

The School Board of Broward County, Florida
AUDIT COMMITTEE

MINUTES OF AUDIT COMMITTEE MEETING

November 20, 2014

Mr. Duane Wolter, Vice 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, Esq.
Ms. Mary Fertig
Ms. Susan Grant
Mr. Gary Hines
Mr. Robert Mayersohn
Mr. Andrew Medvin
Mr. Duane Wolter

Staff Present:

Mr. Robert W. Runcie, Superintendent of Schools
Dr. Desmond Blackburn, Chief School Performance and Accountability Officer
Mr. Scott Krutchik, Director, Accounting and Financial Reporting
Mr. Jermoth Rose, Accounting and Financial Reporting
Mr. Mark Modas, Accounting and Financial Reporting
Mr. Patrick Reilly, Chief Auditor, Office of the Chief Auditor (OCA)
Mr. Mark Magli, Manager, Property & Inventory Control, OCA
Ms. Megan Gonzalez, Confidential Clerk Specialist B, OCA

Guests Present:

Mr. Brett Friedman, McGladrey, LLP
Ms. Chantelle Knowles, McGladrey, LLP

Old Business

A motion was made to approve the minutes from the October 16, 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 fifteen schools in the report. Fourteen complied with policies and procedures for internal funds. One school had audit findings related to payroll processing and non-compliance with Business Practice Bulletin PR-100 – Payroll and Time Entry. The Principal has provided corrective action to be in compliance with the payroll procedures.”

Mr. Robert Mayersohn asked “On page 66, regarding the comments made by the Principal to Dr. Strauss, item #3 states ‘the Assistant Principal met with Custodial staff to develop a schedule for the employees that owed time to the school to make up the number of hours cited. The payback schedule is currently being implemented and almost completed.’ On page 10 or 11 of PR-100, it refers to how to correct overpayments. Her plan does not match the suggested procedures. I’d like to clarify whether her response to the recommendation falls into acceptable standards of practice.”

Mr. Reilly stated “Routinely, the correct way would be to make an adjustment to reduce the hours. I need to look at the schedule to see if it was multiple employees. I will follow up on that.”

Dr. Desmond Blackburn stated “I will work with Mr. Reilly on the follow up. There were three employees impacted by that line, which amounted to approximately 610 minutes between the three employees. I have confirmed that all those minutes have been paid back in time, but I will make sure that response is consistent with the expectation.”

Mr. Duane Wolter stated “Can you also verify that the time was repaid?”

Dr. Blackburn stated “I will provide documentation that I received to Mr. Reilly.”

Ms. Mary Fertig stated “Even if they have paid back the minutes, in the future, they should comply with the procedures in the Business Practice Bulletins. I’m assuming that this was an isolated incident.”

Mr. Reilly stated “Yes, it was. The other fourteen schools complied.”

Mr. Wolter asked “Are you indicating that you would like to have Pat’s audit team amend the report to state that the hours were paid back, but not in accordance with Business Practice Bulletin PR-100?”

Mr. Reilly stated “I think it would be better to bring it back as a follow up. The corrective action was taken by assessing additional time. In the future, it should be handled as a payroll deduction.”

Mr. Mayersohn stated “The response states that the Principal will develop a process. Again, we have a process in place. Maybe there is a miscommunication somewhere.”

Dr. Blackburn stated “This school now belongs to the Business Support Center.”

Mr. Andrew Medvin asked “Is the Business Support Center now performing payroll as part of their function?”

Mr. Reilly stated “Some of them are performing payroll. They might be doing that now. That is a new service that the Business Support Center is now providing.”

Mr. Medvin replied “Isn’t the payroll process on-site? The records and various forms are all located at the school. This is not bookkeeping. It’s separate.”

Mr. Reilly stated “They feel it can be done both ways and that’s one of their options.”

Mr. Brendan Barry asked “Was this done over a three year period? That was the only exception in that three year period?”

Mr. Reilly stated “Yes.”

Mr. Barry replied “That’s not bad.”

Mr. Reilly stated “The only weakness in this review was in the payroll area.”

Mr. Barry added “And only for these months this year.”

Mr. Reilly stated “Yes, that’s the sample we reviewed. If we see problems, we will go back and do a separate payroll review as a follow up.”

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-eight property and inventory audits; twenty-seven schools and one department. We have twenty-four locations that complied with policies and procedures; specifically School Board Policies and Business Practice Bulletin O-100 that details procedures for property and inventory control. There were four locations that contained some exceptions. Overall, for the twenty-eight locations, there were 17,220 items reviewed with a historical cost of approximately \$24 million. For all twenty-eight locations, there were 55 items not located with a historical cost of approximately \$87,000.”

Ms. Susan Grant asked “Can you go over the one school with the largest amount of exceptions where the property was left out?”

Mr. Mark Magli replied “They had stockpiled some things and hadn’t consistently recorded those items. They were not secured and were left outside. Without knowing exactly what happened, they executed a Police Report for some items they couldn’t locate. There were some conflicts for getting a Police Report for items that were left outside unattended. There were also some surplus items for which they arranged a pick up. We couldn’t reconcile, because of conflicting information.”

Ms. Grant asked “For the items that were left outside, were those intended for surplus, but they didn’t fill out the appropriate paperwork?”

Mr. Magli replied “Apparently, that’s what happened.”

Mr. Moses Barnes asked “In the Marketing Department, the Mac computer that is missing, it states the net value as zero.”

Mr. Magli replied “Utilizing the life cycle for technology as five years, we depreciate that for the purpose of reporting. There is still an accountability factor for equipment that should be maintained and safeguarded. That’s where that figure comes from.”

Mr. Barnes stated “I can understand how a Mac Notebook can get away from you, but when I look at the report, I notice a lot of desktop computers missing. I’m assuming that it would be difficult for a student to take a desktop.”

Mr. Magli stated “Everyone generally feels that laptops can fit in a backpack or a student is involved. We can’t always be sure what exactly happened. With the desktops, we sometimes assume that it was supposed to be surplussed or intended to be removed, but we can’t know for certain.”

Ms. Fertig stated “I know some of these computers are old, but some are not that old. We’re actually using computers in schools right now that are even older. If they are sent to B-Stock, this gives someone else an opportunity to upgrade what they have.”

Mr. Magli stated “We have over 11,000 pieces of equipment in circulation. I can’t tell you whether they are functional, but many of those would fall into that classification of fully depreciated for the sake of accounting. We still have to safeguard what we have, as we try to migrate into the current generation of technology.”

Mr. Barnes asked “Dr. Blackburn, on page 31, the Principal’s response to you did not indicate who is responsible to ensure that this does not happen again. I think it should state who will be responsible.”

Dr. Blackburn stated “Ok.”

Mr. Mayersohn stated “Since the bond passed, hopefully there will be an influx of technology coming in. I’d like to make sure that the schools, as they surplus items and bring in new items, are more diligent in making sure that these standard practices are followed, so we don’t get an influx of exceptions.”

Ms. Fertig stated “With all the things we’ve suggested, I’d like to say how much better this report looks. Thank you for making sure things are progressing and we have much less equipment lost.”

Mr. Barnes stated “When I see high schools with no exceptions, those Principals should be commended.”

Dr. Blackburn stated he would pass along those comments.

McGladrey, LLP - Comprehensive Annual Financial Report (CAFR) – June 30, 2014

Mr. Brett Friedman stated “We have substantially completed all of our audit test work. The document you have is the draft financial statements. There are a couple of pending items; for example, the final Broward Education Foundation (BEF) audited financials have not been received. We are unable to release our audit opinion until we get this, since our opinion relies on them. We are prepared to issue an unmodified opinion, with regard to the financials, which is the best opinion we can issue. We are going through some findings and recommendations, with regard to the overall compliance. Those will be presented at the next Audit Committee meeting in the Management Letter. At that time, we will explain all the Standard Audit Communications. One item that was unique this year was that the School Board decided to change and close their Self Insurance Internal Service Fund. They elected to close it and move the accounting for it into the General Fund. Both ways are acceptable methods. That’s the only out of the norm thing that is in this report. We had full cooperation with staff, with the exception of the BEF.”

Mr. Scott Krutchik stated “Also, when we moved the accounting for the Self Insurance to the General Fund, we did a Board Resolution to commit those funds, to restrict those funds for the purpose of paying future insurance claims. That’s why the fund balance in the General Fund increased significantly.”

Mr. Mayersohn asked about the breakdown of instructional funds, as done in Clark County, California.

Mr. Krutchik replied “Right now, we are doing the format based on the guidelines of GASB, GFOA and FASBO. Our SAFR does get into a little more detail. When it comes to the CAFR, we are presenting it pretty much how it’s done in the State of Florida. There may be different requirements for other states.”

Mr. Robert Runcie stated “That’s an interesting point you’ve raised. In the past, we had created a separate document for parents and the community, so they could understand the sources of funds coming in and what the funds were used for. This was very graphic with pictures that the average parent could understand. Most folks aren’t going to understand this, regardless of what version is used. Maybe that’s something we can work on with our Finance Department.”

Mr. Friedman added “There is a sample that the GFOA issues called a Popular Annual Financial Report. It is exactly in that format with more graphs, more color, and easier to understand.”

Ms. Fertig stated “I’ve noticed for several years now that the Broward Education Foundation Report seems to be late. I’m wondering if there’s a way to get them on the same schedule with everyone else.”

Mr. Reilly replied “It’s always something different. This year, they had the draft ready, but they scheduled the meeting for Monday, November 24, 2014. We are trying to get it this week if they can have their CAFR approved. I’ve asked if they could do it earlier next year.”

Mr. Brendan Barry asked “The total expense to run the School District for the year is \$2.48 billion? Is that correct?”

Mr. Reilly stated “Page 161 gives an overview of the expenditures.”

Mr. Friedman stated “Yes, page 161 gives you the full accrual method. Also, on pages 164 and 165, you’ll see the fund level.”

Mr. Runcie stated “We had less students in 2007, 2008, 2009 and 2010, but we had more money.”

Mr. Barry asked how many students were currently in the District.

Mr. Runcie replied “There are approximately 266,000 including Charters.”

Mr. Friedman added “That’s also provided on pages 182 and 183; you’ll see the year to year totals. Page 184 and 185 shows the comparison with the other largest Districts in the United States.”

Ms. Fertig added “If you visit the District’s website and click on About Us, you’ll see the number of students.”

Mr. Wolter asked “Regarding the transfer to the General Fund from the Self Insurance Fund, I’d like to suggest for consideration including an explanation in the footnotes. I believe there was a resolution approved by the Board. On page 81, this is one of the Special Funds, the Economic Stimulus. You can see that the budget is substantially larger than the actual. Probably, the program ended. This might be some of that leftover from the original ARRA funding.”

Mr. Krutchik stated “There are still funds we receive from Race to the Top. These are for multiple years, so this money is being carried over into this fiscal year to spend. That money was not spent in one year. This is the carryover.”

Mr. Wolter stated “My concern was that the budget was so much higher than the actual.”

Mr. Krutchik added “They did get awarded that amount; they just haven’t spent it yet. When it comes to the revenue portion, we don’t recognize the revenue until after we spend the money. It’s still money that is deferred to come in for this fiscal year to spend it, and then record the revenues. This will be in fiscal year 2015’s report as well.”

Mr. Wolter asked “Is that something you consider disclosing?”

Mr. Krutchik replied “It hasn’t come across that way.”

A motion was made to transmit. Motion carried.

Other Discussions

School Board Policy for Audit Committee

Mr. Reilly stated “At the last meeting, we discussed per School Board Policy 1.7, the need to establish a School Board Audit Committee policy. At the last meeting, there was a recommendation to include the word ‘independent’ in Section B., to read “The independent Audit Committee is advisory in nature . . .’ That was the only change we received; therefore, I’d like to finalize this policy and proceed to the Board for approval.”

Mr. Mayersohn suggested that the (newly revised) be removed after Robert’s Rules of Orders in Section C, Meetings #3, it should read Current Edition of Robert’s Rules of Order.

Ms. Fertig asked about stating that the Committee has seven meetings per year in Section C2. “I’m not sure if you really want to specify that we have seven meetings per year. You may need more or less per year.”

It was decided to eliminate the word seven and just state “Meetings will be . . .”

The above stated changes were approved.

Meeting adjourned at 1:15 p.m.