

The School Board of Broward County, Florida
AUDIT COMMITTEE

MINUTES OF AUDIT COMMITTEE MEETING

May 1, 2014

Dr. Henry Mack, Chair, called the Audit Committee meeting to order at 12:30 p.m. at the Kathleen C. Wright Building in the 1st Floor Board Room. Members and guests were introduced.

Members Present: Mr. Moses Barnes
Mr. Brendan Aloysius Barry
Ms. Earlyn Barton-Oden
Ms. Mary Fertig
Ms. Susan Grant
Mr. John Herbst
Mr. Gary Hines
Dr. Henry Mack
Mr. Robert Mayersohn
Mr. Andrew Medvin
Mr. Duane Wolter

Staff Present: Mr. Robert Runcie, Superintendent
Mr. Jeffrey Moquin, Chief of Staff
Ms. Shelley Meloni, Task Assigned Chief Facilities & Construction Officer
Dr. Desmond Blackburn, Chief School Performance & Accountability Officer
Mr. Scott Krutchik, Director, Accounting & Financial Reporting Dept.
Mr. Doug Pearce, Information & Technology
Ms. Nell Johnson, Director, Business Support Center
Mr. Brian Little, Manager, Materials Logistics
Mr. Ivan Perrone, Acting Treasurer, Treasurer's Office
Mr. Patrick Reilly, Chief Auditor, Office of the Chief Auditor (OCA)
Mr. Joe Wright, Auditor III, Facility Audits, OCA
Mr. Mark Magli, Manager, Property & Inventory Control, OCA
Ms. Hermine James, Auditor III, OCA
Ms. Luis Castano, Auditor III, OCA
Ms. Patricia McLaughlin, Confidential Clerk Specialist C, OCA
Ms. Megan Gonzalez, Confidential Clerk Specialist B, OCA

Guests Present: Ms. Chantelle Knowles, McGladrey, LLP
Mr. Michael Vasquez, Miami Herald

Old Business

A motion was made to approve the minutes for the March 13, 2014 Audit Committee meeting.

Ms. Mary Fertig asked for the addition of the comments made about Ms. Greenberg's service to the Committee.

A motion was made to approve the minutes with the above mentioned addition. 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. Pat Reilly stated "The Committee requested an update on the Ashbritt audit. The item was presented to the School Board on April 15, 2014 for approval of the settlement that is in the process of completion. I will follow up on that item at the next meeting to discuss the final outcome of the settlement."

Item #2 - Internal Audit Report – Audit of the Internal Funds of Selected Schools – March 13, 2014

Mr. Reilly stated "The Committee requested a follow up regarding South Broward High School and whether restitution was made for the missing funds of \$44,000 under investigation. There was a formal investigation set up on May 21st. There was a preliminary thought that one had been set up prior to that date, but it hadn't been. After following up, we determined that we needed to initiate a formal investigation. The employee was no longer with the District. The employee was allowed to resign with an agreement to make restitution on a previous issue. Right now, there is an investigation underway by the Broward District Schools Police. They have been reviewing our workpapers and the investigation is ongoing."

Item #3 - Internal Audit Report – Audit of the Internal Funds of Selected Schools – March 13, 2014

Mr. Reilly stated "The Committee requested that Nell Johnson provide an update and discuss the operations of the Business Support Center."

Ms. Nell Johnson stated "The Business Support Center (BSC) started in July 2012. At that time, our school District began to offer bookkeeping and budgetkeeping services to elementary, middle schools and centers. We began with a pilot of nine schools and by June 30, 2013, we had approximately 63 schools that had enrolled with the Business Support Center. Today, we are servicing 112 locations, which now include two high schools and twelve departments. Our Principals have the option of joining the Business Support Center. We're doing everything we can to service them efficiently and effectively. We are offering, not only bookkeeping and budgetkeeping services at this time, but also payroll services for those departments. Each of you have been given a list of services provided by the BSC, which details the services we provide. During the open enrollment period, we found that our Principals rated our services as excellent. In fact, 95% of our Principals gave our Budget Support Specialists an "A" rating. In the pamphlet, you'll see a price list for the Principals to refer to when selecting the types of services they want provided. On page 10, you'll see a price list for elementary, middle schools and centers. On page

11, you'll find the high school price list. Those prices are based on a bookkeeper's salary and any remaining funds after the fee is paid to the Business Support Center, are used at the Principal's discretion. These funds are normally used to pay supplements for those services that the Bookkeeper/Budgetkeeper used to provide that the BSC cannot provide, such as bus duty, clinic duty, cafeteria duty and those types of things. This is in the information packet we provide to our Principals during the open enrollment period. The pamphlet is also on our website along with frequently asked questions. Based on open enrollment numbers, we'll be servicing five high schools next year. We have implemented a ticketing system, such as the system used by Ticketmaster for all our fundraisers that take place in high schools for athletics, drama production, etc. We continue to be committed to allowing our schools to focus on student learning and achievement."

Mr. Andrew Medvin asked "Is it correct that you are currently servicing mostly Elementary and Middle schools?"

Ms. Johnson replied "Yes."

Mr. Medvin asked "Are you basically establishing systems for uniformity in how things are working and are these running smoothly?"

Ms. Johnson replied "Yes. Things are running smoothly so far. There are very few school districts in the United States that have Business Support Centers, so we pretty much had to base everything on the way we do business from scratch and so far, it's worked."

Ms. Mary Fertig asked Mr. Reilly "I know this was controversial when this started, but this is very impressive to see this organized like this. From an auditing standpoint, this will be much easier to audit, won't it?"

Mr. Reilly stated "There's really not much of a difference. Either a school has a bookkeeper or they have the service. Sometimes for us, there are still items related to the school, such as payroll, that we audit, so we have to go to the school and the Business Support Center. We do an audit of the financial statements, disbursements, revenues, fundraising activities, etc."

Ms. Fertig added "Do we have an amount that's been saved by using these services?"

Ms. Johnson replied "Last year, we saved approximately \$1 million. For 2015, we've collected \$2.3 million."

Mr. Moses Barnes stated "In the old system, the Principal was the person accountable. Now that your center is providing the services, when there are findings, do you assume that responsibility or the Principal?"

Ms. Johnson stated "Well, hopefully, there won't be exceptions. The people we employ are former bookkeepers from our schools. We have constant training on the rules and responsibilities."

Mr. Robert Runcie added "The Principals are always accountable. They are essentially hiring a service to minimize areas where there have been concerns in the past, whether it's managing the books, inventory, etc. or other duties performed by the Business Support Center. In no way have the Principals' responsibilities been alleviated. Principals feel more comfortable and can focus more time on being instructional leaders at their schools."

Mr. Robert Mayersohn asked “Do you provide training to the staff at the schools or do you rely on the Principals to provide that training?”

Ms. Johnson stated “We provide training at the beginning of the school year during the teacher planning week. We train the staff who are involved in any cash collection activities. All the sponsors who are responsible for fundraising and field trips attend that training. We filmed a cash collection video that will be posted on our website. We will ask that each person sign that they viewed the video.”

Mr. John Herbst asked the Superintendent “It appears that this is a better model. It has been my experience that the shared services model is generally better trained, better staffed and has a lower error rate than when you have a decentralized approach to handling these types of activities. I see that each school has the option of choosing this service. If this is a better model, why is it optional?”

Mr. Runcie replied “When we initially did this, I wanted this to function as a business. The BSC has received extremely high satisfaction ratings from the schools. I continue to challenge staff in other departments and ask them why they think the Business Support Center does so well. Ultimately, it’s because their budget is basically zero. They have to sell their services to the schools and convince them that they are delivering quality services and meeting their needs. When you have a customer that has the discretion to do that, the level of service is going to be top notch, as it is. In addition, the Principals are fully accountable for their financial statements. If I begin to mandate that we are going to perform this service for their schools, I would be taking the Principals off the hook for their responsibility in terms of the financial operations of their schools. I found that having this model, where the customer basically decides whether they want the service or not, is optimal. They can look at the economics and the services and can make the decision. Many of the high schools, for example, do need a full-time bookkeeper. The shared model is working very well for the elementary and middle schools. We really try to introduce flexibility into the system, as well.”

Dr. Mack stated “Do you envision a situation where a Principal would be directed to use this service?”

Mr. Runcie stated “Absolutely. If we run into a situation that would be brought to the Audit Committee’s attention, we would find that to be an appropriate intervention and would strongly encourage moving in that direction, with the support of Dr. Blackburn and the cadre directors.”

Dr. Mack stated “Everything sounds wonderful, but I’m a pessimist. You’ve told us the good stuff. Let me know what the problems are, because we don’t want to be surprised six months from now with a myriad of problems. Nell, you know how this committee works. If you have some areas that we should be aware of, now’s the time to tell us.”

Ms. Johnson stated “Other than an occasional audit finding, I don’t think there are other real issues.”

Mr. Runcie stated “We’ve been looking at this for quite a while. We’ve had a number of Performance Management sessions on the Business Support Center. I really can’t see anything of significance. One of the advantages of this is that we’re able to share best practices across schools. One example would be the cash collections that you mentioned. The schools don’t just come up with their own. We have a consistent approach. It’s going to be done in a way that makes a lot of sense. The one area that is probably a challenge, although it’s somewhat outside the scope of this,

are dollars that are not totally managed by the schools, such as booster clubs and other entities that are still somewhat problematic. The BSC does not deal with that. We may have to find some way to encourage those entities to engage these services. Do you offer services to any of those now?"

Ms. Johnson replied "Right now, I am speaking to those booster clubs and other outside organizations that may wish to use our services, such as for on-line payments. All of our schools utilize on-line payments, and there are no problems with cash collections, because once the parents pay on line, the money is in the bank. We don't have to send someone out to verify the cash. Everything is more efficient when utilizing that method and that's the type of service that the outside organizations want us to extend to them. Currently, we don't have one, but we are in discussion with them."

Mr. Runcie stated "That's probably still a risk area for the District."

Mr. Reilly stated "This year, we've had two meeting with a couple of groups that wanted to know how to do fundraising by an outside organization, so they are interested in doing that. Again, every transaction, whether it's a fundraiser or field trip, initiates with the school. The process begins there. As Mr. Runcie mentioned, the Principals are still responsible for the internal funds of the school. It's a requirement by the Florida Administrative Code and our School Board policies. It really shouldn't be any different. It should be transparent whether a bookkeeper or the BSC is handling it. It's having the checks and balances in place."

Ms. Johnson stated "Pat and I are in constant communication. Having been an auditor before, I know some of the things to look for, as far as internal controls. In my area, one of the things that I must have the time to do quickly is to revise some of our policies and procedures for the centralized type of service that we provide."

Ms. Fertig stated "I'd like to compliment Nell on the video on how to handle things. I think this is something we've asked for a number of times."

Dr. Mack complimented Ms. Johnson for a good job.

OTHER BUSINESS

Dr. Mack asked Mr. Reilly to introduce the new Audit Committee members.

Mr. Reilly introduced Ms. Earlyn Barton-Oden appointed by the PTA and Mr. Brendan Aloysius Barry, appointed by Ms. Brinkworth.

Nominations were taken for Vice Chair of the Audit Committee, due to the resignation of Ms. Charlotte Greenbarg. Mr. Duane Wolter was nominated. A motion was made and passed unanimously in favor of appointing Mr. Wolter as the Vice Chair of the Audit Committee.

REGULAR AGENDA

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

Mr. Reilly stated "This report contains seven internal fund audits. Six schools complied with all policies and procedures. One school had some audit findings related to the maintenance of pre-numbered receipting documents. The preservation and retention of initial receipting documents were not done. In this case, monies collection envelopes were not accounted for. In order to have

strong internal control over cash collections, it's important to safeguard cash with the pre-numbered forms."

Mr. Moses Barnes asked if there was money missing from the monies collection envelopes.

Mr. Reilly replied "We don't know if monies were collected and not turned in related to the missing envelopes."

Mr. Andrew Medvin asked "What is the certificate of loss procedure?"

Mr. Reilly replied "The form is completed in an attempt to determine what happened. It identifies the item that is missing, the individual who was responsible for the loss, along with a summary stating the particulars of the loss. It shows that management is aware that the item was missing."

Mr. Medvin asked "When should this form be completed?"

Mr. Reilly stated "The form should be completed as soon as they are aware of the missing item."

Mr. Wolter stated "It looks like we're on a three-year cycle for the audits."

Mr. Reilly stated "We have had a couple of people leave our department. There are a few audits that were delayed that required extensive forensic auditing. For a period of the year, we had only three auditors assigned to Internal Funds. There are still a couple of audits that we are finalizing that are three-year audits."

Mr. Brendan Aloysius Barry stated "On page 13, there is an entry for a trust account in excess of \$100,000. On page 28, the Treasurer's Pool Account shows \$330,000. Can you explain those two items?"

Mr. Reilly stated "The trust accounts are similar to an account that's held in trust for any monies that have been set aside for a specific purpose. There are various trust accounts for monies that may have been donated. It's a recap of multiple accounts. The schools can invest some of the checking account monies into a money market account held with the Treasurer's Department. The schools transfer their money into the pooled investment account and can earn interest on money that they are not currently using."

Mr. Barry asked "Is that a District wide account?"

Mr. Reilly stated "Yes."

Mr. Mayersohn asked "On page 28 regarding Nova, are the two previous bookkeepers still employed by the District? I thought we discussed last time that if bookkeepers or other people who were involved in the audit were no longer at the school, they would be copied on the report, so that they would be aware, especially if they are holding the same position at another school."

Dr. Blackburn replied “I’m not sure if they are still employed with the District. The Principals who move on to other schools are definitely notified of any findings related to their previous location and they also take part in responding to any findings.”

Ms. Grant asked “On page 28, the \$330,000 seems like a large amount of money and it’s been there for three years. Does the District have any policies or procedures stating that the schools have to utilize this money by any specific period of time?”

Mr. Reilly stated “That’s a unique item. A large portion of that money is related to the building of the athletic field. We spoke about that during the last audit, whether that money should be moved out and put into the capital budget. There are restrictions on that money. It may have originally been used to build a stadium and for the maintenance of it. It’s been sitting at that school for a while. It’s approximately \$250,000; not the entire \$330,000. It was set up in a trust fund in the Athletic Club account.”

Mr. Gary Hines asked “I know for a fact that the Butler family, an old agricultural family, donated millions of dollars to Deerfield Beach High School. Is that money held in these trust accounts at the school or is it held somewhere else? That could have something to do with these trust accounts being so large?”

Mr. Reilly stated “We have had a couple of schools where donors gave large amounts for scholarships. In those situations, if it was a significant amount, we had the funds turned over to the Broward Education Foundation for them to handle. There have been cases where the donor’s wishes were to leave the money with the school, which I believe may have been the case here.”

A motion was made to transmit. Motion carried.

Internal Audit Report – Property and Inventory Audits of Selected Locations

This report includes 28 schools and locations. There were 26 locations that complied with policies and procedures. There were 12 locations where every item reconciled with their records. There were two schools that had some unaccounted for assets, although the number was minimal. One related to strengthening the salvaging process, which involves removing items from the campus and from the school’s records.”

Ms. Fertig asked Mr. Reilly to give a brief explanation on the history of the past property and inventory audits, for the benefit of the new Committee members.

Mr. Reilly stated “Mr. Mark Magli is the key person from our department. Mr. Jeff Moquin was also involved in re-writing the policies, so that everyone knows the procedures for handling property and inventory. The days when we had 300 unlocated items are long gone.”

A motion was made to transmit. Motion carried.

**Internal Audit Report – Current Status Review of the Auditor General’s Report #2013-160
– Broward County District School Board Financial and Operational Audit for Fiscal Year
Ended June 30, 2012**

Mr. Reilly stated “This is a current status of the Auditor General’s Report for the year ended June 30, 2012. The Auditor General performs a comprehensive audit of the District every three years. They originally had sixteen findings that they reported in March 2013. As part of our audit function, we performed a follow up report in October 2013. At that time, there were ten items that were completed. We reviewed the other six items that were still categorized as “ongoing”. We determined that one item was related to electronic funds transfers. We have a policy that was presented to their Finance Committee and is scheduled to be presented at the May 27th workshop. We had a property and inventory finding that is threefold, having to do with disposal of assets, reconciling some of the older accounts for assets that lack serial numbers, and making sure that we capture all assets, including cafeteria tables, etc. One finding related to background screenings of staff members. The issue there is that every five years, employees must be re-screened. Previously, there was a delay, but now, everyone is in the cycle and there is a process to ensure that everyone is re-submitted within the five year deadline, per the Jessica Lunsford Act. There were several IT issues relating to access privileges. That has now been completed. The IT Department has improved the password access. Management has increased the password requirements. The other item was that the District has an older Windows NT System that they are migrating away from, because of the vulnerabilities of that program that are not being maintained anymore. Management is in the process of taking corrective action. There was concern about the number of people who have access to SAP HR and Finance modules and they have eliminated that problem. There are certain people who still need to have access to the SAP system, but security has been tightened. Two of these items have now been completed and four items are ongoing.”

Mr. Wolter asked about Finding #9. “The response states that it is being reviewed and will be covered in a subsequent report. It looks like each year, we find some deficiencies. The Auditor General stated that we are not consistent in correcting these issues. Based on the date of the report, it looks like we haven’t accomplished much in this area. Is there a way to speed this up?”

Mr. Reilly stated “I believe the critical things that need to be done immediately are being done by the Physical Plant Operations. By law, they are required to have annual inspections. There has been a delay in correcting deficient items. This is something they still need to expedite. After speaking with Ms. Shelley Meloni, I know they are following up on this item to address that all inspections are performed annually.”

Dr. Mack asked “Are you comfortable with it?”

Mr. Reilly stated “They (Office of Facilities and Construction) are looking into a different way to handle the issue. When that has been implemented, we will review the item again. Right now, it has not been corrected and is still an ongoing item.”

Ms. Shelley Meloni stated “The strategies that we’re looking at right now are to be able to find a mechanism to get this work done. We have limited resources internally and are looking externally to get some of this work done. The immediate safety items that are priority are handled immediately by the Physical Plant Operations Department. The deficiency items that are noted in this report are long term and require design. They are much more complex. That’s where, because

of our limited resources, we have had some difficulty in accomplishing those items, which are sprinkler projects and others along those lines, not the immediate need items. Those are the items for which we are examining our options to be able to find more expeditious solutions.”

Mr. Wolter stated “It’s obvious that things are being done, but we don’t know what’s being done. It would be helpful to include the plan and timetable in the responses.”

Dr. Mack asked “Aren’t we doing that? Wasn’t that a part of the system at one time?”

Mr. Wolter stated “Yes, on the internal audit reports, but I think that sometimes gets lost on these State audits.”

Ms. Earlyn Barton-Oden asked “Do you have anything planned next year to visit the schools to determine what needs to be done?”

Ms. Meloni replied “There are inspections twice a year. There are inspections by the Safety Department. These items are a result of those inspections. Several of them have been noted for a number of years. We all acknowledge that and they certainly need to be done. As some of you may be aware, we have a new structure in place at the Facilities Department and that’s one of the ways we are looking for the resources to accomplish this work. Right now, we are in the beginning stages, the first phase. Once we begin to implement projects, this will be an area where we will focus. We’ve identified it as a need within our department. We will be looking at this area to be able to complete this work.”

Mr. Hines asked “Shelley, aren’t you in the process of developing a needs assessment now, which will prioritize all these needs?”

Ms. Meloni replied “Yes. These are safety items which have to be done.”

A motion was made to transmit. Motion carried.

Discussion on Amending Audit Committee Bylaws to align with revisions made on April 15, 2014 to School Board Policy 1.7 School Board Established Advisory Committees and Appointment of a School Board Member Representative(s) to Committee(s)

Dr. Mack stated “This item has to do with the changes to the Board policy regarding membership on the Audit Committee. I have instructed Pat to modify the bylaws of the Audit Committee to be in conformance with the new Board policy.”

Mr. Robert Mayersohn asked “Would it make sense to have a sub-committee that would look at these bylaws. There may be other changes we might want to make?”

Dr. Mack stated “Right now, we’re only dealing with this one issue.”

Ms. Grant asked “The Board adopted this change in the policy on April 15, 2014 and now we have to re-adopt that as part of our bylaws. Is that the process?”

Mr. Reilly stated “Yes. I attached the agenda for April 15th. Item #4 was what the Board recommended adding to their Policy 1.7, which has to do with the School Board’s established advisory committees and the appointees to these committees. The request was issued by the Audit Committee requesting a change to ensure that consultants and employees not be allowed to serve

on the Audit Committee, because the bylaws did not address that in the past. I brought the bylaws. On page 2, I added the verbiage to cover what the Committee wanted to add “Members may not be employed by the District or have any direct or indirect business dealings with the District.”

Ms. Fertig stated “In the years that I’ve been on the Committee, I’ve seen people recuse themselves and I know I have recused myself twice when there was a question on whether a Charter School, that someone in our office had done work for, came before the Committee. Looking at the composition of the Committee, you have people that could have those conflicts. I would like this to be broad enough that it doesn’t prevent us from getting a good representation from the community of people whose offices might, at times, have a conflict.”

Ms. Grant stated “I think it could be a little clearer, rather than ‘direct or indirect business dealings’. I would maybe mirror the actual language that was in the policy, because that was clear to me ‘not receiving any compensation including consulting, advisory or other conflicts.’”

Dr. Mack said “I agree.”

Mr. Reilly asked the Committee if they would like to change the number of meetings from seven to five per year. The Committee chose to keep the seven meetings.

Ms. Fertig asked if there was a time frame to incorporate the changes to the bylaws.

Mr. Reilly stated “We will mirror the verbiage from the policy into the bylaws. Then the Board has to approve the bylaws.”

A motion was made by Ms. Grant to amend the bylaws, Article III, to include the language from School Board Policy 1.7, which states “Appointees shall be independent* of Broward County Public Schools. *Not receiving any compensation, including any consulting, advisory or other compensatory fee.” Motion passed unanimously.

Mr. Reilly stated there would be a training session for the new Audit Committee members. He stated that the General Counsel’s Office is working on a training video related to ethics and the Sunshine Law that would be available soon. Materials were handed out to the new members detailing the functions of an Audit Committee.

Meeting adjourned at 1:45 p.m.