

The School Board of Broward County, Florida
AUDIT COMMITTEE

MINUTES OF AUDIT COMMITTEE MEETING

May 2, 2013

Dr. Henry Mack, Chair, called the Audit Committee meeting to order at 12:30 p.m. at the Kathleen C. Wright Building in the 1st Floor Board Room. A moment of silence was observed for the men and women in the Armed Forces serving our country. Members and guests were introduced.

Members Present:

Mr. Moses Barnes
Ms. Charlotte Greenbarg
Dr. Henry Mack
Mr. Robert Mayersohn
Mr. Andrew Medvin
Ms. Alex Mores
Mr. Nick Sakhnovsky

Staff Present:

Mr. Jeffrey Moquin, Chief of Staff
Ms. Katie Leach, School Board Member
Ms. Shelley Meloni, Task Assigned Chief Facilities & Construction Officer
Mr. Michael Marchetti, Office of Superintendent
Mr. Scott Krutchik, Acting Director, Accounting & Financial Reporting
Mr. Sam Bays, Director, PPO
Mr. William Blakley, Assistant Technical Director, I&T
Ms. Mary Mulder, Food & Nutrition Services
Mr. William B. Harris, Jr., Director, Supply Management & Logistics
Mr. Henry Robinson, Treasurer
Mr. Patrick Reilly, Chief Auditor, Office of the Chief Auditor (OCA)
Ms. Delores McKinley, Manager, Internal Audits (OCA)
Mr. Robert Goode, Manager, Facility Audits
Mr. Gerardo Usallan, Manager, Facility Audits
Mr. Joe Wright, 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:

Ms. Karen Yi, Sun Sentinel
Ms. Chantelle Knowles, McGladrey, LLP

Special Presentation

A New Member Orientation Meeting was held from 11:30 a.m. – 12:30 p.m. Members in attendance were Dr. Henry Mack, Ms. Charlotte Greenburg, Mr. Moses Barnes, Mr. Nick Sakhnovsky and Mr. Robert Mayersohn. Mr. Pat Reilly, Chief Auditor, was also present.

Old Business

A motion was made to approve the minutes for the March 7, 2013 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 item is an update on the audit of Ashbritt, Inc. and C & B Services. Yesterday, I received a memo from Mr. Carland providing an update. He stated there was a delay with a meeting that was scheduled for yesterday, but they are in the process of extensive settlement discussions. He believes that within the next ten days, there should be some action. He stated that if the settlement proposals are not forthcoming, and the District is unable to set the matter for mediation, the General Counsel’s Office will schedule another attorney/client session with the Board to determine the next steps.”

Follow Up Item #2 - October 11, 2012 – Miscellaneous Discussions

Mr. Reilly stated “This item is regarding the Committee’s request to follow up on written procedures to have in place concerning what circumstances a change order should be used vs. re-bidding the additional scope of work. Concerns are whether un-bid work is being performed and if the additional work is related specifically to the project. Ms. Meloni met with Mr. Carland earlier and I think that item is still pending written procedures about the change order vs. re-bidding issue. Ms. Meloni brought an update on the procedures as to how a change order is handled and the process.”

Ms. Charlotte Greenburg asked “Is this going to make the process smoother and better for the District?”

Mr. Reilly stated “I think it will. We now have more specific written procedures for departments that are involved, including our department, so I think it is an improvement.”

Ms. Greenburg asked if the Committee could obtain a follow up after the procedures were used for a while.

Ms. Shelley Meloni replied “We’ve actually been using this process for about two years now, where we meet in a forum. Recent additions have been staff from the Audit Department. This process has been ongoing for years, where we meet and discuss all change orders.”

Dr. Henry Mack asked “On page 1, paragraph 2, regarding the procedures, how does what you have written here apply to change orders, specifically for design and construction phases?”

Ms. Meloni replied “This outlines the steps we take when a change order comes before the group. Any change order that is submitted to the PMC (Project Management Council) goes through these review steps.”

Dr. Mack asked “Is the person from the Audit Department a voting member?”

Ms. Meloni replied “It’s not a vote. We analyze, we make changes, sometimes we reject it outright and if there are revisions, it’s a consensus. We don’t take a vote on any particular issue.”

Dr. Mack stated “My concern is having someone from the Audit Department involved in this change order process and be auditing that process also. To me, that reduces their independence. In the past, whenever the Audit Department is involved in a committee or sub committee, I have been notified. The Chief Auditor reports to the Superintendent and me. Because of the limited resources that are in that department, I want to know personally when they’re involved in any activities that might be a conflict of interest.”

Mr. Reilly stated “That’s a discussion I’ve had with my staff and Ms. Meloni. With everything we do, we don’t want to become part of management. We don’t want to be a voting part of the process. The former Superintendent requested that we provide an oversight function. We review the documents. We’ve always stated that we can drill down to a degree; however, we don’t have the opportunity to thoroughly audit the issues, but we rely on and review the documentation that is presented. We also attend the Agenda Prep Meetings. That’s another opportunity to bring up concerns. Thirdly, for the Superintendent’s SLT meeting, there’s a second agenda meeting that we attend. We voice our opinions on items most of the time. There is a fine line. My concern is to be independent. I don’t want to be involved in a management decision on something that may be auditing in the future.”

Dr. Mack requested that a corrected copy of the Change Order Review Process flowchart be brought to the next meeting.

Discussion followed.

Regular Agenda Items

Internal Audit Report – Current Status of the Audit of the Facilities & Construction Management Division’s Project No. P.000917 – PPO Zone 4 Maintenance Facility

Dr. Mack stated “For years, we have been trying to get this issue resolved. The Audit Committee has received collectively hundreds of pages regarding this project. In this situation, the Superintendent has already made a decision and issued a directive to staff to do certain things. His directive partially is a result of information evolving from this Audit Committee. At this point, there is nothing new that the Audit Committee can add to those recommendations that we made in the past. I do not intend to spend a lot of time rehashing what we’ve done in the past. As far as the Audit Committee is concerned, whether the staff has done it or not, is now a function of management, because the Superintendent made a decision, issued a directive ratified by the Board.”

Ms. Greenberg stated “I think it’s important to bring out certain facts for the record at this meeting. Both the Board and the Superintendent directed that this project be stopped. That is a fact. In spite of this directive, subsequently, over a million dollars was paid to Royal Concrete, in spite of the fact that the order was given to stop. It is also a fact that someone in the General Counsel’s Office signed off on two payments. I find it a fact that we have a situation that the Superintendent is well aware of gross insubordination on the part of staff members.”

Dr. Mack stated “Jeff, we’re leaving this in the hands of the Superintendent. Obviously, we are very frustrated as an Audit Committee that the orders issued were not followed, but that’s a management problem. Pat, as far as I’m concerned, you’ve done your job and any further updates on this project should come from your office.”

Ms. Greenberg added “One more fact, it is the purview of the Superintendent, obviously, to have to deal with the staff. It’s the purview of the Board to deal with what happened in the Office of General Counsel, I believe.”

Mr. Nick Sakhnovsky stated “I have some questions for Pat about some discrepancies between the figures that his office is presenting and the ones from the Facilities Department on pages 6 and 7.”

Dr. Mack stated “That’s what I don’t want to happen. With all due respect, I don’t want to discuss this mess and take the staff’s time or the Committee’s time. We’ve done this before. Let’s let the Superintendent fix this mess. It’s his responsibility to get it done. We’ve made our recommendations, we’ve gone over numbers; we’ve been insulted as a Committee. I don’t want to go through that again. It’s counterproductive. We’re wasting taxpayers’ money.”

Mr. Sakhnovsky stated “It’s still a fact that there are discrepancies.”

Dr. Mack stated “We’re not going to waste the time of the Committee today discussing this issue again. Leave it to the Office of the Superintendent to resolve it. Let’s move to agenda item #4.” (Note – Mr. Sakhnovsky’s questions were answered to his satisfaction after the meeting by Mr. Reilly.)

Ms. Greenberg said “I would like to mention, so that it’s on the record, this project used Federal funds.”

State of Florida – Auditor General – Broward County District School Board – Financial, Operational and Federal Single Audit for the Fiscal Year Ended June 30, 2012

Mr. Reilly stated “This is a report that was produced by the State Auditor General. Basically, they come every three years and perform a Financial, Operational, and Federal Single Audit review and they also report any findings and recommendations that they have. They provided fourteen findings and recommendations related to IT, Food Service and Property. In addition, there were recommendations for some policy changes, stronger financial internal controls over certain functions, such as electronic transfers. Our department acts as the liaison for this report to obtain and provide management’s responses to the findings. There were also two Federal Award findings related to the transfer of monies from the Food Service Department to the General Fund. They had questioned these transfers because the purchase had been made from the General Fund

several years ago and the transfer of funds back to the General Fund from Food Service funds occurred in the 2011-12 school year for the Kronos machines. We obtained a letter from the proper individuals and they stated they did not have a problem with the use of those funds for that purpose. They wanted some tightening of the controls for expenditures through Food Service that have to do with routine maintenance to ensure there is an approval process.”

Mr. Moses Barnes asked “Pat, under the executive summary, I see the words fairly, no deficiencies, no non-compliance, etc. What in your opinion, does fairly mean?”

Mr. Reilly replied “That’s a very common accounting term, where they felt that through their examination, the financial statements presented by management were fairly presented in accordance with accounting standards.”

Mr. Barnes asked “None of these findings resulted in any type of fines?”

Mr. Reilly replied “No.”

Mr. Barnes asked “On page 109 and 110 (Federal Awards Finding #1), the \$625,000 that the District transferred to purchase time clocks, it states they transferred money to the General Fund for the reimbursement of these clocks. In other words, they used some of these Federal funds to purchase a clock.”

Mr. Reilly stated “Initially, it was purchased from the General Fund and is now being reimbursed back into the General fund.”

Ms. Greenberg asked “On page 101, (Finding #1 – Fraud Policy) management’s response, I’d like a follow up when it’s completed. It’s supposed to be done in July.”

Mr. Reilly stated “I can give you an update on that. During the workshop on April 16, 2013, that policy was presented to the Board. The Board reviewed and made a couple of recommendations and now that item will be going to the Board at, I believe, the next School Board Meeting for the first reading.”

Dr. Mack asked (Finding #2 – Electronic Funds Transfers – Page 101) “When will the Chief Financial Officer adopt the Electronic Funds Transfer Policy?”

Mr. Reilly added “I can follow up on that.”

Mr. Henry Robinson replied “I guess they criticized the fact that there was no policy. We will take those procedures and put them into policy format and have them approved. It will probably be done by July, 2013.”

Ms. Greenberg asked “On page 102, (Finding #3 – Decentralized Collections), was the Business Practice Bulletin created by April 30th?”

Mr. Reilly responded “I’ll have to check on that.”

Ms. Greenberg stated “Regarding Finding #4 on page 102, (Payroll Processing) I was happy to see that you recovered over \$800,000 of the payroll overpayments.”

Dr. Mack asked “On page 102, (Payroll Processing) regarding Kronos, it states that the department has fully migrated to Kronos. Is that a factual statement?”

Mr. Moquin replied “All of the attendants, drivers, vehicle maintenance, as well as the support staff, have migrated to Kronos now.”

Ms. Greenberg asked “On page 103, (Finding #6 - Severance Pay), I referred back to page 88, because there seems to be a conflict there between the Auditor and General Counsel. Has that been resolved?”

Mr. Reilly stated “The Auditor General issued a follow up response recommending that the District obtain an opinion from the Florida Attorney General. I spoke with Mr. Carland. He said it would require Board action to see if he can request an opinion from the Attorney General.”

Ms. Greenberg requested an update on this item. On page 104, (Finding #7 – Purchasing Cards), was the implementation done on March 20th?”

Mr. Bill Harris stated “The implementation was done on March 20, 2013. All P-cards were reduced in the system and all end users were notified.”

Ms. Greenberg asked “On page 104, proposed corrective actions, the proposed timeline is June 30th. I’d like a follow up on that.”

Mr. Harris stated “That is for the retrieval of P-cards after someone leaves the District. That’s in process now. We are revising our P-Card manual to incorporate that, along with the form that will be submitted to the departments that receive P-cards. That manual will be released prior to the next fiscal school year.”

Mr. Reilly stated “Routinely, I’m required to perform a current status of this report, which will address these follow up requests.”

Ms. Greenberg asked “On page 105, (Finding #8 – Tangible Personal Property) regarding barcoding and tagging items, we did have a report from Mark that showed even though the items were individually less than \$1,000, they added up to millions of dollars. I believe that we should be looking at everything.”

Mr. Reilly stated “The bulletin that’s in place now deals with the requirement of monitoring all items of \$1,000 or more, but the language in that bulletin also states that high valued items less than \$1,000 be monitored and controlled.”

Ms. Greenberg stated “On page 106, (Finding #9 - Annual Facility Inspections), if you look at the finding on page 92 and 93, I have a hard time processing the fact that these things have been going on from three to eleven years and seven to seventeen years, respectively, and nothing was done. I’m looking at the response here and I realize that these responses can’t be changed. When they didn’t have funding issues, they still didn’t do it. I’m insulted by this response.”

Mr. Sakhnovsky asked “The procedures when Principals put their projects that need to be corrected on there, is there communication between these inspections and these reports and getting them on that list, so that they can be addressed? Once they’re on that list, they should be addressed.”

Mr. Moquin replied “I know that the Director of Safety conducts these inspections. I know that electronically, it interfaces with Compass in order to generate work orders in certain instances. I’m not sure that is the issue. I hear the Committee clearly where this is an area where that response is not sufficient.”

Ms. Greenberg asked “On page 107, (Finding #10 – Background Rescreenings) second paragraph from the bottom states that there is a challenge because employees elected not to comply with a directive. What is that about?”

Mr. Reilly stated “I can obtain a follow up on that from Mr. Golt. That’s his area.”

Mr. Robert Mayersohn asked “What is the consequence in Florida Statutes if we don’t adhere to that requirement?”

Mr. Reilly stated “I will follow up on that.”

Mr. Moquin stated “I don’t think it’s relevant. I would just submit that in terms of this issue from an administrative standpoint, it was dealt with passively where people were told they needed to go. My commitment is that it will be dealt with internally. They will show up.”

Ms. Greenberg stated “On page 108, (Finding #11 – Expenditure Processing), the response states that effective July 1, 2013, the processing of these check requests will be stopped. I’d like to have a follow up to make sure that is happening. The corrective action timeline is March 20, 2013 to notify Principals and department heads of the check request process. Has that been done?”

Mr. Scott Krutchik stated “Yes, we sent out a memo to department heads and SLT. The policy will be effective next fiscal year.”

Dr. Mack asked if the corrective action on page 108 (Finding #12 – Journal Entries) had been completed.

Mr. Robinson replied “This has not been done at this point.”

Mr. Krutchik stated “I don’t have an effective date at this time.”

Dr. Mack asked for a follow up.

Ms. Greenberg asked “On page 109, (Finding #13 – Information Technology – Access Privileges), the date for corrective action should be by June 30, 2013. New roles will be created. I’d like a follow up.”

Dr. Mack asked for a follow up on page 109 (Finding #14 –Information Technology – Security Controls).

Ms. Greenberg asked “On page 110, (Federal Award Finding #2), management’s response shows a beginning date of April 1, 2013 for the posting of these emergency work orders. Did that happen?”

Ms. Mary Mulder replied “Yes it did. We received our first report already and our Equipment Manager is already reviewing it.”

Dr. Mack stated “The next response shows June 30th.”

Ms. Mulder stated “We’ve already discussed with Maintenance what we’re looking for. We’ll have that report by June 30th, so we’ll be ready for July 1st.”

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

Mr. Reilly stated “There were fourteen schools audited. Nine of the schools followed the policies and procedures and had no exceptions. Five schools had some findings, such as weak internal controls over cash disbursements and late deposits. In addition, we still had some vending commissions that were incorrectly distributed. We also had some missing funds at one location.”

Dr. Mack stated “In past years, we’ve always had someone here to address the issues of audit findings at the schools, but I find that we don’t have that person here anymore. I would respectfully request that Dr. Blackburn be present at these meetings and be prepared to address each of the findings that we want to discuss. We’re going to transmit this report to the Board and all of our questions are not answered. Are we in agreement, Audit Committee members, to transmit this report now, but request in the future that someone is here who can answer our questions?” The Committee agreed.

Ms. Greenberg stated “In addition, for the future, I really would prefer not to see these boiler plate responses from the Office of School Performance and Accountability that are all the same. I think that’s insulting.”

Dr. Mack stated “When you have a Director who the Principals are responding to, who really says nothing, and then you’ve got Dr. Blackburn who says even less, it leaves us in a position of ‘what do we do now?’”

Mr. Barnes asked “When you say transmit, does that mean that these reports are going to be approved, but we can re-address them when Dr. Blackburn is present?”

Dr. Mack stated “We are transmitting this report to the Board. The minutes will reflect that we are transmitting to the Board, subject to Dr. Blackburn’s attendance at future meetings. We have to bite the bullet on these, although we don’t like that. Before we get into a position where a process is permitted to continue that it isn’t conducive to accountability, we have to fix that. Everyone here has questions about this audit, but there is no one here to address them.”

Mr. Sakhnovsky stated “You’re exactly right. This is actually the third meeting where no one has been here to address our questions. The Superintendent was present at the first meeting, so somehow our concerns are not filtering down to the level where they need to be.”

Mr. Mayersohn asked “On page 71, regarding Broadview Elementary’s \$100,000 Target grant, I understand there is another school that also received a \$100,000 grant. Who can we ask whether those two grants ever were presented to the School Board for approval? I did not find anything to indicate that they had been presented to the Board. In the time frame that this grant opened up, which was the end of November and the beginning of January, there was only one School Board meeting, which was in the beginning of December. So, if this grant actually went through the process of going through the Grants Committee and being presented at a Board meeting, these

two schools would not have received the \$100,000 grants. Through the Chair, I'm suggesting that maybe we revisit that Standard Practice Bulletin. There may be exceptions to the rule. This, obviously, would probably be one of those exceptions. I understand the importance of going through the Grants Committee, but I'm not sure whether or not everything has to be approved by the School Board. If the funding comes through later, maybe there's an approval process. I'm offering that as something we may wish to look into."

Dr. Mack stated "Also, the Bookkeeper, Debra McLune at Boyd Anderson. We need Dr. Blackburn to get back to us and tell us what happened."

Ms. Greenbarg added "I'd also like Dr. Blackburn to explain what he's going to do about these repeat problems at Ely and Boyd Anderson. I find that unacceptable, not only on this audit, but on the property audit."

Internal Audit Report – Property and Inventory Audits of Selected Locations

Mr. Reilly stated "There were forty-three locations in this report; thirty-six schools and seven departments. Thirty-nine locations complied with policies and procedures for property and inventory. There were four that had exceptions. There are several that may not have had a significant amount of unlocated items that we reported, but when we do our physical inventories, there are still a lot of locations where we find items that have not been recorded on their inventory records. That's a concern that we had at Blanche Ely, Rock Island, Boyd Anderson, and Martin Luther King. That's a real internal control weakness."

Ms. Greenbarg stated "I have the same comment, for example, regarding page 19. We've got this boilerplate response from Dr. Blackburn that's unacceptable. Also, the same comment I made about Ely and Boyd Anderson. The previous one goes for this one. Obviously, they feel no one is going to do anything about it, so they just keep on doing it. I think he (Dr. Blackburn) needs to be here for this particular issue too."

Mr. Mayersohn asked "In reference to these boilerplate responses, can someone share with me what taking full responsibility means? When Dr. Blackburn comes, maybe he can address that."

Dr. Mack stated "The Principal does have complete responsibility. The buck stops with him/her. That's not a response to an audit exception, as far as I'm concerned and it's not a proper management response."

A motion was made to transmit all reports. Motion carried.

Meeting adjourned at 1:30 p.m.