

The School Board of Broward County, Florida
AUDIT COMMITTEE

MINUTES OF AUDIT COMMITTEE MEETING

January 21, 2016

Ms. Mary Fertig, 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
Ms. Earlyn Barton-Oden
Ms. Mary Fertig
Ms. Susan Grant
Dr. Nathalie Lynch-Walsh
Dr. Henry Mack
Mr. Robert Mayersohn
Mr. Andrew Medvin

Staff Present:

Mr. Robert W. Runcie, Superintendent of Schools
Dr. Valerie Wanza, Office of School Performance & Accountability
Ms. Jody Perry, Director, Charter Schools Management/Support Office
Ms. Shelley Meloni, Office of Facilities & Construction
Mr. Oleg Gorokhovskiy, Director, Budget Department
Mr. Mark Modas, Accounting & Financial Reporting
Mr. Jermoth Rose, Accounting & Financial Reporting
Ms. Priscilla Moxey, Accounting & Financial Reporting
Ms. Laurel E. Thompson, Student Services
Mr. Patrick Reilly, Chief Auditor, Office of the Chief Auditor (OCA)
Ms. Ali Arcese, Manager, Property & Inventory Control, OCA
Ms. Patricia McLaughlin, Confidential Clerk Specialist C, OCA
Ms. Megan Gonzalez, Confidential Clerk Specialist B, OCA
Ms. Ceci Guerrero, Auditor III, OCA

Guests Present:

Mr. Brett Friedman, RSM US LLP
Ms. Chantelle Knowles, RSM US LLP
Mr. Scott Travis, Sun Sentinel

Old Business

Minutes

A motion was made to approve the minutes from the November 19, 2015 Audit Committee meeting. The minutes were amended to add the following to the first paragraph of the minutes "Discussion further ensued about a process and a timeline." A motion was made to transmit the minutes, as amended. Motion carried.

Follow Up Items

Mr. Patrick Reilly stated "There were two follow up items. The Committee requested a follow up regarding the revisions to the Professional Services Agreement and the demand letter template, based on the audit of Errors and/or Omissions that was presented and discussed at the November 19, 2015 meeting. Ms. Shelley Meloni provided a response to each of those questions. Also, Mr. Herbst requested a follow up on the procedures for barring a contractor from further work with the District. Ms. Meloni provided a response to that also."

Ms. Susan Grant asked "Regarding the second follow up, I understand that there is not a process to bar a contractor, but there's a process for evaluation for future bids."

Mr. Reilly agreed.

Ms. Shelley Meloni stated "There are really two paths. One is the contractor pre-qualification or disqualification and really, it's declaring a contractor delinquent, per SREF (State Requirements for Educational Facilities), consultant evaluations, that's the system that we are putting in place to evaluate for future jobs."

Ms. Grant stated "So, they might get a demerit as part of that process, but no one is barred?"

Ms. Meloni stated "Precisely."

Dr. Nathalie Lynch-Walsh stated "We were told at the last meeting that it would be going before the Board on the 8th, but what wasn't clear is that meant that something like eight requests for qualifications which included the Professional Services Agreement, would be going before the Board for approval, so we never get to give input on the language that the Office of Facilities and Construction, so at least there's eight of them out there. Whatever finalized language occurs, those eight are not subject to it, because they were already out of the gate on December 8th. How would that be handled, since we already have eight, when would the language be finalized?"

Ms. Meloni stated "We are in the process of taking what the Legal Department has provided and working with our owner's representative, Heery International to craft language that can be included in the Professional Services Agreement. We do plan on taking those recommendations to a Board workshop on April 12, 2016. Obviously contingent on the feedback we get, we will make necessary revisions and take it to the Board for approval."

Dr. Lynch-Walsh stated “So that would mean almost a year would go by since the auditors’ recommendations even stand a chance of being implemented, because you’re going to be putting out more architect Professional Services RFQs.”

Ms. Meloni stated “We do have a procedure in place where we issue demand letters. As you’ve seen in the follow up on question #1, we have been issuing a demand letter, so there is a procedure in place. It’s not that we’re void of a procedure at this point; it’s just a matter of having some language put into the PSA. All of those items will be presented to the Board at a workshop.”

Mr. Robert Mayersohn stated “On the follow up staff response ‘OFC shall provide the revisions to the General Counsel for review and feedback’. Is there an expected timeline that can be incorporated, so at least it comes back to us?”

Mr. Reilly stated “The eight projects were put out on December 8, 2015. My understanding, after speaking to the attorneys, is that before the contracts are signed with the awardees of those projects, that language will be in there. It’s not starting from scratch with the language.”

Mr. Mayersohn asked “In your response, could you add in the expected time deadline of when those things will be accomplished?”

Mr. Robert Runcie stated “The Board mentioned that yesterday (1/20/16).”

Ms. Meloni stated “I can add that to the response.”

Regular Agenda Items

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

Dr. Lynch-Walsh stated “On page 55, it speaks to internal control as it pertains to authority levels. Going forward, they are going to have a staff member, other than the payroll processor, reconcile the documentation. Why would a payroll processor be able to override the time entries with incorrect entries?”

Mr. Reilly stated “It was the Payroll Processor who was inputting the hours from the timesheets. The Payroll Processor can still make changes before the payroll period is over.”

Dr. Lynch-Walsh stated “There’s no way to prevent someone from making changes after the information is input?”

Mr. Reilly stated “It’s up to management to review the final submittal for the payroll for that period. They should spot check the timesheets against the final input into SAP. In this situation, the After School Program set up a system to have the individuals prepare timesheets, so that became the permanent record of the hours, but this individual went in and changed the correct amounts to higher amounts. As soon as this occurred, this person resigned. The people who received the additional pay were not aware that this was happening. It’s hard to say what happened. Maybe the Payroll Processor was testing it out and was going to say ‘I added extra hours for you, give me a cut.’ The Principal requested a Broward Schools Police investigation. The person

resigned; we got statements from everyone. The money has been paid back. There was one individual who received approximately \$1,300. That employee is paying the money back by having deductions from each paycheck.”

Mr. Mayersohn stated “I’d like to thank Dr. Wanza for her thorough response.”

A motion was made to transmit. Motion carried.

Internal Audit Report – Property and Inventory Audits of Selected Locations

Dr. Lynch-Walsh stated “I have a fifth grader. They just sent us a letter letting us know that this whole year we were financially responsible for laptops that we’ve never seen. We have no control over what happens to those laptops. In the Strategic Achievement Department, there was a missing laptop. If you’re going to hold the students accountable, why aren’t the employees held to the same standards?”

Mr. Reilly stated “I would have to see if there was a property pass, if it was assigned to someone. I don’t think that was the situation. I think it was a computer they were not using, but still need to account for or they didn’t properly transfer or salvage it to get it off their books. There’s a process to properly dispose of items in accordance with Business Practice Bulletin O-100.”

Dr. Lynch-Walsh stated “I believe both are fully depreciated, so does that mean they will not be on a future inventory list?”

Mr. Reilly replied “This will come off their inventory.”

Dr. Lynch-Walsh stated “When a laptop is assigned to a specific employee and something happens, do they have to reimburse the District?”

Mr. Reilly replied “The first time is basically covered by our property insurance.”

Dr. Lynch-Walsh stated “How come the students don’t get that same benefit?”

Mr. Reilly replied “I know we have a lot of computers now and the students are allowed to take them home.”

Dr. Lynch-Walsh stated “You’re telling me that employees are not held to the same standards as students?”

Mr. Reilly stated he would follow up on that.

Dr. Valerie Wanza stated “I’m not familiar with the letter that you have, but we will look into this to ensure that there are some uniform processes across all schools. As a former Principal, if I had an employee whose car was broken into and a laptop was missing, there were times that the insurance company reimbursed the District for the cost of the laptop.”

Mr. Mayersohn asked “On page 19, Dr. Thompson’s response, sixth bullet, states ‘All staff will sign off to indicate receipt of this training and understanding of the protocols.’ Is this something that’s done with all departments or just Dr. Thompson’s department?”

Mr. Reilly stated “I can’t speak for all departments, but most of them, when dealing with property, we might recommend some training.”

Mr. Mayersohn asked “It’s not a requirement or best practice or mandate that the District does? You’re saying it only comes when there is an exception.”

Mr. Reilly stated “We have a lot of Principals and Administrators who call our department and ask us questions regarding the correct procedures, etc.”

Mr. Mayersohn stated “Is this a best practice to have Principals train staff and have them sign acknowledging that they received training?”

Ms. Fertig agreed that this was a good practice.

Mr. Reilly stated “I think a lot of the schools have had the training, which is indicated by the improved audits over the last several years.”

Mr. Mayersohn stated “Maybe management could consider this in the future.”

Dr. Lynch-Walsh stated “On page 19, first bullet, it states ‘laptop carts and laptops used at Plantation High School were transferred to the school so they will be safeguarded by the appropriate school personnel’. Does that mean there were some that were missing that had to do with Plantation and now the school will be better able to track them?”

Dr. Laurel Thompson stated “Yes, we have a laptop cart at Plantation High for our mentoring program and from that cart, one laptop was missing. The school thought that perhaps it went to the wrong cart and they did an intensive investigation. For us at Student Services, being such a huge department and having so many pieces of equipment, we then transferred the cart to Plantation, so they could safeguard the items themselves and be responsible. They will now be held accountable.”

A motion was made to transmit. Motion carried.

Internal Audit Report – Audit of the Operations of the South Florida Virtual Charter School Board, Inc.

Mr. Reilly stated “The Office of the Chief Auditor performed an audit of the South Florida Virtual Charter School Board, Inc.’s (SFVCS Board) operations, based upon a letter dated October 6, 2015 from Mr. Howard D. Polsky, Executive Vice President, General Counsel and Secretary of K12 Inc. to Superintendent of Schools, Robert W. Runcie and the Palm Beach County Superintendent, Dr. Robert Avossa. Mr. Runcie requested that we perform an audit. K12, a vendor, is the turnkey operator for the South Florida Virtual Charter School, Inc. We were asked to perform an audit of the information contained in the letter. In addition, this Charter School has a Virtual Charter School in Palm Beach County and the Palm Beach County Inspector General is also in the process of

investigating the Charter School. The letter from K12 stated that during the 2014-2015 school year, the South Florida Virtual Charter School Board engaged in certain related party transactions that appeared to contravene Florida ethics laws. There were other statements in Mr. Polsky's letter pertaining to actions of the South Florida Virtual Charter School Board that were mentioned that I was asked to review. We confirmed violations of Florida Statutes and the District's Charter School Agreement relating to conflicts of interest. We provided six findings and recommendations, as a result of our audit, that are summarized on page 3. Also, the District's Charter School Department performed a programmatic review of the educational curriculum side of the Charter School, which had many violations of our contract with the Charter School. It is our opinion that the poor performance of the Florida Virtual Academy at Broward County needs to be addressed. We provided three options for the South Florida Virtual Charter School Board to consider. Our office believes that the best option would be to voluntarily terminate the Charter School at the end of the 2015-16 school year, in the best interest of the students. We received a response that stated that they will pursue the recommendations that we had in our audit report."

Dr. Henry Mack stated "I move that the contract with the South Florida Charter School be terminated."

The motion was seconded.

Mr. Reilly stated "Per their response during our exit conference, they are planning to voluntarily terminate the agreement, rather than going through the process of the District's terminating the Charter school."

Ms. Fertig asked "Is there a need to pursue this, or it's already happening?"

Mr. Moses Barnes asked "Pat, you stated that they are going to voluntarily terminate the agreement, correct?"

Mr. Reilly stated "My understanding is that they are going to have a Board of Directors' meeting. They stated that their plan is to voluntarily terminate; they don't feel that they could continue with the current vendor. There's a difference between the District's terminating the Charter School vs. the Board voluntarily terminating the Charter School. A voluntary termination allows us to accept their wish to terminate and that's the option that we recommend. When you have a voluntary termination, you eliminate the process that can occur with a formal District termination, which could result in appeals, hearings, etc. I cannot guarantee what they will discuss at their Board of Directors' meeting, but their plan is to voluntarily terminate."

Mr. Andrew Medvin asked "Does the virtual charter school not have an actual building?"

Mr. Reilly stated "Right, their main office is in Jacksonville, Florida and they operate several virtual schools."

Mr. Medvin asked "Does the District have any recourse to go after the Charter School for the funds they received that they didn't spend appropriately?"

Mr. Reilly stated "That would be at the point of termination. The real concern is whether the students are receiving the academic program that they are supposed to get."

Mr. Mayersohn asked “Has Palm Beach County given us any information?”

Mr. Reilly stated “I’ve been in contact with them. They stated that they will be issuing a report within the next couple of weeks. They’ve read our report and agree with our recommendations and findings.”

Mr. Barnes asked “Pat, are you comfortable with the motion?”

Mr. Reilly stated “Yes.”

Ms. Fertig asked “Are you comfortable with our recommending to terminate?”

Mr. Reilly stated “I’m a little confused with the motion to terminate. It’s recommended in the audit report that the Charter voluntarily terminate, rather than the District’s terminating the Charter.”

Dr. Mack stated “I will make a motion that we support the recommendation made by the Chief Auditor.”

Ms. Susan Grant asked “Do you want to be specific to option #3, which deals with voluntary termination?”

Dr. Mack stated “Those options are for their Board, not our Board.”

Ms. Fertig stated “Mr. Reilly is pointing out to me the last statement on page 130 from Mr. Morgaman, which states ‘we do not disagree, we will convene the Board to review the audit report and act upon the recommendations’. At this time, we don’t know for sure whether they’re going to voluntarily terminate.”

Ms. Earlyn Barton-Oden stated “Why wait for them to make a decision? We make our decision now, recommending what Dr. Mack was saying.”

Ms. Fertig stated “Then if they don’t voluntarily disband, then we have a motion ready.”

Mr. Mayersohn stated “I’m confused. We move to transmit the report with emphasis that the Charter School also accepts the recommendations of the Chief Auditor?”

Dr. Mack stated “Exactly.”

Ms. Fertig stated “I think what’s being said is that we give them the opportunity to accept the Chief Auditor’s recommendations, but should they not, we then recommend the District terminate.”

Mr. Medvin stated “It says here that the Board will be meeting in May 2016. Is that correct?”

Mr. Reilly stated “If they choose to voluntarily terminate, the contract states that this will be done at the end of a break or the end of the year.”

Mr. Medvin stated “If they meet and do not agree to terminate, what happens?”

Mr. Robert Runcie stated “They either voluntarily terminate or we seek legal action to terminate them. As Mr. Reilly stated, that would occur either during spring break or at the end of the school

year, in order to consider the well-being of the students. In either case, we will move to make sure the students are in a better place than they are this year.”

Ms. Fertig stated “So that’s basically the motion you all want to endorse, correct? The motion would be that we support the auditor’s recommendation to voluntarily terminate. If not, we support the District’s taking steps to terminate them.”

Motion carried.

Ms. Fertig asked if someone could address Mr. Medvin’s question about recouping FTE dollars.

Mr. Reilly stated “We do, over the years, sometimes we’ve been able to recover the funds, other times there’s only enough money to pay the final payroll for the staff. We recently had a Charter School close the first day coming back after the winter break. We got back all the student records, some fixed assets. There was no money to recoup, there were multiple vendors who were owed money. The only thing I could verify was that they paid their employees, because we didn’t receive any calls that staff hadn’t been paid. The amounts recoverable are handled on a case-by-case basis.”

Dr. Lynch-Walsh stated “On page 23, there’s a comment from K12’s General Counsel, which states ‘we are not aware of any consulting or monitoring services rendered in exchange for those payments.’ In addition to the related party transactions, it appears through the findings in this audit that services were never rendered, which is why people were recovering money, because someone was getting paid without performing any services. Their employment policy states that no salary payment shall be paid to any employee in advance of services being rendered. On page 25, the virtual charter school agreement Article 2, states ‘Compensation for any other goods and services should not be paid in advance of receipt of goods or services.’ I would imagine that if you never render services, then one should not be getting paid. That’s their agreement. Does the District have a similar policy or procedure in place that is similar to these statements, such as there should be no vendor getting paid if they haven’t rendered service?”

Mr. Reilly stated “This was a payroll issue, but each contract is different. For example, in construction projects, there can be partial payments made monthly. It depends on the terms of the contract.”

Dr. Lynch-Walsh asked “What if it’s not construction?”

Mr. Reilly stated “Our process is to purchase using a purchase order, an invoice, a receipt of goods, and then we pay. If there’s a partial delivery, we would pay a partial payment for the goods received.”

Dr. Lynch-Walsh asked “Including consulting services?”

Mr. Reilly stated “For consulting services, you would have to look at each agreement’s deliverables.”

Ms. Fertig stated “We don’t have anyone here from the Legal Department, but I would think the contract would probably trump the policy.”

Dr. Mack stated “In this case, any contracts and consultant agreements were entered into by the Charter School and they play by the same rules as we do. We have no way of penalizing them or enforcing these policies if they don’t do it.”

Ms. Fertig asked “Do we have the same policy that we pay upon performance?”

Dr. Mack stated “It’s irrelevant. We’re talking about the audit. We’ve complained about our inability to enforce certain policies with Charter Schools since the beginning. This is a clear example of how handicapped we are because we don’t have the full authority over Charter Schools.”

Dr. Lynch-Walsh stated “Is it possible to get clarification on whether the District has a policy in place that states you can’t get paid for goods or services in advance?”

Mr. Reilly stated “We have various controls in our SAP accounting program, we have accounting manuals; the contracts have explanations. For example, by law, we have to pay invoices within 45 days.”

Mr. Mayersohn stated “Getting back to Mr. Medvin’s question, it states that the next Board meeting will be in May 2016.”

Mr. Reilly stated “Mr. Morgaman stated they would be having an emergency meeting.”

Mr. Mayersohn stated “I’ll make a motion to transmit to the Board and send a copy of the report with our recommendations to the Palm Beach County School Board, as well, on this item only.”

Ms. Fertig stated “Our recommendation to the School Board is to send a copy of our report with our recommendations to Palm Beach. That will be in the minutes, and we can send a copy of our minutes.”

A motion was made to transmit. Motion carried.

RSM US LLP – Auditor’s Communication of 2015 Audit Results and Management Letter

Mr. Brett Friedman stated “We will discuss this Auditor’s Communication and the Management Letter and then turn it over to management to give you the highlights of the Comprehensive Annual Financial Report, prepared by management. On page 1 of this report, the audit was performed under auditing standards generally accepted in the United States of America, Governmental Auditing Standards, also in accordance with our engagement letter with the School Board dated May 18, 2015. There was a new standard this year; it’s just the change in accounting that’s issued by the GASB, GASB Statements 68 and 71, dealing with accounting for pension plans. That did have a significant impact on the District’s financial statements. It’s a new standard, nothing that the District did wrong. There were a couple of audit adjustments, which are included in this package. Also, there were some minor uncorrected misstatements, which are attached to the Management Letter, which were deemed not to be qualitatively or quantitatively material to the financial statements. During the year, we did not encounter any disagreements with management in performance of the audit. We were not aware of them having any consultations with other auditors. As far as significant issues, there were no problems. The District did have a very challenging time at year end, losing a key member of the accounting team, but they worked very

hard, and staff should be commended for working together to pull everything together at year end. We did our part to assist, but they did work very hard. We did not have anything that would rise to the level of a material weakness or significant deficiency. We did have some recommendations for improvement, which Chantelle will discuss briefly. On page 4, the accounting estimates, the main ones that the District has are actuarially driven and they are the Accounting for Other Post-Employment Benefits. Here, the District used an Actuary to help them determine the obligation. We reviewed the underlying data supporting the estimates. We had our actuarial specialist review the assumptions used. They are consistent with what other school districts are using and what's consistent in practice. Also, the same for the District's self-insurance program. The District uses an outside actuary. We had our actuaries look at the reports and the reasonableness of the methodologies and found those to be consistently applied and consistent with generally accepted actuarial standards. The other new item is the accounting for pension related items. As part of GASB 68, there are now new reports there. We had our actuary look at the actuary report for the Florida Retirement System. For that one, the District really doesn't have direct input, but as auditors, since the numbers are in here, we did have our actuaries look at the assumptions used by the State, for the FRS report, and again found those reasonable and consistent with what's done in practice. Some other items, not as significant, but allowance for doubtful accounts, and depreciable capital assets, we again looked at those for reasonableness. We highlight these, because these are the areas where management will execute some judgment on what appropriate assumptions are. For example, the actuary report for the pensions, a change in the rate of return could have a dramatic impact on the net pension liability. There's an example in the report that shows that, but that's an example, depending on what you're using, that could have a major impact. Some recently issued accounting standards that will be applicable in the future, just like the pensions, in a few years, there will be new standards that will require Other Post-Employment Benefit liability be presented at the government-wide level in the financials. That will result in an additional obligation being added to the books. Those are currently disclosed in the notes to the financials. It will now come to the government-wide financials. The government-wide financials are done under full accrual, which is designed similarly to a regular business. It does not impact the fund level, the General or other fund levels of the District, which is really the primary focus of how the School Board's budget is approved. All these large numbers and liabilities will not have any impact on the year to year operations of the budget. It's just designed to help make the School Board more comparable to for-profit businesses. Also, there will be a new standard a few years from now on tax abatement disclosures, which will disclose certain things that are out there, that are done by the county, such as giving certain abatements to property holders. This will not change your financial position, but will provide additional disclosure to users of the financials."

Ms. Chantelle Knowles stated "We issued a Management Letter in accordance with the Rules of the Auditor General. As part of our audit, we determined whether or not corrective action was taken on any prior audit findings. We determined whether the District met any of the financial conditions that are noted in Section 10.804. We did not note that the District met any financial condition assessments. In addition, we noted current year recommendations to improve financial management, which start on page 3. There were three current year recommendations, the first related to User Access Reviews. Our IT team reviewed the District's IT general controls, as well as the application controls. As part of their review, it was noted that the SAP database and operating system reviews were not being performed. We recommended that the District expand its access review process to include a review of the SAP database and operating system. Management

stated that they would be performed annually at the end of the third quarter. The second comment, on page 4, relates to Account Provisioning, Deprovisioning and Modifications. We noted that some of the SAP User Access forms were not completed for a few new hires. We recommended that be performed on a more consistent basis. Management stated they would perform that on a monthly basis, rather than quarterly. The last comment was a repeat from a previous year. We noted at the end of our audit that the comment was addressed at the end of December, so that comment would not be applicable for next year's audit. Appendix B shows two columns, showing the comments we had from the previous year. Three of the four comments were addressed and no longer relevant and the comment I just mentioned was corrected in December for fiscal year 2016. We also issued, on the last page, an opinion on attestation standards established by the AICPA. We issued a report stating whether the District complied with Florida Statutes regarding local government investment policies. We noted that the District was in compliance.”

A motion was made to transmit the Management Letter ending June 30, 2015. Motion carried.

RSM US LLP - Comprehensive Annual Financial Report – June 30, 2015

Mr. Brett Friedman stated “This report is prepared by management. We do get a lot of assistance and we appreciate the help from the Accounting Department. As typical with the Charter Schools, it is sometimes a challenge getting information, but Pat Reilly and his team are very helpful in getting those reports. For Charter Schools, we rely on the other auditors. All Charter Schools hire their own auditors. That being said, on the financials, we’ve issued an unmodified opinion, which is the best opinion we can issue, as far as the financials being fairly stated. This addresses not necessarily the financial condition, but the quality of the document in front of you. I will ask Mr. Mark Modas to give a brief explanation of the key changes this year.

Mr. Mark Modas stated “The biggest impact to the 2015 CAFR, is primarily GASB 68, which pertains to the new rule on pension liability, which encompasses our FRS pension plan and the HIS (Health Insurance Subsidy). There are now three balance sheet items that must be noted on the Government-wide financials, the pension liability, the deferred outflows and deferred inflows.”

Dr. Mack stated “We have some new Committee members. I think you should let them know that this memorandum points out the differences between last year’s CAFR and this year’s.”

Mr. Modas continued “We sent the Audit Committee a letter dated January 8, 2016. The first part of it discusses the principle changes between our fiscal year June 30, 2014 vs. June 30, 2015, as far as financial results and net position. Also discussed are the increases in revenues and expenses, as well. Once we move from there, we get into the fund financial statements. The biggest piece that affects the government-wide statements is the GASB 68, which is a requirement now for our FRS and HIS plans. This is just a new financial reporting requirement for us to list the true pension liability and deferred outflows and deferred inflows. This requires us to restate our beginning net position, which would have been ending June 30, 2014. The main reason behind this is that we need to recognize the long term obligation for pension benefits and to measure any annual costs of pension benefits. On page 75, there’s a section that refers to investments. We are very positive in that nature.” Further discussion followed regarding pages 75 and 76.

Mr. Modas stated “On page 10, under ‘governmental funds’, it indicates as of June 30, 2015, the reported combined fund balance is \$601 million, an increase of \$186.1 million. The primary reason for that increase would be the bond premium proceeds that we received as a result of the bond.”

Mr. Friedman added “In this report, it does mention the word ‘restatement’. I know that can sound bad, but again, that is something that always existed. It’s the accounting terminology required as part of the implementation of new standards. It’s not that the District failed to do anything, accounting wise. The term ‘restatement’ is the appropriate term.”

Mr. Ben Leong stated “I would like to reiterate what Mr. Friedman said earlier. Unfortunately, last June, our Accounting Director passed away. He passed away in the hotel while attending a business finance meeting. I would like to thank Mark, Jermoth and Priscilla for stepping up to the plate and putting the CAFR together. I’d also like to thank RSM for working with us. This was a very difficult task putting this together. Also, the letter that Dr. Mack mentioned that Mark reviewed with you, really simplifies the process for the Audit Committee.”

Dr. Lynch-Walsh asked “On pages 10 and 11, operation and maintenance of plant, so over the past year, that expense increased by \$11 million? Is there somewhere I can go to see what makes up that \$11 million?”

Mr. Modas replied that he would follow up and respond.

Dr. Lynch-Walsh asked “There’s the budget and actual for the same item and operation and maintenance. We have original budget \$225,997, final \$235,131 and actual \$236,930. I pulled the General Fund budget and on page 19, the two line items making up operation and plant tie to actual. That’s from the budget. I don’t know where to find the original budget. Why would this budget number match actual but not tie to either the original budget number, or realistically, the final number of \$235,131? It ties to the 236,930.”

Mr. Modas replied “When we look at Table 2 and Table 3, Table 3 is dealing with the governmental fund and it’s dealing with the General Fund. Table 2 is government-wide, so there will be additional adjustments for that. As indicated, we will provide you detail. Regarding the budget make-up, Mr. Oleg Gorokhovskiy can provide a response.”

Mr. Gorokhovskiy stated “What Mark is referring to is the accrual vs. modified accrual basis. For example, for OPEB, you will not find that on Table 3 because this is a modified accrual basis. I’ll tell you where these numbers are coming from. The first original budget is from the Second Hearing back in 2014, when the budget was established.”

Dr. Lynch-Walsh asked about the final budget amount.

Mr. Gorokhovskiy continued “The final budget comes from the Final Amendment, which was presented to the Board in September 2015, which is not the document that you have. What is the date of the document you have, Dr. Lynch-Walsh?”

Dr. Lynch-Walsh stated “September 16, 2015.”

Mr. Gorokhovskiy stated “You have the budget for the current year 2015-2016. We’re looking at the year that ended June 30, 2015.”

Dr. Lynch-Walsh said “Oh.”

Ms. Fertig stated “So, the final amendment to the budget was September 2015 for the June 30, 2015 budget. Is that correct?”

Mr. Gorokhovskiy stated “Yes. This budget is a moving target. It’s a very big District with a \$2 billion budget. The budget fluctuates every month. What we projected in the beginning of a year may not be the perfect number when the year is closed.”

Further discussion ensued regarding budget variances.

Motion was made to transmit. Motion carried.

State of Florida Auditor General – Broward County District School Board – Florida Education Finance Program (FEFP) Full-Time Equivalent (FTE) Students and Student Transportation – For the Fiscal Year Ended June 30, 2014

Mr. Reilly stated “This is a report that was performed by the Auditor General. It included the review of the Florida Education Finance Program, Full-Time Equivalent Students and Student Transportation for the fiscal year ended June 30, 2014. The results of the Audit showed there were approximately 312 weighted FTE that will be reduced from future FTE allocations. The 312 negative FTE represents approximately \$1,174,305. The Auditors per weighted FTE value was \$3,752.30. The majority of the adjustment that will be made is related to Charter Schools, specifically, the Obama Academy for Boys and the Red Shoe Charter School for Girls. These schools were closed last year. Those two schools represent approximately 200 weighted FTE due to the Charter Schools’ failure to provide attendance records and ESE & ELL records to the State Auditors. In dollars, this represents \$752,798, or 64% of the penalty. Other Charter Schools’ penalties amounted to 13.5602 weighted FTE with a dollar value of approximately \$50,882. Penalties related to lack of attendance records can be appealed, based on prior year experience with Mavericks Charter Schools. The Mavericks Charter School was able to successfully reduce their penalty in the prior audit by presenting other documentation, other than the attendance sheets, to support that students attended the school. The reported negative FTE related to District schools amounted to 98.77 of weighted FTE, which equates to \$370,625. With regard to District negative FTE adjustments, approximately \$66,000 of the \$370,625 related to teachers who held certifications in ESE, but taught courses that also required the teachers to have an endorsement in ASD (Autism Spectrum Disorder). Page i of the report outlines the other types of findings noted, such as lack of School Board approval for out-of-field teacher assignments, etc. The Department of Education is responsible for determining computation of the penalty. Non-compliance related to student transportation resulted in nine findings and a proposed net adjustment of a negative 274 students. There were nine non-compliance issues related to student transportation. No dollar estimate for transportation is provided by the Auditor General because there is no equivalent method for making such an estimate. As an estimate, the last time the State Auditors reviewed transportation, there were similar adjustments. In fiscal year 2009, the transportation adjustment

for (202) students was \$68,000. So 274 students may be approximately a \$100,000 adjustment. This depends on transportation reallocations. The Chief Financial Officer will likely be creating an accrual for the amount of the penalty, which is approximately \$1.2 million. This audit can be found on the Auditor General's website."

Ms. Grant asked "On page 1, even though this applies to the Charter Schools, will the District be charged for the entire \$1.174 million?"

Mr. Reilly replied "Yes."

Ms. Grant asked "Was that budgeted?"

Mr. Gorokhovsky replied "Yes, we did. There was extensive discussion with the Board at the July hearing. At that time, the Auditor General's Office informed us that the preliminary amount of the adjustment would be \$1.8 million, so we did budget that amount. We are finding now that it looks more like \$1.2 million."

Mr. Reilly stated "The last time the Auditor General performed the audit, there was a Charter School that had a significant amount of missing attendance data. They appealed and were able to significantly reduce the penalty, based on the Department of Education's accepting other forms of documentation, other than the attendance sheets to show that students attended the school, either by showing grades, transfers to other schools, etc. There is an ability to appeal this \$750,000 that I mentioned."

Ms. Grant asked "If the two Charter Schools were still around, is there a mechanism in place, allowing the District to recover dollars from them?"

Mr. Reilly stated "Yes, we do have Charter Schools that have had to reimburse the District or the District would adjust the amount of the monthly draws due to the Charter Schools."

Mr. Medvin asked "How big is the sample they audit?"

Mr. Reilly stated "I believe they show that in the beginning of the report. They looked at 154 teachers, 146 students in the ESOL test, it's all broken down on page i. Page 6 shows the total breakdown. Page 7 shows the four digit school numbers, where you could determine the number of schools."

Mr. Medvin stated "It appears that there is a significant percentage attributed to the Charter Schools. What can we do to police them better so that this doesn't happen?"

Mr. Reilly stated "There are 105 Charter Schools now. There's been discussion to try to increase Jody Perry's staff and our staff, but we have a contract with each school. Each school is supposed to comply with all the things that the District must comply with, as far as ESE, ESOL and all other requirements."

Mr. Medvin stated "It's costing the District a lot of money and hurting a lot of students."

Ms. Fertig added "Jody Perry was here for the previous report, but she's not here now to comment. She has a huge job."

Mr. Mayersohn stated “The Superintendent was here earlier. Has the Superintendent tried to negotiate this with the State for future legislation? A large percentage of this penalty is associated with the Charter Schools.”

Mr. Reilly stated “I know he has met with Jody Perry and the legislative folks. We submitted many requests, for example, requiring the new Charter Schools to place money in escrow, along with many other reporting requirements. The State just recently changed the application for applying for a Charter School, which is much more specific, as far as what the Charter School will do to ensure the educational product, as well as the financial product.”

Dr. Lynch-Walsh asked “On page 76, the ESE student findings, it states actions are being taken to correct this issue, and the second paragraph having to do with lack of valid IEPs. Anyone who’s volunteered in the District has heard these complaints over and over and now the State is noting the same thing. Would this be Jody Perry as far as accountability and having a game plan for making sure that these things don’t persist?”

Mr. Reilly stated “I think that would be the ESE and ESOL groups that would work with Jody. Those departments would be more involved with that.”

Dr. Lynch-Walsh stated “Ben Gamla Charter School wrote a letter about someone teaching who didn’t have the certification, and basically was teaching out of field. They were made aware that they would not be teaching in their building. This is page 90. Can they teach at another Ben Gamla building?”

Mr. Reilly stated “That would be Ben Gamla’s Charter School. They would lose the FTE funds if they continued to teach out of field.”

Dr. Lynch-Walsh asked “Would they lose their job if they continued?”

Ms. Fertig stated “If they continued, I think they would have a similar penalty. It looks like the District’s penalty is just a fraction of the Charter School penalties, although there are so many more traditional schools. I’m assuming they have safeguards in place, or their penalties would be much higher than they actually are. The rule is the rule regardless of which type of school you have for the FTE funding.”

Mr. Reilly stated “I don’t think our HR Department would renew their contracts, if they had the opportunity to correct that, but they didn’t.”

Ms. Fertig stated “I think the District has safeguards, because they are paying a fraction of what the Charter Schools are paying.”

Mr. Mayersohn stated “Just to follow up on Dr. Lynch-Walsh’s comment, on page 76, the ESE findings, one thing that’s always been a concern with the matrices to ensure that the funding is categorized attached to what the IEP is, sometimes the ESE Specialist when calculating those matrices, it may be last year’s IEP and not updating this year’s IEP. That’s a concern, because that generates funding. You may have a budget that shows a student on Level 5 receiving X amount of dollars, and then when they change the IEP and the services, it may generate to a Level 4, based upon what the State might redo in the matrices. That a concern that I think should be looked at

through the Chair and the Superintendent, to come up with a plan to have some oversight in that area.”

A motion was made to transmit. Motion carried.

Meeting adjourned at 2:30 p.m.