave us guidance with respect to that. McGladrey reviewed to compare what we had done with the recommendations they made in their report to see if we complied, if there are areas that need improvement, or any open issues. That was the review that McGladrey did.”

Ms. Fertig asked “The actual revisions to the contract were done by your department?”

Ms. Meloni stated “Absolutely.”

Ms. Fertig asked “Then Legal looked at it to make sure the language was correct?”

Ms. Meloni stated “Yes, correct.”

Mr. Nick Sakhnovsky stated “To help nail down this \$25,000, since this is already additional work and they’re supposedly going to verify what’s been done, is this the end of the story or will we see in six months that they didn’t see what they expected to see and now we need more additional work? I want to nail this one shut.”

Mr. Runcie stated “That is the end of the scope of this work. As I said a couple of minutes ago, it is my expectation that our internal audit department will continue to work with Legal and Facilities to ensure that the outcome of the implementation of these recommended changes to the contracts and internal operating procedures are maintained.”

Mr. Sakhnovsky added “I’m on board with the internal part, but I’m concerned with the external part? Will this be the end of the external part?”

Mr. Runcie stated “That is the end of the external part.”

Mr. Reilly added “Now that the work is being performed and finalized, we will bring this current status prepared by McGladrey with management’s responses to the March 7, 2013 Audit Committee meeting.”

Ms. Greenberg added “On the question of what the School Board directed, they directed that Mr. Reilly add it to his Audit Plan.”

Mr. Runcie replied “It will be added to the Plan and he will continue to review it periodically.”

Ms. Greenberg stated “In some of the paperwork I saw, it stated that the Audit Committee wanted McGladrey to be put in the position of doing this review. I don’t recall that we wanted this, but maybe I’m wrong.”

Mr. Runcie replied “Regardless of what happened, we are trying to move forward on this. They are coming in; it’s a limited follow up scope that will be completed. Internal Audit will continue to work with them, take it from there. This is the end of McGladrey’s piece, outside of any other engagements that they have. We will continue to make changes and adjustments within the Facilities operations as necessary. We’ll continue to modify our contracts, so that they are structured in the best possible interest of this District and we certainly intend to learn from mistakes and challenges we’ve had in the past.”

## Final – Approved at the March 7, 2013 Audit Committee Meeting

Ms. Fertig asked “I know we have some new Committee members, and you’re probably wondering why we’re concerned. We’re not questioning what McGladrey did; they produced an excellent report. It’s just that for those of us who’ve been on the Committee a long time, we felt it reiterated a lot of what our internal auditor had said over time, and I don’t mean to speak for the Audit Committee, but one of our concerns has been to get this implemented as quickly as possible, to avoid repeating the same mistakes. Many of us felt that McGladrey’s report substantiated everything the Internal Audit Department had said and we just wanted it done as expeditiously as possible.”

Mr. Runcie added “I shared the same concerns. I appreciate what this Committee has done and what it represents to the organization. We will continue to move forward as quickly as possible.”

Ms. Greenberg asked “Did the General Counsel’s office make any changes?”

Mr. Denis Herrmann stated “Yes, we spent hundreds of hours working together, reviewing, preparing and revising the documents. We, not only coordinated McGladrey’s comments, but comments from staff that we learned from experience. When you see the contracts, you’ll agree that there are major improvements.”

Ms. Greenberg asked “Pat, did you look at them yet?”

Mr. Reilly stated “I’ve looked at a couple of the draft contracts. I received the report on Saturday and will review it and get with McGladrey to discuss. There are certain things I’m looking for, such as the Right to Audit clause, and other suggestions I made.”

Ms. Greenberg stated “I’m not making any disparaging remarks against McGladrey; I’d like to make that clear. It’s just the process that I’m concerned about, because I know Pat didn’t want to sign off on that, and he didn’t, so that’s why I brought it up.”

Mr. Hurst said “This will all be ready for the March 7, 2013 meeting.”

### **Follow Up Item #3 – October 11, 2012 – Miscellaneous Discussions**

Mr. Reilly stated “The Committee requested a follow up on the procedures in place to specify under what circumstances change orders can be used vs. re-bidding the additional scope of work. This item was on the agenda a couple of times and has been brought back at a couple of meetings. At the February 12, 2012 meeting, there was a very lengthy discussion on it. I brought those minutes this morning. A while back, we did an audit of the Maintenance Department, now Physical Plant Operations, where they started to do a lot of minor construction. They were getting to be high priced items, where, according to SREF, those kinds of maintenance projects, where you have day labor employees, or if a project is going to exceed \$300,000, it should be bid out. It’s a little different than a project that’s already been bid out, and you have to decide if you need a change order by reason of owner’s request, or unforeseen, etc. In the past, an owner’s request would be added to a project after the scope had been laid out and everyone bid on it. This became an issue if it was large enough. This is really unbid work, because it wasn’t in the original scope, so that was the big discussion. The last discussion was really more for a project that’s in place; you have a contractor on site, and then there’s an issue of a change order that comes up, and the criteria of what steps to follow. Do you issue a change order or re-bid? It almost had to be considered on a case-by-case basis. I think the Audit Committee’s concern is that this issue be put in writing as a policy.”

Ms. Meloni stated “That is correct, Pat. What we look at, while you know it’s not in current policy, we do analyze change orders from the perspective of whether it’s substantially related to the project. Obviously, if it’s something that’s required for occupancy of the parent project, those are two critical pieces of criteria that we look at to determine whether we proceed with a change order vs. bidding. It must be related to the project, to begin with. We do have a process in place, and it’s actually quite an extensive review of our change orders. Initially, the change order is reviewed by the consultant, then by the Project Manager. That’s a simultaneous review in the very early stages in the generation of a change order. Once the initial review is completed, then it proceeds to our Project Management Counsel and that is a group that is comprised of our Assistant General Counsel, several Senior Project Managers, the Executive Director/Task Assigned Chief of Facilities and Construction, that would be me. We also have our Cost Estimator, Chief Building Official and a staff member of the Audit Department. We have quite an extensive group and a wealth of decision making expertise in that group. Again, going back to whether it should be a change order or a separate project, it must be related. Once it goes through the PMC (Project Management Counsel) and it is deemed valid as a change order, then it moves through the process to the Agenda Preparation Group (APG). We have a host of individuals from different departments, including the Audit Department, the Assistant General Counsel and several others including Capital Budget, the Building Department, so there’s another level of review of all of our Board items, as well as change orders. If it goes through that process, that second level, then it goes to Senior/APG. Senior/APG is conducted by Mr. Woods and Mr. Moquin, as well as several senior level people within the organization. Those levels of review are very solid and based on sound decision making. We’ve gone from step one through the end to determine that this is valid as a change order vs. bidding it out.”

Ms. Fertig stated “I first asked this question, I think it was six years ago. Then I asked the question at every meeting dating back to Mr. Garretson and Mr. Marko. Mr. Marko gave me this very convoluted answer about how really, in the final analysis, he was the only one who ever made the decision. I asked him to put that in writing. That’s what started this. I don’t mean to harp on this, but in that five or six years, there have been quite a few change orders that people have questioned. In retrospect, it still seems to me, and it sounds like you have a very solid, progressive process in place, where that much money is involved and has been questioned so much over time, that this should be able to be reduced to writing. That has been our question now for five or six years. I feel like they threw you in here; it’s always been the attorney’s office that came to discuss it with us, not Facilities. My understanding is that you are following what rules are in place. This was a legal issue on when something has to be re-bid, so from that perspective, I still wish we could get an answer from our Legal Department and get something in writing.”

Ms. Meloni stated “I believe they eluded that if you desire their expertise, they are willing to help. That came from Mr. Carland in his email.”

Mr. Sakhnovsky stated “I can assure you that the QSEC Committee, which I’ve been a member of, has brought this issue up. The Facilities Task Force has brought this issue up. One of the things lacking from the outline that Ms. Meloni presented was the percentage of the original contract. I have seen personally contracts that have been extended out through additional scopes of work that exceeded the scope by three times, in some cases, or more of the original contract amount. This is done for convenience. The person is already on site; it’s easier, sometimes those processes may sound elaborate, but they don’t take a long time, they need to get this CO

(certificate of occupancy), they need the school to open. It's expediency in many cases. The problem is that you may be losing out on better qualified people who have already gone through the process this District has to get on the list to be properly qualified for this type of work. There are other ways to do it. The legality depends purely on what Policy 7006 has to say. I think the attorney did the right thing by bringing this issue up. I think the best thing we could do is to actually ask the Board to put this on their radar and deal with it this school year. Frankly, this is the best time to straighten this problem out and this will save time in the audits. I'm going to place the motion that the Audit Committee recommends to the School Board that Policy 7006 be reviewed this school year."

Ms. Fertig asked "Can we amend it to include a process for change orders?"

Mr. Sakhnovsky said "Absolutely, a transparent process for change orders. It's been seconded now."

Ms. Jeanne Jusevic asked "Am I to understand that there are no written procedures regarding change orders and scope of work and when to re-bid and when to do a change order? It's just whatever processes are transmitted from person to person verbally and that process may or may not change depending on who is in the job and what information is transmitted to them by the person who may be over them or may have given them information before they left. There's nothing written down, just that we hope that people are transmitting the information from person to person as personnel changes? Seriously, is this what we're talking about?"

Mr. Runcie stated "I can assure you that there's a process in place. I know a number of Board members have actually sat through the process and have spoken very favorably about it. Be clear there's a process in place. The question, I believe, is whether we can place parameters around the magnitude of change orders relative to the original contracts in place. In simple language, someone comes to the table, they underbid a project in terms of the scope or they bid whatever we design, let's say it's \$100, and then change orders equal \$500; that's problematic. We need to look into the root causes of that, maybe setting some parameters that would trigger some other type of review process. Problems could be on both ends. If we're not describing the specifications of the projects properly and they result in a lot of change orders, that's something we should be tracking. We should be holding the people in the Facilities Department accountable for how the scope of work is actually sent out relative to what is actually being done. The other piece is that we can't be in a situation where we have contractors under bidding projects and then, once they're involved in the project, they're planning to recover their costs, so to speak, through a change order process. We have to eliminate that behavior; it's really about tightening the parameters around how and when to use change orders, but there's a process in place."

Ms. Meloni stated "We do have a formalized process and it is written. Unfortunately, there are no prescriptive measures and that's what the Committee is asking for. There is no document that says it should be 1% or 5%. That's the judgment and the decision making that occurs throughout that process. As we analyze it and look at the basis for the change order, its context, and as I mentioned, it must be related to the project."

Ms. Jusevic asked "So, we're talking about an established procedure for which we need written parameters for determining when to use a change order vs. rebidding?"

Ms. Meloni stated "That is correct."



Ms. Fertig stated “This is the first time in the six years since I’ve been asking about this, that I’ve heard there is something in writing. I don’t doubt that there are internal processes that people use. It began with limits set by the State statutes which state that you can’t spend over a certain amount and do a change order, yet it was happening. The question came up about the parameters. We received very lengthy explanations from the Legal Department many times. In fairness to Facilities, I never heard an explanation from Facilities, so I don’t want to suggest that they were ever involved in the conversation. I’m glad to hear there is something in writing. Maybe we can see what that is, because no one has ever produced that in all the years that this had been discussed by the Audit Committee. The next portion is when do you make that change? I remember Mr. Marko used the example of adding a tennis court, and when you would have to re-bid. There was one person at that time in the attorney’s office making that decision. I’m glad to hear that there’s more of a process. This is not very transparent. None of us know this and we’ve been asking this question for years. That is problematic to me. We still come back to what started this, which was whether you could have a case where you can exceed the State statute and have the order without rebidding the entire project. That was one of the initial questions that sparked this, and I’m still not hearing clear answers on that. I’m glad there is a process and I hope that somebody will include that in our packet at the next meeting.”

Ms. Greenberg stated “The last sentence in Mr. Carland’s memo stated ‘to date, we have not been asked to participate in any such discussions in work. Do we formally have to ask Mr. Carland to participate in such discussions, inasmuch as we’ve been trying to do this for six years?’”

Mr. Runcie stated “Obviously, there’s an issue here. We will work to pull something together, have a workshop sometime before the end of this school year on what the suggested changes in parameters will be, something that is in line with State statutes. At the next meeting, I will ask Ms. Meloni to provide documentation on the current change order process and a short presentation on that, so everyone clearly understands how the process works. We will discuss the parameters that will be modified to decide when to go out to bid or extend on a contract. We’ll move forward and make that happen and do what we have to do to ensure there’s confidence and integrity in the change order process. We will work with our internal auditors, our Legal Department and Facilities to address this issue.”

Mr. Sakhnovsky stated “The motion is to request that the School Board address revisions to Policy 7006 to ensure a transparent change order process by the end of this school year.”

Mr. Hurst stated “That includes Mary’s comments and has been seconded.” Motion passed.

## **REGULAR AGENDA**

### **Internal Audit Report – Audit of the Internal Funds of Selected Schools**

Mr. Reilly began “This report contains seventeen schools. Fifteen complied with all prescribed policies and procedures. There were two schools that had some audit exceptions related to cash collections, athletic tickets, inventories and vending commissions. We’ve had a lot of discussions on vending commissions lately and between the last meeting and today, I met with Dr. Blackburn and several school site administrators relating to discussion about monies spent for staff accommodations, rather than to benefit the students. They are trying to find a way to change the policy. I explained the history and that the Principal’s Discretionary Account was eliminated

because it was somewhat abused on those types of expenditures. Then it was set up as donations, stating that a portion of that could go into the Faculty account and that's where the money would be flowing in for these types of staff expenditures, like breakfasts, lunches, t-shirts, etc. (see Standard Practice Bulletin I-311). A club could still raise money and use it for staff with their funds, but the idea of depositing vending money into the clubs and taking it right back out for staff was the issue. Management is trying to see if there is something else that can be done and are looking for a source of revenue for staff accommodations. Right now, we audit to the current policies. One trend we were seeing was monies being deposited into the SGA account. I'm seeing more now where the money is going directly into the Faculty account. The rule with the Faculty account, pertaining to vending, is that per the collective bargaining unit, only revenues from the machines utilized by faculty are allowed to be deposited into the Faculty account."

Mr. Hurst stated "We had discovered that there were three different types of contracts. There is work being done to make those into one contract. Is that correct?"

Mr. Reilly stated "Yes. We discussed that yesterday at a meeting regarding putting out a new District-wide vending contract with some improvements. The old contracts were written in a way where the vendor was telling us how we should spend the money. Sometimes it was earmarked that we want a certain amount of money to go to faculty. We noted that the vending contracts varied at each school. Some contracts stated that the school would receive \$75,000 at the beginning of the year; whereas, another school, similar in size, might receive \$50,000. There are basically only two vendors with many different arrangements. They are revising the contracts to make them more uniform throughout the District."

Mr. Ken Evans stated "About a year ago, we talked about the collections of monies that were in question. We were looking at the fact that no one was going with them to collect the money. I remember school officials stated they had more to do to educate children than to worry about collecting money. Was that issue corrected?"

Mr. Reilly stated "It's changed a lot. The schools are no longer handling the vending, the refilling of machines and handling of money. This is basically handled by the vendors, who come in daily, especially at the high schools. They service the machines and the schools receive commissions, based on various arrangements. The contract stated that the vendor was supposed to give the schools the information per machine as to the volume and profits. You had control by checking the beginning and ending meter reading each month to determine a reasonable amount of money made from each machine. We emphasized that the schools need controls to ensure they are getting what they are entitled to receive."

Mr. Evans stated "I think we need to look at that more in the future; there's a lot of money there."

Mr. Reilly stated "We did some testing in that area to see if what was occurring was reasonable. Initially, we were concerned that there was no record of the volume. We established that and projected it for the year. Some sounded reasonable and others did not. We will be looking further into that during our internal audit process."

Mr. Moses Barnes stated "You said this is a report from 2009-10, but what are the Principals doing now?"

Mr. Reilly replied “We are performing the audits a year later. The school year ended June 30, 2012. Occasionally, we may have to perform a two-year audit. If there is something critical, we will go back to a school before the next scheduled audit. Each school has a Director who also follows up when there are areas of non-compliance.”

Mr. Barnes stated “So these are minor infractions?”

Mr. Reilly replied “There was no significant amount of money missing; however, I think everything is important relating to a process. We want procedures in place to reduce risks.”

Mr. Barnes asked “If I was a Principal who had an exception two years ago, and there was an audit exception and I know what went wrong, but what I did was not within the guidelines and policies; if I’m not going to make that same mistake again, it would be to our advantage to put something in writing, which they probably already have.”

Mr. Reilly stated “All reports require a response from the Principals stating the corrective action planned.”

Mr. Hurst stated “Even though this was an audit that took place a couple of years ago, when you completed the audit, you had an exit conference, correct?”

Mr. Reilly replied “Yes, as the corrective action is made, we can eliminate that issue.”

Ms. Jusevic stated “Regarding the Deerfield Beach audit and the athletic ticket report, the corrective action states that they will review the policies, but what are the concrete steps? Since I’m representing PTA, I will talk about what we do. There are two or three of us after an event counting and recounting and making sure everything matches up so we can go to the night depository at the bank. Is there that kind of procedure taking place at that school? In regard to student money, are there club minutes for sponsoring teacher appreciation events?”

Mr. Reilly replied “We do have Standard Practice Bulletin I-201 which clearly designates the procedures for ticket sales, handling of ticket sales, reporting and depositing of monies. We also conduct training each year for all Athletic Directors. Regarding clubs, when a club does something with their monies, minutes are required for expenditures. One example is where a club performs their own fundraiser and decides they would like to do something for the school. The issue that’s happening is, for example, that \$15,000 or more would be deposited from vending machine sales into the SGA account, but was not used to reduce the students’ expenses for yearbook or prom, etc. There were minutes, but the money would be taken right back out of the SGA account and used for staff, even though SGA did not raise those funds. That’s like I’m putting the money there and then taking it right back out. It was a way to circumvent the Principal’s Discretionary Fund, which was eliminated in 2006.”

Ms. Mary Lou Ruderman asked “For Dillard, it states that the Bookkeeper received a letter from the vendor, which stated how the vending machine monies should be posted. The next item says there is a new vending machine company coming for this year. The Principal’s response states they’ve requested from the vendor the printout of the commissions located in the faculty lounge and circulate the commissions accordingly. This is from the new vending company. Do they

have to proactively ask for this in order to post the check? I'm thinking about the poor Bookkeeper who has to deal with all this.”

Mr. Reilly stated “It was in most of the contracts, but was never really exercised. In this case, it wasn't that the contract stated to place \$6,000 in the Faculty account, the school just deposited it in there. That is a trend that we're seeing now where the vending money is going straight into the Faculty account. That item is very clear. Even the BTU Contract states that only revenues from the vending machines in the teachers' lounges and planning areas belong to the faculty. The other machines are utilized by the students and the revenues should benefit the students only. That's why you want to get those reports from the vendors.”

Ms. Fertig stated “I am concerned about Deerfield Beach High School. I feel like they got the trifecta. They've got the Athletic and the club violations; they've got the Student Council taking the money from their account and putting it into the Faculty account and they've got the vending machine violation, the three main things that we look at in the schools. They've got them all. How do you make sure they follow the policies? There have been conversations that maybe the Principals didn't realize the policies were in place. Have we ever asked Principals to sign to indicate that they have read the policies, because we keep seeing these same three violations? I would like to know that these Principals have read these Standard Practice Bulletins. At the end of a seminar or training, their supervisors should have them sign that they have read and understand the policies and procedures. Particularly, where the students' money is going into the Faculty accounts; now we've seen this several times this year, even though you've done training. Some element is missing. If you add all of these schools' violations over time, it adds up to a lot of money.”

Mr. Runcie asked “Pat, what is your sense of how prevalent these exceptions are?”

Mr. Reilly stated “I think this has peaked now because it's an item that we've been harping on. There's a time period; the year is over and then we audit it. When we audit the 2012-13 school year, I would expect this issue to be corrected by that time. At one time, we had massive yearbook problems, but now we have very few yearbook problems. In general, I think the internal accounts are run pretty well. In this case, fifteen of the seventeen schools had no findings. That's been the case in the last couple of years. The issue of having a repeat finding is also a deterrent.”

Mr. Runcie stated “I know we have to address any issue, no matter how small. I just wanted to give an accurate sense that the District, through Pat's efforts, has been making pretty significant progress. Principals don't want these blemishes on their records and they take these audits very seriously. It looks like we're making progress and we will zero in on these cases where we find challenges, so they can be addressed.”

Ms. Greenberg stated “With the issue of the Student Government monies, I heard a discussion at one of the School Board meetings where Pat was grilled pretty well and asked what the problem was if the kids wanted to use the money for faculty. I remember being in high school, and I was not afraid to speak up, but when a Principal or administrator walked into the room and said ‘don't you want to do this or this is a wonderful idea and I think you should do it’ I would not say ‘no’. Kids are not going to say they don't want to do it. They are going to say ‘yes’.”

Mr. Runcie stated “I think the students today are different.”

Ms. Greenberg stated “I know the Board was pushing to have the policy changed. I know that was one of the things they were leading up to. That’s not our purview, I guess, but before that happens, take a close look before you let them do that.”

Mr. Sakhnovsky asked “Is there an existing matrix where you or the public can see the last five years of audits, with the exceptions for each school listed? If I were a parent and I saw three exceptions in a row, that would raise some flags for me. Right now, I don’t know how I would find that information very easily. Do you maintain this information or could you?”

Mr. Reilly replied “All reports are presented to the Board and are on our website. Delores keeps a record of each school and as we go back out to do an audit, we know what happened in prior audits. When we have a training, we usually show the areas of concern in prior audits. We would have to create that.”

Mr. Runcie stated “The information is there, but if you have to create it, that would create some work. The information is there. I would offer that maybe going forward, we could put that information together. For the ones that are not on the list, we can assume that they’ve made progress and have addressed their issues.”

Mr. Sakhnovsky stated “I see the standard response, the audit findings have been discussed, the Principal is taking full responsibility, etc. At what point do these losses accumulate to the point that Mr. Woods would say, ‘this is enough’ and I don’t care if you’re an ‘A’ school or not, you don’t reflect a financial responsibility that this District requires.”

Mr. Runcie stated “That’s part of the evaluation process for our Principals. There’s a new evaluation instrument. I believe it contains 47 components. We’ll go back and take a look at that. I guess financial management of resources at the school is definitely a responsibility of the Principals. There are consequences. We handle those things on a case by case basis. When you have a leadership challenge in a school, it’s not just with financial issues; there will be other issues at the school. Those things tend to surface and when you find these other issues, at that point, it’s time for some serious intervention.”

Mr. Sakhnovsky stated “I can think of one example in particular where a Principal who was involved with some very questionable financial situations with the PTA and instead of being disciplined, got promoted to an Area Superintendent. Sometimes a case by case basis works in the opposite way.”

Mr. Runcie stated “I understand what you’re saying, but under my administration, that will not happen. You can hold me accountable to that. I’m on record, you will not see that. I’m all for ensuring that we continue to improve public trust and confidence in this District and to put individuals in place regardless of their talent that have questions on their background, we cannot afford to do that. We try to make sure we screen everyone and look at those dimensions of their experience and past performances. We make decisions for promotions and leadership opportunities within the District.”

Ms. Jusevic stated “With all due respect to the SGA students who may be outspoken, there are other clubs that would follow Charlotte’s example, where the Principal comes to a Key Club or a Drama Club and says ‘you raised money, good for you, but now we want to do something for the faculty. The kids are not going to say ‘no’ and neither are the sponsors, because they don’t want

to look like they are challenging the Principal, because the kids are people pleasers. What is the training for brand new Principals?”

Mr. Runcie stated “We have a relatively new program in place that is under Dr. Calabrese. At this time, I would ask Mr. Reilly to meet with her to ensure that part of their training has some components that address these issues. Do we do that?”

Mr. Reilly said “Yes, we do.”

Mr. Runcie stated “So, that is actually happening. Given that, no one should state that they were not aware of the procedures. In order to be a Principal, you need to know the procedures.”

Mr. Hurst stated “This goes to Mary’s comment about the procedure manual being initialed.”

Ms. Fertig stated “I’ve been asking for this for three years. I too thought that they simply needed training, but this problem came about when the Principal’s Discretionary Fund was eliminated. That’s when we started seeing this. Have we made progress? Pat’s done an incredible job. His department has made an incredible difference in what we’re seeing in these reports today. On the other hand, this trend we’re seeing in high schools with the monies going between accounts has happened in the last few years. That’s why I’d like to see the Principals sign that they have read and understand the policies.”

Mr. Runcie stated “Pat, why don’t you meet with Dr. Blackburn and our two high school cadre directors. We’ll do some initial training, something very brief and then we’ll have Principals sign off. One final note, we’ve started and have put in place a unit in the organization called the Business Support Centers managed by Mr. Woods. This essentially provides a unit of experience and talented bookkeepers and accounting professionals that the schools hire at their discretion and we found that to be very successful. They know how to implement policies and ensure that the practices for internal accounts are being performed well. This really takes the burden off the Principals. These services are available to schools on a discretionary basis. We’re doing what we can to support the Principals of the schools in areas where they need help.”

Ms. Greenberg asked “They said they would have the training scheduled for January for Dillard. Have they done that?”

Mr. Reilly replied “I will follow up to see if that’s been done. Lately, we’ve been doing training for people who are just becoming Principals.”

Mr. Evans stated “This is just for new Principals?”

Mr. Reilly stated “No, the training is open to all Principals.”

A motion was made to transmit. Motion carried.

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

Mr. Reilly stated “This report has 35 schools and five departments. There are six locations that contain some audit issues and thirty-four schools/locations complied with policies and procedures. There were a total of 448 items that were unaccounted for with an approximate historical cost of \$1 million. The six locations included one department that had a significant amount of items unlocated. If they implement the semi-annual inventory review and

identification of assets that are in place that are not on the inventory and get more involved by terminal location and the monitoring is picked up, I think that will improve.”

Mr. Hurst stated “Often paperwork is not handled properly. Of these, what portion of these would you say falls under that category?”

Mr. Reilly stated “When something is identified as unaccounted for, there could be many reasons. From an audit standpoint, you may have an item that’s listed on their inventory, and if it’s not physically identified, it could have been transferred and the paperwork was not done; the item could have been disposed of incorrectly; the item could be out on loan without a property pass; the item could actually be missing and the location is not aware of it.”

Mr. Mark Magli stated “It would be impossible to put a percentage on that. We’ve tried to eliminate those types of things.”

Mr. Sakhnovsky stated “Thank you for the matrix. On page 4, there are repeat exceptions for the Student Transportation Department and Vehicle Maintenance areas. Unfortunately, this is not shocking. A lot of the communication equipment is gone; there are two Explorers and one front loader that are gone. These things are not misplaced. If they are, then there is something wrong with the procedures. I don’t know what the follow up is. I don’t want to ever assume that it’s a paperwork issue, because those issues should be cleared up in the course of the audit. Everyone detests audit exceptions, so if they’re easily fixed, I can assure you that they’ll be fixed. What is the follow up procedure, especially, in the transportation area?”

Mr. Reilly stated “The follow up procedure is to comply with the Business Practice Bulletin that’s been developed, which gives you guidance on handling assets from beginning to disposal. One of the key things is that the strength of any type of monitoring is only as good as the location’s management. One thing for sure, is the awareness of the semi-annual physical inventory of each location. For example, when you have an item that was unlocated on a prior audit, it’s taken off the active inventory list. Then next year, we come back and now it’s located, that item is reactivated on there, but that means that you are really not monitoring your items. When you have items that should be on your inventory and they are physically at your location, those items should be added to your inventory.”

Mr. Sakhnovsky stated “Ok, that’s internal, but let’s say you’re missing an Explorer, a front loader or \$100,000 worth of communication equipment. There are no police reports being done? At what point does this become a law enforcement issue?”

Mr. Reilly stated “It does at one point.”

Mr. Magli stated “If you’re asking me personally if I think those Explorers were stolen, I’m not going to definitively say no. I believe they are not. I believe they have been located, because some information came to me yesterday. Yesterday, I sent one of our inventory auditors back to do some physical verification and within a small amount of time, we confirmed over 50 items. When we look at this list, and I think there are quite a bit more; I think it’s disjointed; I think there’s a communication piece; maybe some expectations haven’t been delivered to all parties. I’m confident that some people right now are actively involved, but I think that has to trickle down to not just the terminal managers, but everyone has to know that this is an expectation. It’s

much like some of the bigger departments we've done that have gotten things put in place. Is it perfect and flawless? No, but efforts have been made. I think that what we've expressed in previous audits, there's a synergy piece that has to exist."

Mr. Sakhnovsky stated "Mr. Runcie was correct when he stated 'The more inquiries that are made, the more attentive people become. On the other hand, there should be a standard procedure in this District where if an item is worth over \$5,000 or whatever number is appropriate, that proper documentation is made. I work for Broward County. If I lose an item with as small a value as \$20, I have to generate a report on that. What is the standard in this District?"

Mr. Magli stated "There is and it's a \$1,000 threshold. There are certain components of that which we've discussed for the items less than \$1,000. By policy, we are required to record those records and that's what we audit to, the roster of assets. Pat mentioned that certain items being at a location, that for whatever reason, slip through the cracks. We want those things brought back in and we've been working on that quite extensively. As it relates to the policy itself, there is a \$1,000 threshold in our standard scope of review."

Mr. Maurice Woods stated "One of the things I am responsible for is Transportation. We really wanted to be here to address the obvious questions that came up. For the record, being relatively new to this role, I'm very committed to providing the oversight and support that's needed to improve in the area of our responses to the audits. We have put into place some things that I believe, both culturally and structurally, will help us get better going forward. My focus is on moving both the District and the Transportation Department forward. I am here to address any specific questions that may pertain to the 2011-12 audit."

Mr. Jeff Moquin stated "I am the Chief of Staff and am currently responsible for the day-to-day operations of the Student Transportation and Fleet Services Department. I'm at a little bit of a disadvantage, since the original audit was done in May. This is a little unique, due to some of the administrative turnover. I want to stress the fact, with regard to the items; those are items that are unaccounted for. Even when I look at the inventory list, there are things that I have a hard time believing that are missing. Obviously, when they do their inventories, it's about physical verification of the items. To Mark's point, since I've become aware of this, I have asked staff to search diligently for these items, with an emphasis on some of the things like the front loader, the two Ford Explorers. It is my understanding that those items have been accounted for now, as of yesterday, when Mark sent his staff out to check. We are going to continue to diligently try to identify the physical verification of all these items, but from my perspective, I am trying to implement the controls and create a culture around the significance of property management within the department, as long as I continue to remain there. We are looking to take the database that Auditing uses and add some fields, so we can get a better understanding of where these things are located. As you see, there are three departments, but we have multiple locations throughout the county. When you say 'where is this truck, it could be at any one of six sites, potentially. One of the things we're doing more strategically with Transportation Services is expanding or further segregating the cost center approach down to the terminal level. Staff is now working on creating that accounting structure, so that we can start having individual cost centers for each physical site, and then transition the inventory on a site by site basis to help. When you get to doing property control when there are thousands of items throughout the county, it becomes more of a challenge and it takes the efforts of more than one individual. It



takes the entire department. As the Chief of Staff, I believe I have seven items on my inventory. I know where they are all located. They are all on the tenth floor; they don't move from site to site very frequently. As one individual, I can do that. We need to get that same culture with every employee within the Transportation Department. You should know the whereabouts of the equipment you use on a day to day basis. If something happens to an item, there must be expectations that those things be reported in real time to the people who are ultimately responsible for property management control. If you look at my response, I can go into more depth. Right now, there are fragmented databases in Transportation. The computer guy tracks computers; Vehicle Maintenance looks at vehicles. We are trying to create an integrated database; we're trying to push down additional information to individual employees who use that equipment on a daily basis. Obviously, we will begin to do semi-annual self-inventories, the first will be during Spring break."

Mr. Hurst asked "Can we request an update at the next meeting for the items that have been located?"

Mr. Magli replied "I believe so. We did our best to perform a physical confirmation of what we could in that short amount of time. It would be much more accurate and accessible to have more time to do that."

Mr. Hurst asked Mr. Reilly to add this item to the Audit Committee Follow Up list. Mr. Reilly said he would.

Ms. Fertig asked "Would it be appropriate to defer this report until March? If we know where these Explorers and other equipment are located, I'm wondering if it would be appropriate to defer, but I don't want to do that if you all feel that it's not."

Mr. Sakhnovsky stated "I can support that. I'm in favor of the self-inventories and the cultural changes; that's a step in the right direction, but you have to use the technology. I know the GPS system has been proposed for the buses. Is it going to include maintenance vehicles? If there are District-wide issues with vehicles, let's say, then every vehicle needs to have a GPS on it. What's the status of that?"

Mr. Runcie replied "When we had our huge transportation challenges at the start of the school year, we began to move into changing some of the practices and procedures in the department, as well as technology. It became clear that this is an area where we literally do not have data on many things. We've been steadfast in our commitment to implement those infrastructure components and controls to be able to track that. The RFP for the GPS system is out 'on the street' as promised and it's our goal to have that implemented before the end of this year, so we can begin to track every bus, wherever it is, and provide improved customer service when parents or schools call to identify where the vehicle is located. It is not new technology; Broward County Transit has it as well as other Districts throughout the State. You all have it on your phones. The other thing we are implementing is the KRONOS timekeeping system, so we will have better management control data around payroll. The third major piece is putting in a solid management team at the top, folks who are well versed in logistics and routing, which is the heart and soul of these operations. To answer your final question about the vehicles, we look at this as a multi-stage implementation; first and foremost we have to get the GPS on the bus fleet first. We want to make sure that's working effectively. Secondly, we will start looking at some

customer service components that we can put in place, for example, we can put out an app so that parents can track where the buses are. Third, we'll extend that to be able to track students, in terms of their status, relative to transportation. We'll move into putting it on our additional white fleet in the system. It's a multi-stage process; we want to make sure we take care of the basics first and then add on these other pieces."

Ms. Fertig stated "I would like to remove this section of the report and submit the rest. Seven months to respond to this and just finding the stuff in the last two days is alarming to me. I understand the 250 radios are small, but huge \$80,000 generators are missing. I would feel more comfortable looking at this after we see what they've actually been able to find. If they need another month to do that, then I'm going to move to defer the transportation section until the next meeting, and hopefully, it will be seconded."

The motion was seconded.

Ms. Greenberg stated "I can see what you're saying, but we don't defer the school audits when they have horrible results, to wait for what they've found. It doesn't seem right to do that, unless we do that for schools too. It's not fair. I want this to go through and then we'll get the follow up."

Mr. Runcie stated "By next month, we should be able to have a more comprehensive response; I don't see how that's inconsistent. Otherwise, what you're doing is submitting an item to the Board where we all acknowledge that there are some discrepancies in it and presenting something that may not represent the real picture."

Mr. Reilly stated "This is an audit that captures a snapshot in time. The process is that you have a time to respond regarding the unlocated items. In this case, comparing last year's audit with this year's, there were 38 items that were removed from the inventory last year. Now they've been found and have been put back on the inventory. I think what we've done in the past was if additional items were found, we had a follow up at the next meeting and stated that additional items were located, but the audit was not deferred. The second alternative was to add a supplement to the report before it was presented to the Board."

Ms. Fertig stated "Now, we're hearing it took seven months to get a response, now in the last couple of days, you've received a response. I hate to have that kind of unclear information put out there in the public. You stated you haven't verified it; I'd like to know what is verified and what is not. I don't just want that done for the Board; I want the Audit Committee to have an opportunity to comment on whatever that final report looks like. I don't think it should take seven months to respond, but I think in this one case, with so many items, such as 250 radios, I think it's in the public good to resolve where those are as best you can, and then bring it back and let us comment and then take it to the Board."

Mr. Sakhnovsky stated "I'd like to add an amendment to the motion to defer the entire report until the March 7, 2013 Audit Committee meeting. Those radios are over \$1,000 each. Is there a report on each and every radio that you can provide to us at the next meeting, because you stated that was the policy of the District?"

Mr. Runcie stated “We will work on that and try to locate those items. My understanding is that we’ll go through all the items on here and locate them, give you a status of where they are for the large assets and the smaller items that are on this list. Mr. Moquin and Mr. Woods will follow up on this and try to identify these items over the next few weeks.”

Ms. Mores asked “Is there some type of asset retirement policy in place? Is it based on years?”

Mr. Magli stated “It’s determined by usability. If it’s a functional piece of equipment, then certainly it’s documented in the record regarding the salvage of that item, which would be archived with Financial Reporting to establish its final disposition, but it’s not based on years. We track the asset from birth to finality.”

Ms. Mores asked “How long does a Motorola radio last, because some of these are a decade old?”

Mr. Magli replied “I couldn’t tell you the life expectation and usability of these radios vs. the standard depreciation. I would guess about eight years, since it’s a communication device, but I can’t tell you that we can’t use them beyond that. Half of our computers that are in the schools, by those standards, would be of no value to us, but we know they have value.”

Ms. Mores asked “Would the GPS system eventually expand to computers and other assets?”

Mr. Runcie stated “We will look at the cost of that. For now, we are focusing on the Transportation and our larger items. I think that our auditing process relative to computers in schools is pretty good. Right now I don’t see a huge need for that.”

Mr. Evans stated “If I remember correctly, I believe we did an analysis on that and found that it would cost more to do that than to replace the item. Also, didn’t we say in the last year that you were going to look at the old computers in the schools that might not even exist and write them off?”

Mr. Magli replied “Several years ago, there were some issues about obsolete equipment, equipment that had been improperly documented and so forth. If they make it on to the unaccounted for list, the policy is that if the item is found, it can be reactivated. If it’s an item that’s gone, it’s gone. We’ve done a major clean-up of those records by way of auditing. Over the last few years, as you see, our unaccounted for equipment has been reduced significantly, as a result of the clean-up process and the implementation of action and process at the locations. We found if you are monitoring equipment and keeping accurate records, then we don’t have as many losses as before.”

Ms. Greenberg stated “If we defer this, then we’re going to wait till the next Audit Committee meeting on March 7. If we do this, we’re going to be giving a message, not intentionally, that you should wait till the last minute, come forward with some items that we found, and then they’ll defer the audit.”

The motion was repeated to defer the entire report until March 7, 2013. The motion was approved by all members, with the exception of Ms. Greenberg. Motion carried.

**Internal Audit Report – Review of U.S. Security Associates Inc. Invoices Pertaining to Bid 27-013T – Security Guard Services for the Period from July 1, 2009 through December 31, 2012**

Mr. Reilly stated “This item was a request from the Superintendent to review the invoices for a vendor that provided security services throughout the District at multiple locations, mainly in our Transportation locations. There was a request to review the final invoice, for which the vendor was requesting payment. This included 129 invoices that amounted to a revised amount of approximately \$66,000. Our office reviewed and performed a breakdown to see the support and determine if the transactions were in compliance with contract terms. We saw several things which led us to review prior years’ payments that we made under this contract. We found quite a few items that were not in compliance with this Contract 27-013T. There were issues about how they were billing us for golf carts. Per the contract, they were only allowed to bill us for the hours the golf carts were actually used, not the total hours that the security guards were working. There was another issue where security guards were working longer than the hours allowed per contract. There were multiple times where the hours billed exceeded the 12 or 24 hour maximum. Normally, the maximum hours allowable per contract were 12 hours for weekdays and 24 hours for weekend days and some holidays. We had a few issues where we were billed for the holiday rate of time and a half for days that were not designated to be paid the holiday rates, per contract. There were some additional invoices that were submitted that did not agree with any amounts in the contract. There were multiple invoices for late fees; however, the contract contained no provision for late fees. Also, these charges totaled 18% on an annual basis. During our review of the open invoices, for which the vendor was seeking payment for \$66,000, we noted several deviations from contract terms and concluded that approximately only \$42,000 was billable. When we reviewed the prior years’ paid invoices, we determined that the vendor should reimburse the District for what we paid that was not in compliance with contract terms. The net effect was that the amount the District should seek from the vendor as a reimbursement exceeded the amount the vendor was seeking from the District. We also had additional recommendations because the District did not manage the contract very well. The District didn’t make sure, from our standpoint, that they could substantiate the hours, per the contract, although they were required to have the security personnel log in and leave that information at each site, so that the District could reconcile each invoice for proper payment. There were invoices paid that had no back-up of the security guards’ hours. There were some invoices that should have been reviewed by the locations, but the system in place was centralized and paid by one location and that location initially never verified from each location whether the invoices were correct. At one point, this was run through the SIU Department. When Mr. Golt replaced the prior Director, he realized that there were no controls in place. He tried to get the locations to be accountable and verify the invoices. Eventually, we had a lot of invoices that were paid late, but eventually paid. Controls were not there so that we could verify that the hours were correct and that we were in compliance with contract terms. The District was not administering the contract like they should have been to safeguard our assets. At this point, we met with the vendor and showed them the deviations from the contract. This will probably end up in the Legal Department. I hope that we will immediately send a demand letter or try to negotiate a settlement on this. I have forwarded this to Legal Counsel.”

Ms. Greenberg stated “You are hoping that Legal Counsel would send a demand letter. That’s been a problem for years now that Legal refuses to send demand letters. Are they going to send a demand letter?”

Mr. Reilly replied “I have kept Legal abreast of the situation. We will probably be making that move, but I’m sure our Legal Department will be contacted by the vendor’s Legal Department.”

Ms. Greenberg asked “Will you let us know from Legal if the intent is to send a demand letter?”

Mr. Reilly stated “I don’t know at this point what their position is. I will do a follow up as soon as I have more information.”

Ms. Mores stated “This audit came about from a recommendation by the Superintendent. Is there a risk that this is happening with a lot of contracts?”

Mr. Hurst asked Mr. Reilly what the process was for determining the selection of schools/locations to be audited.

Mr. Reilly replied “A request could come from any direction; the Audit Committee, the Board, the Superintendent, etc.” In this case, Mr. Golt brought the concern to the Superintendent. We are constantly looking at contracts to see how they are being monitored. This is one that was probably one of the most poorly managed.”

Mr. Dave Golt stated “I know the Superintendent actually initiated this audit; however, since I began here in 2010, this has been a concern of mine. I’ve been raising this issue and ultimately, it culminated in the audit. I’m very happy that this is here today because this is something that certainly has concerned me. With my predecessor and my predecessor before him, apparently the process was that the invoices were coming into my office before I came here, and they were being signed. I realized that one person cannot be accountable for this. First of all, it’s a very large contract and there are many different sites where the services were being provided. I would receive invoices and you have to have someone to properly manage this. I’ve been raising the flag about this since I’ve been here. One thing we did was we transitioned from the centralized process where I was signing the invoices to having the sites sign the invoices. As Mr. Reilly said, there was tremendous push back on that as people did not want to do this. I had people tell me they did not want to be responsible for this. It became an issue. When I began refusing to sign the invoices, that’s how we ended up here today.”

Mr. Moquin stated “This is somewhat unique, where the contract administration is centralized, because the budget for payment was centralized, yet utilization was de-centralized throughout the county. That’s really what Chief Golt uncovered when he came here. Most times payment and utilization and payment are at the location level.”

Ms. Fertig stated “I found this audit very troubling. From the time you arrived and found out there was a problem, it took over two years to end it. Now I understand that the management really occurred in your office, correct?”

Mr. Golt stated “Some of it did, but during that time, we were trying to straighten out this process and get some accountability, so that each site would be accountable for their own security personnel.”

Ms. Fertig stated “I think you should be looking for other contracts that are being managed in this way and get the controls in place before we see another one like this. I find it disturbing that of all places for this to occur, it occurred at SIU, which I think most of us would assume would be investigating incidents like this.”

Mr. Hurst asked “How many other contracts are there that are like this one?”

Mr. Reilly replied “I don’t know if we have any other arrangements like this, but those are the types we want to look at.”

Ms. Mores asked “You’re saying that you had security guards at different locations. Was there no required approval of their time from whoever was managing that location, before it came to you, so that you had some idea that the hours were worked?”

Mr. Golt stated “That was one of the things I tried to work out with the sites. I came into the District in 2010; the contract started in 2009 and that was one of the things I saw. I immediately asked how I could account for something happening at another site. They should account for that. With all due respect to Ms. Fertig, I hear what she’s saying, but I was very excited to come here today. Had I just kept signing these, this would have never been here today. I’m the one who raised the flag on this issue and said that this can’t go on. I actually refused to continue signing the invoices. For me, coming here today was a positive thing. I understand there’s a concern about the time it took, but I was working during that time and working with previous administrations trying to resolve the issues.”

Discussion followed.

Mr. Sakhnovsky stated “It states on page 10 the contract expired on March 31, 2012. Who authorized work by this company after March 31, 2012?”

Mr. Golt stated “I believe that’s an issue that’s still ongoing, because I did not authorize that. I believe that’s one of the issues in Mr. Reilly’s report.”

Mr. Sakhnovsky stated “You knew two years ago that the contract would be ending on that date, correct?”

Mr. Golt stated “Yes, we did and we did not renew the contract.”

Mr. Sakhnovsky asked “Did you send them a letter stating that they were not allowed on School Board property at that point? What notification was given to the firm that the contract was over?”

Mr. Golt replied “We did send an email to the administrator from my office indicating that the contract was over. I would have to verify with Purchasing whether anything was sent from them.”

Mr. Sakhnovsky stated “So, somehow, people who were not authorized to be patrolling our property were still doing that for months afterwards?”

Mr. Golt stated “To the best of my knowledge, U.S. Security claimed that someone had called them, not from my office, and requested them to work at certain locations, after the contract ended.”

Mr. Sakhnovsky asked “You don’t have personnel to send out to say ‘get out of here’.”

Mr. Golt replied “If we didn’t know they were there, we couldn’t do that.”

Mr. Hurst asked “Were there any invoices received at your location after March 31, 2012, that would have made you feel that they were still out there on the campuses?”

Mr. Golt stated “If they were out after March 31, 2012, we may not have been invoiced until a month or two after that. We had already told them that the contract had expired. I, along with Purchasing, worked with U.S. Security and we asked them who authorized them to work at the additional sites. Once we received the invoices, Mr. Harris and I made contact with U.S. Security and asked them why they were still there after the contract had ended. They claimed they had been told to be there, but to this day, I personally don’t have knowledge of who they claim authorized this.”

Mr. Sakhnovsky stated “My point is that it doesn’t matter. You knew the contract expired and it seems perfectly within your authority to tell any person to leave the premises, so I don’t know why that didn’t happen.”

Mr. Golt stated “We had to know they were there. We didn’t know they were there. After we received the invoices, we contacted them.”

Mr. Sakhnovsky asked “Why did they finally stop showing up?”

Mr. Golt replied “Because we told them their services were no longer needed, which we had already told them.”

Mr. Sakhnovsky asked “Going back to this dollar per hour per golf cart, the report on page 3 states actual time vehicle was used. What would you suggest would be an accounting mechanism for that? I see what they did. They simply billed us for the golf carts for every hour they were on the premises. That doesn’t sound unreasonable to me. What would be the proper way to account for the actual time these vehicles were being used?”

Mr. Reilly stated “When I spoke to the representative from the company, I gave an example of, conservatively, twenty minutes each hour the carts were not being used. That is just an estimate; this needs to be negotiated. For a 24 hour shift, it’s highly unlikely that the carts were used every hour. They even agreed that we shouldn’t have been billed for each hour worked.”

Mr. Sakhnovsky asked “If you were re-negotiating a contract, what kind of documentation would you want? I’m confused on that. Did you see any problem during those two years with approving an invoice that stated these carts were being used for eight hours on an eight hour shift?”

Mr. Golt replied “For me, it wouldn’t be unreasonable that if the guard is driving around, he’s using it for eight hours. One of my suggestions for the future, if the need arises for this type of contract, that we purchase our own golf carts. In the long run, that would save us money.”

Mr. Sakhnovsky asked “Lastly, regarding the late fees totaling \$11,736, did you approve any invoices that included late fee charges?”

Mr. Golt replied “It’s possible that I may have.”

Mr. Sakhnovsky asked “Is there a mechanism to double check aspects like that, which according to the auditor, were not in there to begin with? Does the District have a contracts compliance person?”

Mr. Golt answered “I do not have a contracts compliance person. Again, all these hundreds of invoices are being funneled to one person who has massive amounts of responsibilities and that’s why one of the recommendations is that there needs to be in the future someone to manage the contract. This is the type of issue where you have to go out at 3:00 a.m. to verify.”

Mr. Sakhnovsky asked “Pat, please bring that list of all the contracts, because we don’t know how many there are with these problems.”

Mr. Reilly stated he would bring a list to the next meeting.

Ms. Fertig asked “If you were at the Southwest Bus Lot, did someone from there call these people and ask them to come out and work, but your office would not know that? How did that work?”

Mr. Golt replied “They were there on a regular basis for the transportation terminals. The security guards were there on all off hours. There were times that some of the sites would call for additional services and you are exactly right, I wouldn’t know about it. Yet, those same people did not want to sign the invoices.”

Mr. Moquin asked “Mr. Golt, did the contract provide for anyone within the District to just call and garner services from them?”

Mr. Golt replied “I don’t know if the contract provided for this, but it was my understanding at times they were called for extra services; however, I do not have any documentation.”

Mr. Reilly stated “As Mr. Golt stated, it was very clear that we wanted them 12 hours per day on weekdays and 24 hours on weekend days. That was pretty much the schedule for all the transportation sites and various other sites. There is something in the contract that states at the District’s request, additional services could be requested. When I spoke to the vendor, I explained that if you have an expired contract, you could refuse to continue services. When they determined that I was looking at this, I guess they thought I was the spokesperson. I began receiving invoices dated July 2012, so as Mr. Golt stated, there was clearly an email soon after March 31, 2012, to stop billing us. The contract is over. I received two or three invoices dated July and August 2012 that they submitted from one of those off locations.”

Discussion followed.

Ms. Mores asked “The District uses SAP, which is a pretty powerful system. Is there no place in the master file to put in things like ‘no late charges’ and things like that so that late charges are not paid or the date the contract ends, so the system would not pay past that period.”



Mr. Reilly stated “It is a very robust system and probably has that, but I think the check and balance is when it goes to Accounts Payable, really. It’s the person who’s signing off on the invoice before it goes to Accounts Payable, but the last check is Accounts Payable. Sometimes they will notice that a contract is expired and will send the invoice back, etc. I don’t believe we have that function in SAP that we’re using right now. It does check that you have available funds and if not, it won’t process the payment.”

Ms. Greenberg stated “I think this is a red flag for all the contracts and procedures in this District. Someone needs to look at these to see how these people are getting paid, how loose these contracts are being administered. This is totally unacceptable. I think everyone agrees with that.”

Mr. Moquin stated “Just yesterday, we were in a Performance Management session on purchasing. Contract administration was one of the topics discussed. There was recognition that there are opportunities for enhancement there. The questions about SAP functionality, I’ll have to look into that.”

A motion was made to transmit.

Mr. Sakhnovsky stated “I’ll move that with a notation that the Audit Committee has recognized some serious issues including contract compliance and end of contract payments and we want to highlight those for the Board.”

Mr. Hurst stated “A motion has been made to state that the Audit Committee is transmitting this report to the Board, but has some serious concerns about contract compliance.”

The motion was seconded. Motion carried.

### **McGladrey, LLP – Management Letter for the Year Ended June 30, 2012**

Mr. Brett Friedman began “At the last meeting, your finance staff, Oleg and his team, presented the District’s annual financial report. We presented the results of our audit as well as our opinion on the report. Today we are providing the Management Letter, in accordance with the rules of the Auditor General. This primarily contains recommendations for financial management improvement. You have a draft of that. Per the Auditor General, we are charged to comment on certain things that they have a particular interest in. One of those items is the status on prior year recommendations. These are in regard to financial management and are reviewed as part of the audit. The results are included in Appendix B of this report. The second item that we are charged with is if we come up with any recommendations to improve financial management, that we present recommendations to management to improve their financial operations. We have four items included in this report on page 3. I’ll have Ms. Chantelle Knowles give a brief description of those.”

Ms. Knowles began “The first item relates to payroll. As we reviewed our internal control procedures over the payroll system, we noted from our sample from the Transportation Department, that there is a Time Management Report the rest of the District uses for payroll approval, which is not being used by the Transportation Department. They use a different report, which is supposed to be reviewed and approved; however, when we asked for that report, they

were unable to locate it. Our recommendation was to ensure that the reports are adequately stored and maintained and also to determine whether a separate system should be used by another department for tracking payroll. As Mr. Runcie stated, the Transportation Department is being addressed now and they will be implementing the new KRONOS system during this current fiscal year, so many of those issues should be addressed at that time. The second comment was related to items that Pat Reilly's office has addressed. They located approximately \$11 million in capital assets that were added to the capital asset inventory during the fiscal year. He reviewed the listing at last year's Audit Committee meeting. Our recommendation was that the recommendations from his office continue to be followed and that there should be a reconciliation performed at the various schools and departments to ensure that all assets are accounted for."

Mr. Friedman added "It was already mentioned by Mr. Moquin and Mr. Woods that the key thing we are focusing on is that the accountability is at the school or department level, and not the Audit department."

Ms. Knowles continued "The third comment is basically a recommendation as part of our capital asset review. We noted that the District uses a lot of computerized systems for their other procedures; however, for calculating depreciation, they don't really have a system. They just use Excel, which could allow for a lot of human error. We suggested that something be obtained for the size and amount of assets that they have to be able to calculate depreciation. We didn't actually note any errors in the calculations using Excel; it's just a recommendation to obtain a system to eliminate any errors that might happen in the future. The last comment relates to deferred revenue. We had some audit entries this year. There were two items; one related to PECO revenues and another item related to impact fees. We noted during our review that those items were recorded as revenue; however, the revenue was not received within the 60 day availability period the District has. The items actually should have been reported as deferred revenue. Since the audit, the actual revenue has been collected for both items. We recommended that there be a review of all their significant receivable balances that they have at year end to ensure that after the 60 day period, if those items weren't collected, that they actually be deferred and not recognized as revenue. The last item was a prior year recommendation. We noted there were four items there, of which three were no longer relevant. They were all fully implemented. There was one recommendation made from a previous report that has not been fully implemented yet, related to the FBI screenings of all employees. That response shows that this is in process and should be implemented and addressed some time during this fiscal year."

Mr. Hurst asked "Has the software been purchased for the FBI tracking and Florida Department of Law Enforcement?"

Mr. Craig Kowalsky stated "We have requested funds. Right now, I'm awaiting a response on that."

Mr. Sakhnovsky asked "Did an RFP go out?"

Mr. Kowalski replied "Normally, we utilize L1 Enrollment Services, also known as MorphoTrust for processing of vendors and student teachers. I believe many of you have experienced our fingerprinting. Volunteers come in house. Vendors and student teachers go to an outside vendor, with whom the District has a contract. Our request is for modification of the existing software to accommodate additional employee groups to assist with this screening."

Mr. Sakhnovsky asked “So, you’re requesting a modification of the contract that exists with that vendor? This is that issue again about changing an existing contract or putting out an RFP for new services.”

Mr. Kowalski replied “When this contract originally went out, we had left it to the point that we could request additional employee groups or charter employee groups be added into this contract.”

Mr. Hurst asked “Could you define groups?”

Mr. Kowalski replied “The Security Clearance Department fingerprints, for example, volunteers, youth mentors, health science students, etc. There are different groups.”

Mr. Sakhnovsky stated “I just want to know the nature of the change. It’s similar to what we see in construction management all the time.”

Mr. Hurst asked “So he’s adding groups?”

Mr. Sakhnovsky replied “Yes, but he won’t have to go to the street again. He’s going to work with an existing vendor and he’s requesting funding for that purpose.”

Mr. Kowalski stated “That funding will be recouped by the applicant.”

Mr. Sakhnovsky asked “On page 7, it says the condition is that the current year the District had adjusting entries and the criteria says the District should have an internal control policy in place. Does this mean we don’t have that?”

Mr. Omar Shim replied “Yes, we do have that. Essentially, these two cases, as indicated in our response below, were, basically in the case of the PECO, we had a practice of not deferring PECO revenue since I’ve been the Director. The State allocates the funds to the District; then they authorize encumbrances for PECO. They basically say to the District that you can go out and get contracts against this, but we’re going to hang on to the money for you. The only time they actually send the money down is when we get an expense. Our process has really been not to defer that revenue, because it matches up with our encumbrances. However, it’s been recommended through this observation that we do defer it, so that was just a change in our practice.”

Mr. Sakhnovsky asked “So, you are simply going to accept the recommendation?”

Mr. Shim stated “Yes. The other one was impact fees, which are provided quarterly by the county. The last quarter of last year, they stated they were going to give the District ‘X’ amount of dollars, and they missed their payment. They actually paid the first quarter of this year for the last quarter. They were late.”

Mr. Sakhnovsky asked “So, the solution to that is to simply account for it when it’s actually received?”

Mr. Shim replied “We probably should have taken it off the books when we realized we hadn’t received it.”

Final – Approved at the March 7, 2013 Audit Committee Meeting

Mr. Sakhnovsky asked “Lastly, on page 5, I don’t see anything here about annual performance reviews. Somehow, this has to have some teeth to reflect when a Principal isn’t adequately doing his job in these capital asset inventory controls. There is no evidence that I’ve seen yet that there’s actually any teeth to this. There has to be some type of accountability mechanism when the failures perform a pattern.”

Mr. Moquin replied “It is my understanding that on the schools, it is part of their annual performance appraisal. We spoke about having that same level of accountability at the District level for District Directors. There is progressive discipline for repeat findings.”

Mr. Sakhnovsky stated “It seems to me that would be an appropriate planned corrective action, or something that has some teeth in it.”

Mr. Hurst stated “What you’re saying is that the response should state the planned methodology, which would be that after enough instances, that would be grounds for termination or some sort of remediation, other than additional training.”

Ms. Greenberg stated “I’m glad to see this on page 5, that it’s not the Office of the Chief Auditor’s responsibility to keep track of this property and inventory. Unfortunately, in this District, for too many years, they’ve been expecting the Office of the Chief Auditor to be keeping track of this, so that’s something that’s important. I agree with Nick. There is progressive discipline; it all depends on the administration how strictly that’s adhered to. In past administrations, it’s been almost totally ignored by former Area Superintendents, who themselves had problems in several areas, as we know from history. Hopefully, we will see improvement.”

Ms. Fertig stated “On page 6, I know this Audit Committee was very sad to see that the second part of the SAP process was not implemented. Thank you for this.”

Mr. Sakhnovsky asked “Can these be moved to transmit with the two recommendations regarding that the February 15<sup>th</sup> memo be required to be signed and acknowledged and also include an accountability component with appropriate leadership reviews?”

Ms. Greenberg stated “No, we don’t edit that.”

A motion was made to transmit. Motion carried.

Meeting adjourned at 3:30 p.m.