

The School Board of Broward County, Florida
AUDIT COMMITTEE

MINUTES OF AUDIT COMMITTEE MEETING

October 16, 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. Moses Barnes
Mr. Brendan Aloysius Barry, Esq.
Ms. Earlyn Barton-Oden
Ms. Mary Fertig
Mr. John Herbst
Mr. Gary Hines
Dr. Henry Mack (attended by phone)
Mr. Robert Mayersohn
Mr. Andrew Medvin

Staff Present:

Mr. Robert W. Runcie, Superintendent of Schools
Mr. Phillip Dorsett, Maintenance Department
Mr. Brian Little, Maintenance Stockroom & Warehouse
Ms. Valerie Wanza, School Performance & Accountability
Mr. Derek Messier, Chief Facilities Officer, Office of Facilities & Construction
Mr. Patrick Reilly, Chief Auditor, Office of the Chief Auditor (OCA)
Mr. Gerardo Usallan, Manager, Facility Audits, OCA
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. Chantelle Knowles, McGladrey, LLP

Old Business

A motion was made to approve the minutes from the September 4, 2014 Audit Committee meeting. Motion carried.

Regular Agenda Items

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

Mr. Patrick Reilly stated “There were twenty schools in the report. Eighteen complied with policies and procedures for internal funds. One of the two high schools that had findings was related to a negative fund balance in the Athletic Account; specifically, \$55,000 was transferred from other classes, clubs and the General Fund to clear the deficit. The account should not have been allowed to be used without having the funds. Those funds were transferred without permission of those classes and clubs. They have created a schedule for repayment of the funds to the classes and clubs over a 24 month period. The other school’s findings were related to late deposits and missing funds, which led to a more forensic review of the activities of the Bookkeeper, which has now led to an ongoing investigation by the District Schools Police Department. My auditor has met with the investigator and they are in the process of interviewing certain individuals. This Bookkeeper is not currently working at a school. Before the audit was completed, the Bookkeeper was transferred to a different school, but now she has been removed from that school. We are awaiting the disposition of the investigation.”

Mr. Moses Barnes asked “Regarding Hallandale High School, after reading the Principal’s comment, my concern is that this doesn’t seem to be an isolated incident. From October 23rd to April 14th, there were numerous late deposits. I find it hard to believe that a Bookkeeper could continue to do that with that amount of money. I saw the corrective actions; hopefully, that will take care of it. On page 83, my concern is that they had a deficit of \$8,000 in 2013 and \$11,000 in 2014. How is this money going to be paid back if they are in a deficit?”

Mr. Reilly stated “At the end of 2014, they had a \$55,000 deficit that they plan to repay. The repayment should be monitored to ensure that the funds are repaid to each of the accounts.”

Mr. Barnes asked regarding page 83 “It states that purchases made by the Athletic Department were reviewed by the Bookkeeper. I don’t think the Bookkeeper should be authorizing purchases without the Principal’s authorization. It does indicate that all parties involved will be accountable to the Principal. I think everything should be accountable to the Principal.”

Mr. Reilly stated “The first role of the Bookkeeper is to verify that funds are available to make the purchase. The Principal would have to approve and sign the check. The control is there, but allowing expenditures without available funds was the breakdown in controls over the disbursements.”

Mr. Barnes asked “When I read the Principal’s response for Dillard High, I really believe going forward, staff should be made aware that these types of things cannot go on and there are consequences.”

Dr. Mack stated “I am also concerned with consequences. I recommend that the payback schedule be due by the end of this school year.”

Mr. Robert Runcie stated “The period that’s covered here was for the prior administration. Mr. Reilly, what is the amount to be repaid?”

Mr. Reilly stated “They would have to repay all accounts where monies were taken from, with the exception of the General Fund. The General Fund can be used to clear deficit balances.”

Mr. Runcie stated “I agree there should be consequences and accountability, but we can’t structure this so that the consequences affect the students and teachers. I will discuss this with Dr. Blackburn and the Budget Office and see what we can do to accelerate the timeframe, but we can’t negatively impact the school.”

Dr. Mack asked “On page 87, I’m concerned about this issue and think it should be discussed with the Business Support Center Director.”

Mr. Reilly stated “This review was triggered by one deposit being in transit for three months. We worked with Nell Johnson. This school joined the Business Support Center at the end of the year.”

Mr. Robert Mayersohn stated “On page 84 regarding Dillard High, do we know if the payments were made for September and October 2014?”

Mr. Reilly stated “No. I’ll have to follow up on that.”

Mr. Mayersohn stated “I agree with Dr. Mack and I appreciate the Superintendent trying to go back to accelerate some of these payments. My concern is that some of these clubs may have lost revenue and now do not have that money to spend.”

Mr. Brendan Barry stated “I am requesting that we receive monthly updates on these payments and how they are being applied back to the individual accounts where they were taken from.”

Dr. Mack stated “I don’t think it’s necessary that the Audit Committee get involved in monitoring these payments. That requires a follow up report by the Office of the Chief Auditor. Considering the amount of money involved, it would cost more for the Chief Auditor to monitor the payments. I would suggest a quarterly update which does not have to be in writing.”

Mr. Reilly stated that he could do that.

Ms. Fertig stated “I agree with everything you said about paying the monies back, but at the same time, I would hate for today’s students to be paying for the mistakes of yesterday’s adults if it compromises the integrity of the programs at the school. Along with that monitoring, I hope we are ensuring that the students today are receiving as vital a program as they have had.”

A motion was made to transmit. Motion carried.

Internal Audit Report – Property and Inventory Audits of Selected Locations

Mr. Reilly stated “This report contains twenty-nine property and inventory audits; there were five departments and twenty four schools in the report. All twenty-nine schools and departments complied with policies and procedures. Statistically, the amount of assets reviewed was \$21 million and there were 40 items unaccounted for with a historical cost of \$61,000.”

Mr. Mayersohn commended the Audit Department for a great report.

Mr. Mark Magli replied “We work with the groups to get things cleaned up when we can. Hopefully they learn from each situation. Although we have a report without exceptions, there is certainly room for improvement and we address those as we go along. My staff is out there every day getting it done.”

Mr. Barry asked “Do we know what those items were?”

Mr. Magli replied “Yes. We don’t report them individually. We speak in terms of a standardized recognition of a 1% threshold, based on the total value of their inventory. I do have a record of that in the individual files, but we don’t present it in this report.”

Mr. Barry asked “For Forest Glen Middle School, what was the \$3,000 item?”

Mr. Magli stated “I could look that up and report back to you.”

Mr. Barry stated “I think I’ve seen these reports before with the items listed.”

Mr. Reilly stated “If they had an exception that fell above the threshold of 1%, we would report the individual items.”

Mr. Barry asked “Is there any follow up done for that \$3,000 item?”

Mr. Reilly stated “There could be an opportunity if that item is later located, we would be advised”

Mr. Barry asked “What are the steps taken when a \$3,000 item is missing?”

Mr. Magli explained “Our process is that we go to each location and pull the records, including purchases made up to that point. We do that electronically. We go to the location and perform a physical audit, review the paperwork and create a preliminary missing list. We allow the location thirty days to recover or properly support those items. Hopefully, we don’t have to return to reconcile. At the end of that time, we bring the report to you. Incidentally, that was an old projector that was missing from way back. They probably didn’t surplus the item correctly, but I can’t speak for what exactly happened. At that point, it would be management’s decision to pursue that further. We instruct them to report any recoveries and losses as they develop. They didn’t know that was the case, so obviously, there are areas that would have to be strengthened in their process, which has mainly been our focus to try to secure that equipment.”

Mr. Barry asked “What is the threshold where we would get a report on a particular school?”

Mr. Magli stated “It is 1%.”

Mr. Gary Hines stated “On the last item regarding receiving quarterly reports, I believe a motion was made, which I seconded. Do we need to vote on that?”

Ms. Fertig stated “I thought we reached a consensus on that, but we can vote on it.”

Dr. Mack stated “When we make a recommendation or suggestion, it does not require that we make a motion or vote on it.”

A motion was made to transmit. Motion carried.

Review of Purchasing Card Purchases and Expenditures within the Physical Plant Operations (PPO) Department

Mr. Reilly stated “Per our Audit Plan, we performed a review of Purchasing Card (P-Card) purchases primarily within the Physical Plant Operations (PPO) Department. The P-Card is used throughout the District to expedite the purchase of goods and services. The use of the P-Card allows for the purchase of goods and services quickly without the normal process of purchase orders and requisitions, etc. The P-Card significantly streamlines and reduces the cost of the purchasing process for small purchases and improves turn-around time on the delivery of goods and services. The purchases made with the P-Card are subject to the same rules and regulations outlined in School Board Policy 3320 – Purchasing Policies. There are other purchasing requirements set forth in the Purchasing Card Program Policies and Procedures Manual. We have a person in Procurement & Warehousing Services who is called the P-Card Program Administrator, who does a good job in handling the day to day operations. We looked specifically at PPO; they have a unique program where they have stock clerks who make individual purchases for the tradespersons who need parts and materials, such as electrical, plumbing, etc. to complete work orders. There are 222 P-Cards being used in the District. There are 5 individuals who had P-Card monthly spending limits between \$100,000 and \$250,000 and a single purchase limit of \$5,000. We did a lot of testing, reviewing items purchased and verifying installation of items. We outlined in the report the specific objectives and procedures, which are listed in the report. We looked at the purchase of carpet that was purchased with P-Cards. There is an individual who handles mainly all purchases related to the carpeting. We made several recommendations that would strengthen the operations. One thing was the need to strengthen the procedures over the purchases of carpet and reduce the quantities purchased. The piggyback contract that we use allows 5% excess carpet, based on the actual square footage measured. We noted that there were some purchases above industry standard for allowable excess. We do have the FISH information that gives the square footage of the rooms. It’s not the best thing to look at, because it doesn’t give the dimensions, but it’s a good starting point. We feel it’s important that the PPO staff perform their own estimates, what we call field measurements of the locations to ensure that they know the dimensions and how much carpet is needed, before the installer, who we hire to do the installation of the carpet, comes out to measure, so that any variances can be resolved. We went out and measured a couple of sites to verify the measurements. The measurements were close, but we feel that the purchase of carpeting could be improved. For example, at one site, we saw a roll of unopened carpet still in the plastic wrapper. We spoke with the vendor and they promised to give us a credit. This was a calculation error. Originally, we thought the excess was attic stock, which is when you intentionally purchase additional carpet for repairs at a later date. We learned that it wasn’t. We will also get a credit for the installation costs for the carpet that was not installed. I don’t think anyone wants excess carpet that has to be stored; however, if there is excess, there should be some monitoring of the items that come in for reuse; there should be a work order, etc. As an alternative to roll carpeting, the District could use carpet tiles, which is also an option. We

are not promoting excess inventory, but based on the pictures in our report, there is quite a large amount of excess carpet being stored. We also checked purchases made with the P-Card for other items, such as motors, parts/materials. We visited the PPO Zone and felt that more security was needed. Initially, there was no one there monitoring the parts/materials when our Auditor went to the PPO Zone; it was basically on the honor system. When we visited the second time, we noted that they had implemented a Mechanic's Log to ensure that everyone who picked up items was signing for them. There was some access concerns that we felt needed to be tightened. In general, the P-Card system is running as it should be."

Mr. Barnes asked "On page 46, how long have the Standard Operating Procedures been in place?"

Mr. Reilly replied "I believe it's been in effect a couple of years."

Mr. Barnes stated "If we have the Standard Operating Procedures for measuring carpet, if I read it correctly, the outside vendor along with a staff person is physically there. If the District representative is there with the vendor, how can we be so far off?"

Mr. Reilly replied "The contract does not contain clear guidelines for amounts of carpet remaining. For example, on page 18, I think it was obviously a measurement error to have that much excess. That may be an isolated case that fell into our sample. I think the purchases that were made by the two main vendors that we do business with over a year's time were close to \$500,000. We sampled electrical parts, plumbing parts, etc."

Mr. Derek Messier stated "With broadloom carpet, you don't use the square footage of the room. All rolls come in 12 foot widths; therefore, you have to have a seaming plan. A seaming plan could have various degrees of waste. In a room that is a perfect 12 x 12 dimension, you would have no waste, not even 5%. In an odd shaped room, your waste can be much higher, up to over 30%. We've included documentation from industry standards on how the seaming plans work. In the case with Sandpiper, we did measure it. The installer went to the site. We ordered carpet to fit that space, based on a seaming plan. The installer, and this is a testament to a really good vendor, realized that if they shifted, they could actually save an entire roll of carpet. They didn't ask for approval. They just changed the seaming plan and saved the District a roll of carpet and that gets credited back. We always after each project, verify what was installed, and then we get a credit back. In the case of Sandpiper, we received a credit of \$1,600 in labor, because they didn't do the work. This is a really good vendor and they don't just perform work for us, but all throughout the country. Carpet tiles are a better solution. Controlling the waste on a broadloom project is completely a factor depending on the shape of the room."

Mr. Reilly stated "One of the most important things is to have a seam diagram showing how the carpet will be laid out. That shows where you may have excess carpeting. In many cases, excess carpet can be used in other areas of the job. In this case, we're getting \$1,600 back because of the roll that wasn't needed (due to an error in measurements) and the installation charges for carpet not installed. There was a difference between the original proposal and the invoice and we will receive a credit for that. As Mr. Messier stated, there are many interesting things about carpeting, such as the mill adding a fee for overage when cutting the carpet rolls. We've spoken to quite a few carpet installers and the amount of carpet overage should be no more than a 5% allowance. In this case, we allowed 18%, which should have been pre-approved. On Sandpiper, there was 12% excess carpet."

Mr. Messier stated “This product is not subject to the 5% requirement. That’s the Power Line product or carpet tiles. For broadloom, the contract allows for 8% and a 4% waste for the overlap of the carpet. It’s different depending on the product you buy. The vendor got creative. The mistake they made was on the thirteen square yards that they included in the proposal; that was a calculation error. We include a special abrasive product for the doorways, so it doesn’t wear out as quickly. They included that in the original proposal; that was an error, but they credited that back.”

Dr. Mack stated “I’ve heard enough about carpet. That’s not what this Audit Committee is interested in. Those kinds of things can be handled at the management level. We’re concerned with abuse with the P-Card system and other violations.”

Ms. Fertig stated “I think in reviewing the P-Card purchases, they found the carpeting irregularities and are making the recommendations to strengthen those procedures. I thought your chart on page 6 was very helpful in showing the percentages of overages. I found this very interesting reading.”

Mr. Mayersohn stated “On page 13, on the follow up response, Exhibit A shows a significant amount of carpeting remained. For me, significant means what? Does it mean \$10 million worth of excess or \$1,200? I would feel more comfortable if there was a number attached to that.”

Mr. Reilly stated “I’m looking at it from the standpoint of each job. If there are excessive amounts (more than 12%) which is the industry average, you need to take a look to see why that much is excess. For example, the Media Center at Sandpiper, there was \$2,000 more than was needed to spend. Multiply that by the number of jobs we do each year and that would be significant. It should be as close to what is needed as possible.”

Mr. Gary Hines stated “It was stated that we buy \$500,000 worth of carpet per year. How much is actually bought with the P-Card? You also stated that there were 5 people who had up to \$100,000 of spending authority.”

Mr. Reilly stated “For the period that we reviewed, purchases made to the two vendors was approximately \$500,000. As far as each individual, we mapped out their purchases for each month for the purchases they made for PPO. All of the purchases were made with the P-Card.”

Mr. Brendan Barry stated “This is one of the finest audit reports that I have ever read; the fact that you took the PPO Department and made it a real tangible report about the carpet. The fact that you physically went out and measured rooms and studied the industry allowances, excess carpeting; it’s tremendous work. This is what you are supposed to do and this is spectacular, really well done.”

Mr. Reilly stated “I’d like to thank Joe Wright, who worked almost exclusively on this report.”

Mr. Herbst stated “The City of Fort Lauderdale just negotiated a new P-Card arrangement. We have what I think is probably one of the best rebates in the State and we did it in a cooperative fashion, whereby other government entities can piggyback on our contract. If you have not looked at it, I think it would be in the District’s best interest to do so, because the rebates we are receiving, based on volume, are quite substantial.”

A motion was made to transmit. Motion carried.

Ms. Fertig stated “I believe Mr. Runcie has an update for us on the Dillard payments.”

Mr. Runcie stated “Staff has checked and September and October payments have been made. We will have that information on those reports, as indicated.”

School Board Policy for Audit Committee

Mr. Reilly stated “As stated at the last Audit Committee meeting, School Board Policy 1.7 requires that each Advisory Committee have a separate School Board Policy. I met with Jeff Moquin to get guidance from him. I created a School Board Policy for you to review, based on the typical information required. I verified that it would probably fall under Florida Statute 1001.32 that allows the District to take the actions they need to run a School District. The Board Policy requires the inclusion of the rules, duties and responsibilities and the meeting requirements. I made a draft of that for your review. It is very close to the bylaws.”

Dr. Mack stated “I think you did a good job on this.”

Mr. Mayersohn stated “I know we had some in-depth conversation regarding the section that states ‘Appointees shall be independent of Broward County Public Schools, not receiving any compensation, any consulting advisory or any compensatory fees’. Where does this group stand on that?”

Dr. Mack stated “We’ve already voiced our positions on that, as a Committee. I don’t know what happened or why it happened. I think the District has set that policy and we are incorporating it into our policy. Whether the District follows it or not, we can’t do anything about that.”

Ms. Fertig stated “This is part of the revised Policy 1.7 under Section 4. I like the fact, Dr. Mack, that you stated we are an independent Committee. I would like to incorporate, under Section B, in that first sentence, the word independent, even though we are advisory in nature. I think independence is an important part of what we’ve done.”

Mr. Mayersohn asked “Since it’s already written in Policy 1.7, would this address an immediate family member or an owner of a business or someone who works for a business that might have some involvement in Broward County Schools?”

Ms. Fertig replied “When we discussed this before regarding conflicts, I think it was answered that it’s on an ongoing basis, not an individual basis where you would recuse yourself on that one particular item, but when it’s every single item that comes before the Committee, then you may want to rethink your membership. I would like to vote on this and get a final draft at the next meeting and pass it to the Board.”

A motion was made to transmit. Motion carried.

An update was requested regarding the progress of the McGladrey audit. Ms. Chantelle Knowles replied that the audit was still in progress and would require several more weeks to complete the field work.

Meeting adjourned at 1:40 p.m.