

The School Board of Broward County, Florida
AUDIT COMMITTEE

MINUTES OF AUDIT COMMITTEE MEETING

July 15, 2014

Ms. Mary Fertig 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. Brendan Aloysius Barry
Ms. Earlyn Barton-Oden
Ms. Mary Fertig
Ms. Susan Grant
Mr. John Herbst
Mr. Gary Hines
Dr. Henry Mack (attended by phone)
Mr. Robert Mayersohn
Mr. Andrew Medvin

Staff Present:

Mr. Jeffrey Moquin, Chief of Staff
Mr. Derek Messier, Chief Facilities & Construction Officer, Office of Facilities and Construction
Ms. Shelley Meloni, Executive Director, Office of Facilities & Construction
Ms. Christine Flynn Semisch, Designee for Office of School Performance & Accountability
Mr. Mark Modas, Accounting & Financial Reporting Department
Mr. Patrick Reilly, Chief Auditor, Office of the Chief Auditor (OCA)
Mr. Gerardo Usallan, Manager, Facility Audits, OCA
Mr. Robert Goode, Manager, Facility Audits, OCA
Mr. Joe Wright, Auditor III, Facility Audits, OCA
Mr. Mark Magli, Manager, Property & Inventory Control, OCA
Ms. Patricia McLaughlin, Clerk Specialist C, Confidential, OCA
Ms. Megan Gonzalez, Clerk Specialist B, Confidential, OCA

Guests Present:

Ms. Chantelle Knowles, McGladrey, LLP

Old Business

A motion was made to approve the minutes for the May 1, 2014 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. Patrick Reilly stated “This should be the final report on this matter. On April 15, 2014, there was a settlement between the contractors and the School Board. I have attached the documentation on the settlements that we received from Ashbritt and Nations Roof. Also, Nations Roof included an additional two year warranty for the repairs related to defective roofing materials or faulty installation.”

Mr. John Herbst stated “How much did we spend for the outside firm that the District hired to validate the conclusions that you (Office of the Chief Auditor) had already reached in terms of the dollar amount of this settlement? Did we break even, at least, with what we paid them?”

Mr. Reilly replied “The District paid them an audit fee of \$120,000.”

Mr. Herbst stated “I think that proves the point that this Committee made over and over and over again to our legal staff that we did not need that outside forensic accounting firm to validate our results. To show that we barely recouped a little more than the cost of that outside audit firm, I think shows the folly of that action, which was taken over the strong objections of this committee.”

Dr. Mack stated “I concur with Mr. Herbst. Also, there are audits being performed by other departments that we know nothing about. For example, there was an article in the newspaper on Sunday regarding a review of the ESE Department. I would like you, Mr. Moquin, to pass on my concerns to the Superintendent. Any audit that’s done anywhere in this school District should be performed in coordination with the Office of the Chief Auditor. The Audit Committee should be made aware of these audits so we can have input. This is ridiculous to pay this kind of money, when we have a cadre of accountants that we can use.”

Ms. Fertig asked “Regarding the Special Ed Audit, will that be something that will be presented to us?”

Dr. Mack replied “I think it should be presented to us. Any audit that is performed anywhere should be coordinated through Pat’s office.”

Mr. Reilly stated “I know the report was recently issued and is scheduled for discussion at the July 29, 2014 workshop. I believe at that point, we could bring that report to the next Audit Committee meeting. I’m not sure if the report will contain management responses. I will follow up on that with Mr. Runcie.”

Dr. Mack stated “I’m talking about the process. How do we prevent this from happening again?”

Mr. Reilly replied “In accordance with Policy 1002.1, all reports, external or internal, are supposed to be presented to the Audit Committee.”

Mr. Robert Mayersohn stated “In the 2013-14 Audit Plan, there was an audit scheduled for the ESE Program. I don’t think that was accomplished. I’m not sure if this is a substitution for that or in conjunction with the ESE Department.”

Ms. Fertig asked if this could be a follow up item at the next meeting to discuss the rationale for going outside the Audit Department to perform this audit.

Dr. Mack stated “I don’t think it’s necessary to make it a follow up item. I just told Pat what to do about it.”

Mr. Jeff Moquin stated “I will discuss this with Mr. Runcie. I believe the impetus for having the review was based on the Superintendent having community discussions. There was persistent feedback from many community members concerning the provision of services. I think this was more of an operational review. I don’t know to what involvement the Chief Auditor’s office was involved, but the point is well taken that regardless of whether it’s an audit or operational review, there should be some coordination and I’ll discuss that with the Superintendent. This was something he did proactively to try to respond to community concerns.”

REGULAR AGENDA

McGladrey, LLP – Communication to the Audit Committee

Ms. Chantelle Knowles summarized the McGladrey Audit Plan. “The main objective of our audit is to express an opinion on the fair presentation of the financial statements, in accordance with the accounting principles generally accepted in the United States. Our audit is also in accordance with Government Auditing Standards, Florida Statutes and the Rules of the Auditor General. As part of the audit process, management is responsible for the School Board’s basic financial statements establishing and maintaining effective internal controls over financial reporting and compliance, as well as ensuring that the School Board complies with all laws and regulations. They also assist in providing us all financial records and information available for us to audit, as well as providing assistance as needed in the audit process. The planned deliverables that we will provide will be an independent audit report on the School Board’s basic financial statements, a Management Representation Letter, a Management Letter in accordance with the Rules of the Auditor General, a Single Audit Report in accordance with OMB Circular A-133 and an Audit Committee letter. The Audit Committee letter contains any significant findings we may have, any misstatements, any corrected misstatements, any difficulties we may have had with management, any upcoming GASB standards that you should be aware of this year. Page 12 shows our timetable. We’ve already completed the planning in May. We reviewed and documented the School Board’s internal control policies over your key processes, which included your cash receipts process, cash disbursements, payroll, grants, self-insurance, performed walk-throughs of your systems and tested internal controls. We are scheduled to come back at the end of September and October to perform the final fieldwork. We plan to issue the report in November and present it to the School Board in December. Pages 18 through 23 show areas of emphasis for the audit, which include performing detail testing over your cash receipts, revenues, purchases, capital assets, as well as any non-routine processes. If the School Board is planning to issue any debt, we review those agreements to ensure that the School Board is in compliance. The significant accounting areas we will cover relate to your self-insurance claims liability. The School Board hires a third party actuary to complete and determine what that reserve amount should be. We review and determine the assumptions to make sure they are reasonable. We also use one of our internal actuaries to

ensure that your estimates are reasonable. We also perform a Single Audit and review any major grants that the School Board may have obtained to ensure compliance with Federal laws and regulations. We send confirmations, we do detail testing on your payroll, as well as any other expenditures, to make sure you are not violating any budget issues. We also send our IT team to evaluate your systems. They check to see if you have any system access issues. They check for change management. We also review GASB Standards that need to be implemented for the current year.”

Dr. Mack asked what incentives would be included.

Mr. Reilly stated “They provide us with CPE (Continuing Professional Education) course credits annually and give us opportunities to view webcasts to obtain CPE credits. They furnish updates related to changes in accounting and auditing.”

Mr. Herbst asked “What particular areas have you identified as being high risk in terms of your planning this year?”

Ms. Knowles replied “Usually we identify high risk areas, such as self-insurance, because of your Workers’ Compensation. If there is any debt issuance, we check compliance with that and also with the Single Audit to ensure you are in compliance with OMB Circular A-133.”

Mr. Herbst stated “I’m assuming you won’t have any comments with respect to the proposed debt issuance. Is that correct?”

Ms. Knowles replied “We will address it if there is anything we know of while we’re actually in planning. Before the School Board determines if they are going to issue debt, they communicate with us. They sometimes send the information to us before anything becomes final to ensure we are in agreement and they won’t have any issues with the accounting part of it. When we come back, we look at it again in detail to check their calculations.”

Ms. Fertig asked “On page 4, it states that you will communicate any inconsequential fraud. How do you make the determination that an illegal act is inconsequential?”

Ms. Knowles stated “If we discover anything, it would be communicated with management first. We determine if it has any impact on the materiality of the financial statements and it would be between management, the CFO and the Partners to determine whether the matter is significant enough to be communicated to the Audit Committee and the Superintendent.”

Mr. Robert Mayersohn asked “If it’s something that you determine as fraud, I would like to see it listed in the report for transparency, even though you may further document it as needing further investigation.”

Ms. Knowles stated “It would be included in that final communication to the Audit Committee if it’s significant enough.”

Mr. Mayersohn stated “When you say significant enough, if you find that there’s any reason to document that there could be fraud, I would like to see that in the report.”

The Committee made and seconded a motion to strike the words on page 4, fourth line, which states “unless they are clearly inconsequential”. Motion passed unanimously.

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

Mr. Reilly stated “This report contains forty-seven schools. Forty-three complied with the prescribed policies and procedures. There were four schools that had some audit findings due to non-compliance with Standard Practice Bulletins and/or School Board Policies in the areas of facility rentals, improper business practices, receipting cash and late remittances.”

Mr. Mayersohn asked “On page 188, regarding the bookkeeper who was balancing private vs. public funds, can Mr. Reilly expand on that?”

Mr. Reilly stated “During the audit, funds were located at the school in the amount of \$318. Our main concern was if that money belonged to the school and should have been deposited into the school’s internal fund accounts. We verified that the money did not belong to the school. It was actually money from the employee. We brought in the School District Police, who took the money into custody for safekeeping. Our School Police did an interview, based on the information we found. Their conclusion was that the money belonged to the employee, who was running a catering business for staff. This employee’s husband had a catering company and they were providing dinners for staff during the work hours. That investigation was completed. The conclusion was that it was not School Board funds, which we confirmed. They concurred that her personal funds should not be kept at school and she should not be performing personal catering services during work hours. The Principal, in her response, stated that the improper business practice during work hours was stopped.”

Mr. Brendan Barry stated “On page 192, in connection with this incident, one of the recommendations is that the Bookkeeper be given additional training to learn proper procedures. At what point do you recommend an employee be terminated?”

Mr. Reilly replied “From an audit standpoint, I would not make a personnel recommendation. That would be a management decision if they want to take further action.”

Mr. Barry asked “Would you ever recommend that corrective action be taken?”

Mr. Reilly replied “It usually turns into a situation where the school or department’s management will take corrective action to remedy the problem or have the person removed.”

A motion was made to transmit. Motion carried.

Internal Audit Report – Property and Inventory Audits of Selected Locations

Mr. Reilly stated “This report included fifty-one locations. There were seventeen schools and thirty-four departments, which covered over \$33 million in property and inventory that was examined. This report did not contain any locations with audit exceptions.”

A motion was made to transmit. Motion carried.

Internal Audit Report – Review of Fort Lauderdale High School Phased Replacement Project No. P.000687 (f/k/a 0951-27-01)

Mr. Reilly stated “This review of the Fort Lauderdale High School Phased Replacement Project No. P000687 f/k/a 0951-27-01 was performed in accordance with the 2013-2014 Audit Plan. The report consists of a review of the project’s Construction Change Directives (CCD’s), Change Orders (C/O’s), Performance and Payment Bonds (P&PB’s), Builder’s Risk Insurance (B/R Insurance), School Board Policy 7006, Labor Burden Costs and Change Order/Construction Change Directive Delivery Methods. The objective of the audit was to determine whether the Office of Facilities and Construction (OFC), Project Consultant and General Contractor complied with the contract terms and School Board Policies. In our opinion, the Office of Facilities and Construction has several areas that should be strengthened, in order to ensure compliance with contract terms and daily operations and administration of construction related activities. Our review disclosed several contract compliance issues. Payments were made to the General Contractor for change work based on Construction Change Directives, which are prohibited by the contract documents. Performance and Payment Bond Riders were not provided by the General Contractor with each change order which increased the contract price, as required by the contract documents. School Board Policy 7006 – Approval of Facilities’ Construction Contract Change Orders, as written in the General Conditions of the contract, does not match the official School Board policy. The Change Order Summary Form and the Prolog Change Order Listing Report did not list Construction Change Directives issued to the General Contractor resulting in understating the monetary commitments of the project. We want to make sure that the Board is aware of upcoming Construction Change Directives, which are obligations that will be converted to Change Orders. The Builder’s Risk Insurance was not maintained at 100% of the contract value as required by the contract documents. The payroll burden for Change Orders was not properly supported or calculated. There was an approval of Change Orders which deviated from the cost amounts of the related Construction Change Directives, meaning that we had some Construction Change Directives that were a lump-sum amount, but when they were converted to Change Orders, they were a different amount. The lump-sum amount should be consistent. There were some that were increased and others that were decreased. We were emphasizing that a Cost Plus for Change Orders would be better than a lump-sum to support the contractor’s billing. We have included recommendations to strengthen contract administration, implement improvements to future contracts and address our specific findings.”

Dr. Mack asked what we learned from this audit.

Mr. Reilly stated “We still need to protect the District and the contractor. We need to ensure that contract terms are being followed. Issues like maintaining Builder’s Risk Insurance and Bond Riders are good controls. I believe a lump-sum method for change orders is not as good as the cost-plus method. In addition, the cost-plus method is more auditable. We have to ensure that we follow the terms that protect us and the contractor. As far as payments, we need to be able to substantiate the labor burden, and comply with the Davis-Bacon Act. It’s difficult to do that if you’re using a lump-sum process. Those are some key things I would recommend.”

Mr. Derek Messier stated “I think many of the things the auditors brought up are really good industry best practices that we need to start implementing. Simply with the change orders; lump-sum is not a good way to manage Change Orders. It should be time and materials. We should get certified payrolls. These are good practices. Also, in general, there are four main areas brought up in this audit that we are working on in order to align with best practices. Those are for insurance,

looking at our contracts to ensure they are fair, but also to protect the District, our project delivery method. Sometimes our delivery method gets us into trouble, and finally, just overall program controls, change orders being a large piece of it. We need to have an integrated project methodology from the moment we know we want to do something until the day we close out that project. There needs to be a set of gating processes, where it's not just controlled within my specific department. We should integrate and collaborate with the Auditor, the Building Department and other entities within the District to ensure a transparent process and to ensure that we don't have these field directed changes that don't comply with the Board policies. I appreciate your comments about collaborating with the Chief Auditor. I see Auditing as a resource to help me improve my process, not as adversarial. I appreciate the work that was done on this and feel it can help us in the long term, as well as immediately. We need to start doing some things to create better controls.”

Mr. Gary Hines stated “Mr. Messier, we look forward to what you just stated. Hopefully, it's a new day and you can bring to fruition what you just stated. Everyone on the Audit Committee and a lot of people around this table appreciate that. This District has always been involved in silos. If you can reach across the silos and bring everybody together, that would be a fantastic feat.”

Ms. Fertig stated “This project has been ongoing for so many years, and during that time, we've had such a turnover in staff; 5 Principals, 5 Superintendents, Directors of Facilities. I think what we see in Pat's department is a lot of continuity of staff. I'm wondering how the turnover in the Facilities Department has impacted the flow of information. The most recent Project Director was only there the last couple of years. As you're moving forward trying to reorganize your department, you may wish to try to do something to improve the continuity between the staff people who are involved. Maybe that's beyond your control, but I think when you have so many different hands touching the same project, it may be that a checklist needs to be followed. Also, the insurance issues should be reviewed. When we finish this project as a whole, I would like to know the bottom line cost. I know you used different methods of delivery to try to shave off considerable amounts of money and if that was successful, I think that's good and if it wasn't, I think that's something the District needs to know so they can review that in the future.”

A motion was made to transmit. Motion carried.

Summary of Audit Activities for 2013-2014 and Proposed Audit Plan for the 2014-2015 Fiscal Year

Mr. Reilly stated “This report provides a Proposed Audit Plan for the 2014-15 school year. There are multiple requirements we have to follow in accordance with the Florida Administrative Code, School Board Policies, etc. We try to provide a mix of different types of audits. We have our staff working on construction, operational, property and internal audits, as well as performing other reviews and services. We continue to perform training sessions, respond to requests for data and information from departments. We assist the State and external auditors with all types of audits they perform. We take the activities from last year and we provide a Summary of Activities that were performed. This year, we completed over 30 audit reports that we presented to the Audit Committee. In addition, we performed research and responded to multiple Audit Committee follow up requests. We work closely with the Broward District Schools Police Department and the State Attorney's Office on investigations related to internal funds, payroll and Charter schools. We continue to increase our involvement with the Charter Schools to assist the Charter School Department. This year, we will have over 100 Charter Schools. There were several that closed this

year, which involved a lot of close-out procedures to determine what assets revert back to the District. The Audit Plan is an ongoing, living document, subject to change. We often receive requests for audits or reviews from the Audit Committee, the School Board or Mr. Runcie. Sometimes, things get prioritized and some things get delayed. We like to present this Audit Plan at this time of the year, so we have a game plan.”

Mr. Mayersohn asked for a matrix detailing what audits were completed, not completed, etc.

Dr. Mack stated “It is my responsibility to see that the Committee oversees the Audit Plan. It’s not for your benefit or the benefit of the new members of the Committee. The Audit Plan is just that, a plan. As the year progresses, I follow the progress. If it looks as though we are not going to do something after discussion with Pat Reilly, that item is moved accordingly. It is my function to manage the audit activities. As Committee members, you should all be following the progress of the work that’s in the proposed plan and if there are any questions or concerns about any of the items, they should be brought up during the school year. More importantly, each year, as the Chair, I present a report to the School Board and tell them everything we have done as an Audit Committee. I report all the concerns of the Audit Committee, so let this not be a concern of yours.”

Discussion followed.

Dr. Mack stated “I want you to think about what causes the Auditors not to do what they set out to do. Any time an Audit Committee member makes a request, such as what you just asked for, or a Board member or the Superintendent requests audits or information, the Chief Auditor has to modify his plan. I would like to suggest we keep the Audit Plan the way it is. If at the end of this school year, we can revisit it, but not at this point.”

Ms. Fertig stated “I would like to see a breakdown of the money you have saved the District through the Audit process. For example, on Fort Lauderdale High, you identified overpayments on labor charges of \$53,000. I think it would be helpful for us to know how effective we are being, by keeping a checklist of monies recovered.”

Mr. Herbst stated “I have a slightly different view on that. I hesitate to suggest that. The reason is that the primary function and value of internal audit is not necessarily in finding mistakes that have occurred and saving dollars. When you report it that way, it creates an expectation that that’s what going to happen. The real value is in the preventative work. There’s no way to measure that opportunity cost. I’ve had this similar conversation with my Chief of Police. There’s no way to measure the crimes that haven’t occurred because of good policing. It’s the same thing with good audit work. Good audit work is more preventative in nature. What can happen is if you start reporting dollar amounts, we have a tendency to manage to the measurement. It becomes a way of focusing attention on things that might not necessarily be the most productive or highest risks that we face as a District. I would not want to see the focus of Pat’s office be to recapture money to justify his budget, because a lot of the value he delivers is not necessarily able to be captured in dollars and sense terms.”

Ms. Fertig added “That’s a great response. I wonder if there’s any way to blend the two. I consider the work that Mark has done as so valuable. Years ago, the reports contained millions of dollars’ worth of lost computers. Over the years, he and his staff have reduced the number of lost items significantly.”

Mr. Hines stated “On the last page, it shows the cost per hour of the Audit Department as \$44 per hour. The total department’s budget was \$1.52 million. It sounds like a good deal to me.”

Mr. Barry asked “Who audits the Chief Auditor? Who audits this budget on the last page? Does that happen?”

Mr. Reilly replied “In our department, our main expenditure is payroll. I think we try to justify what we do by the reports and services we perform each year. I have to agree with Mr. Herbst. I recently attended a seminar where they discussed the function of an audit department. An internal audit department is supposed to look for preventative measures and things that can be corrected. In my prior Audit Plans, I have mentioned amounts of savings; I did not include that this year, because that’s not really what should be emphasized.” Note: The State Auditor General audits the Chief Auditor.

A motion was made to transmit. Motion carried.

Other Discussions

2014-2015 Tentative Audit Committee Dates

The meeting dates for the 2014-2015 school year were approved by the Committee.

Meeting adjourned at 1:45 p.m.