

The School Board of Broward County, Florida
AUDIT COMMITTEE

MINUTES OF AUDIT COMMITTEE MEETING

March 10, 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
Mr. Brendan Aloysius Barry, Esq.
Ms. Mary Fertig
Ms. Susan Grant
Mr. John Herbst
Dr. Nathalie Lynch-Walsh
Mr. Robert Mayersohn
Mr. Andrew Medvin

Staff Present:

Ms. Jody Perry, Director, Charter Schools Management/Support Office
Mr. Alan Strauss, Office of School Performance and Accountability
Ms. Cindy Griffin, CTACE
Mr. Roy Norton, Physical Plant Operations, (PPO)
Mr. Sam Bays, PPO
Ms. Rosemary Russo, Student Services Department, Family Counseling
Mr. Patrick Reilly, Chief Auditor, Office of the Chief Auditor (OCA)
Mr. Reynaldo Tunnermann, Manager, Operational Audits, OCA
Mr. Gerardo Usallan, Manager, Operational Audits, OCA
Ms. Ann Conway, Manager, Internal Funds, 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

Guests Present:

Mr. Brett Friedman, RSM US LLP

Old Business

Minutes

A motion was made to approve the minutes from the January 21, 2016 Audit Committee meeting. Motion carried.

Follow Up Items

Mr. Patrick Reilly stated “The Committee wanted a follow up explanation on the procedures for missing laptops and how these differ between students and staff at the school locations. I received a memo from Dr. Wanza, which was included with your Audit Committee reports. Basically, they are treating stolen/missing laptops in the same manner as missing textbooks, musical instruments, etc. Dr. Wanza provided a document that they use when the laptops are issued, asking the students whether they will be taking the laptops home or not. The conclusion is that they will be taking another look at this to determine if there are any changes they would like to make to the current procedures.”

Mr. Robert Mayersohn asked “This question was brought up by one of our Audit Committee members. What is the protocol for individual members to submit questions?”

Ms. Mary Fertig asked “This came up in the course of a conversation and we asked Dr. Wanza to follow up and provide information. The questions should be sent to Pat Reilly and he would distribute.”

Dr. Nathalie Lynch-Walsh “I followed up with an email and a document that came from my child’s school and the research that I found. That’s what is attached here as far as what the District was doing. Dr. Wanza indicated that the laptops were considered instructional materials, they are consumables. These are not being treated as assets that are being depreciated, they’re being expensed? Are they insured? If they are insured, is the District double-dipping by having students and families reimburse the District or are they simply not filing with the company to be reimbursed. When the District implements a program called Digital 5, which is supposed to increase technology, but you put rules in place that discourage parents from taking laptops into their homes, you’re discouraging the ability of students who do not have access to the internet, much less a computer at home, the very students you are trying to help, because no parent is going to sign a letter that says they are going to be financially liable. No one at my school has signed this letter, because they not only said we are liable at home, but we are liable for what happens in the classroom, where we have absolutely no control over that laptop. I appreciate that Dr. Wanza will look into this, but there is no timeline.”

Ms. Fertig stated “Let’s put this on our follow up, since Dr. Wanza is not here today.”

Mr. Reilly stated he would have to follow up on that question.

Ms. Susan Grant stated “The amount of reimbursement per School Resource Officer has not changed from approximately \$46,000 over the past 3 years. That would be roughly 108 Resource Officers.”

Ms. Fertig asked if it would be possible to obtain a spreadsheet on those.

Mr. Mayersohn asked if it would be possible to get a list of which schools had Resource Officers that no longer have them.

Mr. Reilly stated “I’m not sure if the department keeps that data, but I will check.”

Dr. Lynch-Walsh asked about the \$5.3 million increase in repairs and maintenance. I’d like to see whether they are GOB (General Obligation Bond) or non-GOB items. One of the concerns on the Facilities Task Force is repairs and maintenance and PPO expenses. When you look at all the deficiencies and needs in the District, the unplanned needs are things that are not in the GOB. Those are coming due the longer that this program gets drawn out. If they are GOB items, they should be getting accounted for as such, because now you’re going to have GOB budgets, schools with bond budgets, where Maintenance has already handled an item that might be on there. It would be nice to see where those are coming from and whether they were tagged as GOB or regular DEFP items, because this is what happened in 2008 where repairs were getting done and a lot of deferred maintenance, and repairs ballooned out of control and projects got cancelled because the repairs and maintenance expenses skyrocketed. That’s something that could repeat itself the longer that the projects get drawn out. The theory behind the bond was that you address all of that deferred maintenance, but since we’re creeping toward almost two years behind schedule, the longer that goes on, the more repairs and maintenance that needs to be done. It would be nice to see where that \$5.3 million is coming from.”

Ms. Fertig asked if the Committee could get the spreadsheet prior to the next meeting, if available.

Mr. Reilly said he would request the information.

Regular Agenda Items

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

Mr. Reilly stated “This report contains eighteen schools. All of them complied with procedures and policies related to internal funds.

Mr. Mayersohn asked “When you audit the trust accounts, does the audit process ensure that the earmarked items are actually being purchased with those funds?”

Mr. Reilly stated “Yes, the donations must be accompanied by a letter from the donor expressing the donor’s wishes.”

A motion was made to transmit. Motion carried.

Internal Audit Report – Property and Inventory Audits of Selected Locations

Mr. Reilly stated “This report contains nineteen property and inventory audits, of which fourteen locations complied with all policies and procedures related to Business Practice Bulletin O-100 (Procedures for Property and Inventory Control). There were five locations that had some audit exceptions consisting of unaccounted for items. For the 19 locations, 8,934 items were listed in the property records at a historical cost of \$12,775,745, and a total of 43 items could not be accounted for with a historical cost of \$84,588.”

A motion was made to transmit. Motion carried.

Internal Audit Report – Audit of Pathways Academy Charter School

Mr. Reilly stated “We performed an audit investigation based upon a letter from the Florida Department of Education’s Office of Inspector General. The letter reported numerous allegations regarding Pathways Academy Charter School witnessed by a former employee. The Office of the Inspector General requested that the School Board of Broward County investigate and provide findings and actions upon those allegations. The complainant made three allegations concerning teachers’ evaluations that were altered and teachers’ signatures that were falsified; the misuse of FTE funds for personal use by the school’s Principal, Ms. Yudit Silva, during a visit to Home Depot, and a school’s administrator requesting the complainant falsify the signatures of parents and students on the Student IEP and Code of Conduct Acknowledgment forms. Our audit objectives were to determine whether the complainant’s allegations were substantiated; to determine whether there were any other violations with the Charter School Agreement or Florida Statutes. We believe that the three allegations presented by the complainant have been substantiated related to falsification of documents, questionable expenditures, failure to pay wages owed to employees, failure to pay vendors in a timely manner. We expanded our review and performed an attendance verification on the first day we arrived at the school and determined that the school misrepresented the school’s enrollment, which allowed them to receive additional FTE funds of approximately \$49,000, for which they were not entitled. It is our conclusion that the School failed to manage public funds in accordance with the law. We feel the District has good cause for termination or non-renewal of Pathways Academy Charter School. We met with the Board Chair and Principal of Pathways Academy on December 17, 2015. Pathway’s attorney, Ms. Julie Klahr, responded to our audit on January 29, 2016. The findings concerning attendance were not addressed. The reason given in Pathways’ attorney’s response was that page 10 of our report was missing, which pertained to the attendance findings. We do not agree that page 10 was missing, since all other reports handed out at the December 17, 2015 exit conference contained page 10. In any case, we were not notified about this missing page until we received the responses on January 29, 2016, which was approximately five weeks after the exit conference. We sent page 10 to Ms. Klahr on February 3, 2016. Today, March 10, 2016, we received an additional response from Ms. Klahr regarding page 10; however, she stated there was no further information to provide us regarding enrollment issues. Therefore, the approximate amount of \$49,000 in FTE overpayments still has not been addressed. We reviewed all the responses that were provided by Pathways’ attorney on January 29, 2016, along with their supporting exhibits for Allegations #1, 2, 3 and Other Findings. We feel that the responses received contain false statements, forged documents, and many contradictions. There were several documents that Pathways’ attorney stated were signed by the complainant and a former teacher that we questioned. Pathways’ attorney provided three new documents said to be signed by the complainant, where he supposedly acknowledged that he signed evaluations when he did not have the authority to do so; he exhibited lewd behavior in the school, and he interviewed a new employee without authorization. When we presented these documents to the complainant, he confirmed that he did not sign any of them. We visited the Charter School on February 24, 2016 and requested the original documents. The Principal, Ms. Silva stated she would bring them to our office on February 26, 2016; however, she did not show up. If these documents were authentic, the original hard copies should have been readily available when our auditor requested them.”

Mr. Andrew Medvin asked “Can this report be used to begin proceedings to close this school?”

Mr. Reilly stated “That was our recommendation to management, based on the school’s financial and curriculum problems.”

Mr. Medvin stated “In reading the audit, it seems like you did a very thorough job. When I read the attorney’s response, some of it sounded very plausible and contradictory.”

Mr. Reilly stated “We have shown multiple situations where they have admitted to some of the allegations, such as using copyrighted materials improperly, misuse of funds for which they planned to reimburse the District, but haven’t done so yet. In the document that they sent today, they are retracting some of the statements that they made on their original response, regarding the purchase of buses. They now state that they are leasing the buses from the Principal’s husband or ex-husband, which is a conflict of interest. There are multiple other examples where documents have been falsified. A major item is their attendance, where they show students on the attendance rosters, who actually left the school. These items are very solid, in my opinion.”

Mr. Mayersohn asked “Is the District still openly responsible?”

Mr. Reilly stated “The District is not responsible for their liabilities.”

Mr. Mayersohn asked “What about FTE dollars?”

Mr. Reilly stated “Yes, the District is liable if the State Auditor General’s FTE auditors select that school and determine that they don’t have attendance records. We have recently had many examples of that. There’s an opportunity that if they disallow FTE funding of that Charter school, the District will receive less funding the following year.”

Mr. Mayersohn asked “Since Mr. Runcie and Mr. Moquin are not here, can Ms. Perry speak about the District’s procedures on paying back FTE dollars resulting from Charter schools’ audits. This is extremely problematic.”

Mr. Jody Perry stated “I have had this communication with Mr. Reilly and with the State auditors to help them understand the levels of oversight that we are entitled to have and the level of responsibility that a governing board has. The governing board is ultimately responsible for the day-to-day operations of a Charter school. We are still the fiscal agents, so we have fiscal responsibility, as well, which is what Mr. Reilly’s staff oversees very well for us. My office is the conduit between the District and the Charter school community. If a Charter school is found to have negligent records, they always have an opportunity to cure. They look to correct deficits and errors. If they correct the deficiencies, they move forward and everything is made whole, they don’t lose their Charter. Unfortunately, there are times when we go into a very protractive process of doing a 90 day termination, and then within that process, the folks that have chartered with the District fold up; they disappear. Once they do that, the entity no longer exists. You can’t go after an entity that no longer exists, so the District is held with the responsibility, potentially, of the decrease of FTE funding, if the State chooses to penalize us in a situation involving a Charter school that has an independent governing board.”

Mr. Mayersohn stated “That answers my question, but at this point, seeing what the Chief Auditor has recommended, what is the next step for this District?”

Ms. Perry replied “It would have to be a 90 day notice of intent to terminate. Within that 90 days, if they correct the deficiencies, we no longer have justification for termination. It could very well go to DOAH, (Division of Administrative Hearings), which means that an administrative judge could look at the data that’s been presented and rule against the District. Our plan at this point is to review all the findings with

Mr. Reilly to look at what we have that's substantiated as a potential grounds for termination and then move forward from there."

Ms. Fertig stated "They say in this letter that they have a new Principal. Do you feel that makes a difference?"

Ms. Perry stated "That new Principal is not a new employee at the site. She's been there for the duration. It's not uncommon for different folks to get different titles, depending on what's going on within the building, so I don't know what difference that will make."

Dr. Lynch-Walsh stated "Speaking of the new Principal, whose last name is Espinosa, the Board meeting minutes of July 15th show a Raquel Espinosa. Are these two related?"

Mr. Reilly stated "They hired a consultant and her name was Espinosa. We thought that was associated, but it wasn't. The Inspector General is looking at our report. I'm not sure of their plans. I haven't received their response yet."

Mr. Moses Barnes stated "I understand that this inquiry was brought about by someone else, not by the School Board."

Mr. Reilly stated "This was an employee who worked at that Charter school."

Mr. Barnes stated "These are some serious allegations."

Mr. Reilly stated "We expanded our audit, particularly in the attendance area, which we are expanding with all our Charter schools."

Mr. Barnes asked "When it comes time for FTE, the District has things in place to ensure that what the schools are actually reporting is accurate. What's in place to make sure the Charter schools are accurate?"

Mr. Reilly stated "We have oversight of the Charter schools. We are the sponsors to oversee everything including curriculum, financial, building conditions, bus inspections, etc. I don't think there's a department that doesn't deal with the Charter schools. We have some checks and balances, but on a day-to-day basis, we're relying on the Board of Directors to manage their schools."

Mr. Barnes asked "Since the school is still in operation and the investigation is still ongoing, based on your audit and the allegations that were made, if these are substantiated, someone will have to repay this money. Does the money come out of the Charter school's budget?"

Mr. Reilly replied "Yes, we can garnish the monthly draws."

Mr. Mayersohn asked if we could get this audit report on the March 15, 2016 School Board meeting, rather than the scheduled date of April 5, 2016. I think this is urgent."

A motion was made and seconded to support the auditor's recommendation and transmit to the School Board on March 15, 2016.

Mr. Brendan Barry asked if Mr. Reilly was able to get access to all the information necessary to complete the audit.

Mr. Reilly stated “The biggest thing is that we never received a response to the FTE enrollment findings. We received new information just today regarding the buses, whether they were leased or purchased. That’s why the Inspector General, with subpoena power, may wish to go further with this. I don’t want to speak for them, but there were a lot of other things that we didn’t get. They have submitted new information regarding immunizations, which they did not have when we originally requested the information. I believe we summarized the allegations that started the investigation and identified additional things that we treated as questioned costs for different areas. There are a lot of payroll issues and questionable items.”

Mr. Barry stated “I intend to mention all this to Ms. Heather Brinkworth when I discuss this report with her.”

Dr. Lynch-Walsh asked “Is this audit triggering other departments in the District to look at what’s being done in the classrooms?”

Ms. Perry replied “We have a process in the District called CSMO, which is the Charter School Monitoring Support Oversight Committee, which is comprised of the majority of departments that interface with Charter schools. This gets brought to them and they will determine if this will trigger any of their processes. Within my department, we perform an on-site programmatic review, where we specifically look at academics to determine if they have a reading plan, if they follow a reading plan. We look to see how they are servicing ESE students. I have a representative on my staff who coordinates all English language learners.”

Dr. Lynch-Walsh stated “Would this happen rather quickly?”

Ms. Perry replied “We have to give them a minimum of 10 days’ notice when we’re coming in.”

A motion was made to transmit. Motion carried.

Audit of Termite Extermination Contracts No. 15-109T and No. 28-137T

Dr. Lynch-Walsh asked “On page 9, they stated they will add additional language. How did this pricing issue occur in the first place, where the District is being charged for each individual building or portable, as opposed to getting the quantity pricing? In their statement, they state that the pricing will be based on each individual unit’s total cubic feet. That statement indicates to me that the person who wrote this response is missing the auditor’s point, which is that you have more square footage being done, so there should be some sort of price discount. That’s why the auditor replied again on page 13 that the District get some sort of price discount. I would like a follow up from management to the auditor’s follow up on page 13 to ensure that PPO and the auditors are on the same page. Just to be clear, I’m siding with the auditors.”

Mr. Sam Bays replied “The response is in no way intended to disregard the very valuable input that we received from Mr. Reilly’s department. The response was intended to point out that there is significant incremental cost associated with having individual structures of this type. When we read the bid requirements, each of those structures is required to be monitored independently. Up to 100,000 square feet, it is one monitoring set per building. There is an increment in cost that would keep us from being able to do exactly what we would like to do, which is to enforce a quantity discount for every site. That’s the bad news. The good news, as mentioned in the response, is that there was a concession made by the vendor to reduce pricing to \$425 per portable, which does give

effectively within a few dollars, the same net result for the 27 portables at Pioneer. It totals to approximately \$45 of the total cost.”

Dr. Lynch-Walsh stated “Your response says that the pricing structure will still be based on each individual unit’s total square foot measurement and what they’re saying is that you’re paying the highest price, because you’re paying on a per unit basis. You’re not taking advantage of any type of discount. I’m still not hearing that you’re going to get on the same page with the auditors.”

Ms. Fertig stated “On page 5, we recommend the District re-bid the termite fumigation services contract. Are you in agreement with that, Mr. Bays?”

Mr. Bays replied “We certainly could re-bid the termite fumigation contract. We suggest respectfully, that doing so at this time, when we have a very attractive price concession, might not yield the lowest possible cost. If we do desire to re-bid the contract and adhere very precisely to the recommendations in the report, then we would have to remove some of the prescriptive requirements that are in the current Broward County bid intended to enhance the level of extermination and ultimately the level of safety for the system. We would extract some of those things out, so the vendor would be able to do less work on small 1,000 to 12,000 square foot buildings. Then we could capture an ultimate price discount.”

Mr. Mayersohn stated “There are two parallel issues. When you look at the terms and conditions of when a bidder bids, this would be on the RFP, obviously, there’s Item #52, which allows for an audit and inspection of the awardee’s records, which strictly goes more toward the performance. There is no clear method for pricing a project. There is also the right to terminate the agreement and obtain lower prices if available in the market. The audit recommends re-bidding in order to address the issues. In order to extend the pricing discount, the bid has to change.”

Mr. Mayersohn also requested information as to the reason why another bidder was rejected. Mr. Reilly stated he would follow up.

Ms. Fertig stated “It seems that the recommendation is to re-bid the termination contract. Do we have a motion?”

Ms. Grant stated “I will make a motion to transmit as presented to the Audit Committee. Motion carried. Regarding Mr. Mayersohn’s comment, if the vendor had a problem, there’s an appeal process in your procurement code, if someone felt that they were unjustly excluded. Is that correct?”

Mr. Reilly stated “Yes.”

Dr. Lynch-Walsh asked “Because this ends with the Office of the Chief Auditor’s follow up, is there a way to highlight that as this is being transmitted to the Board, so they can see where this left off?”

Mr. Reilly stated “It’s common when we make a recommendation, management can agree or disagree with our recommendation. The contract needs to be clear on the pricing; secondly, we want to look for the best opportunity for getting a better price. For example, we had 27 portables at one site and we still paid the highest cubic foot price, and didn’t see any discount. We have a much bigger contract than Palm Beach County. Our contract has to be very clear on determining prices and method for pricing a job.”

Dr. Lynch-Walsh asked “Could we get a follow up audit on this?”

Mr. Reilly stated “Yes, we will do a current status report.”

Discussion followed regarding quantity discounts.

Mr. Bays stated “The excerpted bid tab shows that the intent was to get quantity discounts.”

Mr. Mayersohn stated “According to the findings of the Chief Auditor, we are not getting those discounts.”

Mr. Bays stated “We would get the discount if you were dealing with a 6 classroom addition vs. a 20 classroom addition. You absolutely would realize that discount. You don’t realize it on four 6 classroom additions on the same campus.”

Mr. Mayersohn stated “So you’re taking them as individual, even though they’re on the same campus.”

Ms. Fertig said “Right, they didn’t do it based on site.”

Mr. Mayersohn stated “It’s not based on site; it’s based on the size of the building.”

Mr. Bays stated “Right, because the work required is more per structure.”

Mr. Mayersohn stated “In your opinion, if you were to re-bid the project, do you think you would get a lower price, based upon what the Chief Auditor is recommending?”

Mr. Bays stated “In my opinion, without sampling the market, is that we would not realize all the savings that we desire. We would realize some, and I’m basing that on the offer we received of \$425 per portable, which is a significant improvement over where we are today. If we had that discount at our fingertips, we would have realized a savings at Pioneer almost equivalent to the optimal case (see page 7 of audit report). Because the vendor is going to be afraid of conditions that we in Broward uniquely have, very large portable campuses, where we could ask them to tent 60 portables, I believe the vendor will be guarded about applying a simple cubic foot algorithm. I think there would have to be some consideration given for the number of structures on the campus. If the structures are separated by only 30 feet, as in the case of older campuses with wooden framed portables vs. separated by 100 feet, the work increases dramatically. I think the vendors will be strategic in guarding themselves. I don’t think we will realize all the savings that we desire. I think right now we are poised to realize some pretty nice savings under the current scenario.”

Mr. Mayersohn stated “Currently, the price you’ve re-negotiated with the current vendor is probably a good deal vs. re-bidding? Is that what you’re saying?”

Mr. Bays stated “Yes, that is my honest answer.”

Discussion followed.

A motion was made to transmit the report in support of the Auditor’s recommendations, as stated. Motion carried.

HCT Certified Public Accountants & Consultants, LLC – Current Status of Ethics Findings reported in the 2011 Grand Jury Report

Mr. Reilly stated “The District’s response to the Grand Jury’s Finding #3 stated – ‘Require mandatory ethics training and testing by an outside agency. The District will retain the services of an independent audit firm, specializing in ethics testing, to perform comprehensive ethics testing of the District and its policies and procedures on an ongoing basis. These testing services will be coordinated through the District’s Office of the Chief Auditor; and the initial testing will be conducted no later than the conclusion of the 2011-2012 school year. Subsequently, this ethics testing will minimally be conducted every three years or as requested by the Superintendent or the School Board Chair’. The external auditor, HCT, reviewed 21 ethics related findings and recommendations from the 2011 Grand Jury report. They found the recommendations were implemented or continued to be in effect for 20 findings. There was one item (item#7) relating to retainage, which required the Superintendent or Deputy Superintendent’s approval and signature in writing for the reduction of retainage when the retainage would be reduced below 5% and prior to closing out the project.”

The Audit Committee requested a revised response to the Grand Jury’s Recommendation #13 “Create independent Office of Inspector General to monitor the Board and District”. This report was deferred until the April 28, 2016 Audit Committee meeting.

The Committee made a motion to defer this report until the April 28, 2016 Audit Committee meeting. Motion carried.

Internal Audit Report – Audit of the Family Counseling Behavioral Health Program Grant for the Period Ended September 30, 2015.

Mr. Reilly presented the Family Counseling Behavioral Health Program Grant report for the period ended September 30, 2015.

Ms. Rosemary Russo provided additional information on the services and benefits that are available for the community’s students and parents. She stated there are many locations throughout the District where family counseling is offered and there is a waiting list at every location. This grant is in partnership with Broward County Community Partnerships Division (County).

A motion was made to transmit. Motion carried.

Other Business

Dr. Lynch-Walsh recommended, in accordance with the Audit Committee’s bylaws, that the Office of the Chief Auditor investigate the manner in which the District is purchasing toner cartridges. She was contacted by an individual who stated that the District is paying excessive amounts for these items.

Mr. Mayersohn asked if the audit could be placed on next year’s Audit Plan.

Mr. Reilly stated he would look into the request.

Meeting adjourned at 2:15 p.m.