

The School Board of Broward County, Florida
AUDIT COMMITTEE

MINUTES OF AUDIT COMMITTEE MEETING

October 19, 2017

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 staff were introduced.

Members Present:

Mr. Moses Barnes
Ms. Mary Fertig
Ms. Susan Grant
Mr. John Herbst
Dr. Henry Mack
Mr. Robert Mayersohn
Mr. Andrew Medvin
Mr. Daniel Traeger
Dr. Nathalie Lynch-Walsh

Staff Present:

Mr. Robert W. Runcie, Superintendent of Schools
Dr. Valerie Wanza, Chief Officer, School Performance and Accountability
Mr. Leo Bobadilla, Chief Facilities Officer
Mr. Sam Bays, Director, Physical Plant Operations (PPO)
Ms. Mary Coker, Director, Procurement & Warehousing Services
Mr. Patrick Reilly, Chief Auditor, Office of the Chief Auditor (OCA)
Ms. Ali Arcese, Manager, Property & Inventory Control, OCA
Mr. Gerardo Usallan, Manager, Operational Audits, OCA
Ms. Patricia McLaughlin, Confidential Clerk Specialist C, OCA
Ms. Megan Gonzalez, Confidential Clerk Specialist B, OCA

Minutes

A motion was made to approve the minutes from the June 22, 2017 Audit Committee meeting. Motion carried.

A motion was made to close the agenda. Motion carried.

Dr. Nathalie Lynch-Walsh asked to add an item to the agenda regarding the GG-3 item from the October 17, 2017 School Board meeting and also the upcoming vacancy for the Chief Auditor position and job description.

Ms. Mary Fertig stated she was uncomfortable adding items to the agenda that had not been advertised. It was decided to add it to the November 16, 2017 meeting.

Elections

In accordance with the Audit Committee's bylaws, elections were held and Ms. Mary Fertig and Dr. Henry Mack were elected as Chair and Vice-Chair, respectively, for the 2017-18 and 2018-19 fiscal years.

Follow Up Item – Internal Audit Report – May 11, 2017 Audit Committee - Audit of Asphalt Paving and Athletic Track Maintenance, Resurfacing and Striping Contracts for the period from October 1, 2010 through February 9, 2017

Mr. Patrick Reilly stated “The Audit Committee requested a follow-up to identify other contracts with specific terms for work, services or materials not specifically outlined in the contract, resulting in excessive pricing.”

Ms. Mary Coker stated “We identified, in conjunction with PPO and Facilities, 79 contracts that currently exist with PPO that they use as it relates to services. Of the 79, we identified 28 that have existing time and material prices. This doesn't necessarily mean that the time and material is an excessive hourly rate. We've begun to identify these on a case by case basis. Some of these contracts are on the verge of expiring. We don't want to be spinning our wheels and changing prices when we'll be going out to bid shortly. We are actually reviewing whether or not to change the time and material, whether or not it's in the best interest of the District. As I mentioned, not all of them are high hourly rates. We're looking at invoices and how the work is being applied, as well as seeing if we can change from ITBs (Invitations to Bid) to RFPs. We have worked directly with PPO in training the staff so they will have a better understanding of the RFP process, which allows us more negotiating power. It allows us to award the bids, not necessarily to the lowest bidder, but to the bidder with the best value for the District, which may include better scope of services and better pricing. In essence, I have 79 contracts under review; I have the list here with me. This is a work in progress. We continue to work on it and identify the different contracts and as they are ready to expire, we will be changing them. We've also added an additional Purchasing Agent, specifically working with PPO on looking at all the scopes of services, the different things that currently may not have contracts that indeed, do require contracts.”

Dr. Lynch-Walsh stated “No. 2 on the follow-up item states that the Audit Committee asked which of the Asphalt Paving contracts required pre-qualification. The current status at the time shows that 14-080F and 16-063C required pre-qualification at the time of the bid opening, prior to the awarding of the bid. Is that how SREF says that’s supposed to work?”

Ms. Mary Coker stated “Contracts 14-080F and 16-063C; they have to be pre-qualified at the time they respond to the bid. They cannot become pre-qualified after they’ve responded.”

Dr. Lynch-Walsh asked “What happens if their pre-qualification status runs out the day after they are awarded a contract?”

Ms. Coker stated “They have to be pre-qualified at the time they respond. At the time of bidding, they were in compliance. They were not considered a non-respondent, because they had their pre-qualification certification. It’s the same as if they were pre-qualified, and a month later, their certification expires, they would have to go through the same process to get pre-qualified again. All pre-qualification certifications are for one year.”

Ms. Fertig stated “Do you have rules and policies governing pre-qualification?”

Ms. Coker stated “Yes and it was updated last year.”

Ms. Fertig asked “Is what Dr. Lynch-Walsh asking covered in that policy?”

Ms. Coker stated “Yes, it is. The policy also states that the vendor must be pre-qualified at the time of response. If a month after they are awarded, the pre-qualification expires, they have a month to renew their certification.”

Ms. Fertig asked “Can you give us that policy number?”

Ms. Coker stated “I believe it’s 7003.”

Ms. Fertig asked “All of these were in compliance, correct?”

Ms. Coker stated “The two of them were in compliance. The 11-007R fell under the period of time in the past where pre-qualification was not a requirement.”

Internal Audit Report – Audit of the Internal Funds of Selected Schools (deferred from the cancelled September 7, 2017 Audit Committee meeting)

This report contains 15 Internal Audit Fund reports. All schools complied with policies and procedures governing internal funds.

A motion was made to transmit. Motion carried.

Internal Audit Report – Property and Inventory Audits of Selected Locations (deferred from the cancelled September 7, 2017 Audit Committee meeting)

Dr. Lynch-Walsh stated “I see that Seagull Alternative School is a repeat offender. How many times do they get to not follow procedures and what are the consequences?”

Dr. Valerie Wanza stated “As I’ve stated in every conversation I’ve had with this committee, this is the first time this is a repeat, under my leadership. We have begun, as stated in my response, the appropriate administrative action with the Principal and so we’ve done that. We work with HR; we look at the totality of the previous audit, and then we implement the appropriate administrative response. Typically, it is some form of progressive discipline, and that’s what I have done consistently with audits that have egregious findings and audits that contain repeat exceptions.”

Dr. Lynch-Walsh asked if a matrix could be added to the audit reports to show the repeat exceptions.

Mr. Reilly stated “We do include that information on each school’s report page.”

Ms. Ali Arcese stated “On this specific audit for Seagull, there is a matrix where it shows fiscal year 2014 and 2015 on page 60. The only time we include that matrix is when they do have repeat findings.”

Mr. Robert Mayersohn asked if the semi-annual reviews are presented to the auditors.

Dr. Wanza stated “No. That information is received in my office and reviewed by Cadre Directors and then it’s actually part of the Principal’s mid-year evaluation.”

Mr. Mayersohn asked “Are you confident that when they perform the semi-annual evaluation, by the time the auditors arrive, all exceptions will be cleared?”

Dr. Wanza stated “I am confident that we have implemented so many protocols this school year, if there is an exception, that will be a major problem.”

Ms. Fertig stated “Of four pages, there are two exceptions. I give credit to the auditors and Dr. Wanza’s department. If I were doing this, I’d like to see a total once a year on how many exceptions there were for the entire year. I think that number would be extremely low. The repeat exceptions are on here and we are seeing corrective action taken in terms of evaluations and other actions. I think once a year, it would be good to know how many schools and departments have been audited and the total number of exceptions.”

A motion was made to transmit. Motion carried.

Internal Audit Report – Property and Inventory Audits of Selected Locations

Mr. Andrew Medvin was concerned about documentation that had been altered, and asked what the remedy or penalty was.

Ms. Arcese stated “On page 28, Exhibit A, the top portion was the surplus form provided to us by the school. I created a box around the last line on that document. If you look at the document below, it should be the same. If you notice, the very last line of the document was not filled in. Someone altered the document to add additional equipment for the purpose of having that equipment removed from their inventory. When I compared it to the original document that was submitted to Capital Assets, I noted that the form had been altered. Every page of that document

had an item added to the bottom of the form. One of the last pages had three additional items added.”

Mr. Medvin asked “Were you able to determine who altered the document? To me, that’s almost malfeasance.”

Dr. Wanza stated “In a case like this, we sit down with the Principal. We have not done a formal investigation. We have included this as part of the Principal’s performance issues, because it’s incumbent upon him or her to ensure that documentation that he/she signs is accurate and consistent and then holds the staff that reports to him/her accountable for the work they do. This has been documented with this Principal and we will monitor it when we look at his December semi-annual audit. It has made it to our radar and this is something we do not take lightly.”

A motion was made to transmit. Motion carried.

Internal Audit Report – Current Status Update of the Audit of Termite Extermination Contracts No. 15-109T and No. 28-137T (deferred from the cancelled September 7, 2017 Audit Committee meeting)

Dr. Lynch-Walsh stated “The auditors performed an audit, had findings that there were overpayments, and made a recommendation to amend the contract. Everyone agreed, right Mr. Bays, nobody disagreed, and here we are with an update that says that the vendor continued to invoice at the old rate and PPO continued to pay these invoices at the overpayment rate.”

Mr. Moses Barnes stated “Are we asking for a credit or a check for the overpayment?”

Mr. Reilly stated “We did receive a check for the overpayment in the amount of \$9,724. A year ago when we performed the audit, the contract was a quantity unit price contract, which allowed for a lower price for higher quantities. The question was whether to count each portable as a separate unit and determine the cubic feet. For example, at one school, there were 27 portables, each one was approximately 14,000 cubic feet, but if you added them all together, those 27 would total over 400,000 cubic feet. The contract was not clear regarding the method for measuring cubic feet. Of course, it was more advantageous for the vendor to measure by each portable, because it was always at the highest price of \$38 a cubic foot and never reached 100,000 cubic feet, where it would have been \$28 per cubic foot. After the initial audit, a new deal was negotiated to charge \$425 per portable and that was a reasonable price; however, this was never implemented. Currently, the vendor agreed to honor that price retroactive to February 5, 2016 and sent a check for a reimbursement. The vendor will now be using the \$425 price per portable. The contract does not need to go back to the Board or be amended, since it was the type of procurement which allowed negotiating a lower price.”

Mr. Leo Bobadilla stated “I have had a conversation with Mr. Sam Bays about PPO doing a better job in the future to follow up on these items, so that when we have things like this from an audit, such as being able to negotiate a better rate, that this gets documented. We are implementing that change and communicating it with staff. We’ve been updating standard operating procedures in our department. In some cases, we have not had that and in other cases, we have some very outdated standard operating procedures. As of last month, we had approximately 120 standard operating procedures that were either completed or underway in my department. Also, we’ve been

training our staff on standard operating procedures. Over the last 10 years, PPO has lost about 365 employees, about 35% of its workforce. A lot of those employees were planners, estimators, schedulers, contract administrators, finance, so there's been a gap in PPO for quite some time. We've begun to address that by hiring a Financial Manager, who is now within PPO. We expect, as we go forward, to provide additional support for that individual."

Ms. Coker stated "The negotiating of any contract should be done by the Procurement & Warehousing Services Department. Mr. Bays and I are working very closely to improve communications between our departments. Through the training that we've conducted and through the improved communication, when we do find an opportunity at the business unit level, it should be communicated to Procurement, and we'll negotiate with the vendor and obviously, it's the role of PPO to ensure that information trickles down to the operational level."

Mr. Barnes asked "What would have happened if this particular contract had not been audited? The District would have ended up not getting its money back."

Mr. Reilly stated "We probably would have continued paying the original rates and would not have noticed that they were not paying the new rates as agreed."

Mr. Bobadilla stated "As Ms. Coker mentioned, we also now have a partner in Procurement who is working the team and part of the negotiations. We've already seen that on several contracts."

Mr. Barnes asked "Do you have safeguards in place now to pick up on this if the department is not audited?"

Ms. Fertig stated "We, at the June meeting, requested that staff be added to the Audit Department for this reason, because we recognized how much money they have saved the District."

Mr. Mayersohn asked "Is it standard operating procedures after an audit to follow up to ensure the recommendations are being followed?"

Mr. Reilly stated "Yes, we always try to perform a current status within 6 to 8 months after an audit."

Mr. Mayersohn stated "Mr. Bobadilla stated that in the departments he manages, he's implementing policies, procedures and guidelines to ensure that recommendations are followed. Mr. Runcie, is this being done Districtwide?"

Mr. Runcie stated "As Mr. Reilly indicated, we do have 6 to 8 month follow ups for this reason. Now that we've actually found the recommendations were not implemented, we need to have another follow up to ensure that the recommendations are implemented. If this happens again, it is now Mr. Bobadilla's responsibility to make sure someone receives disciplinary action, because I'm not happy seeing this recommendation not implemented. That's why we have a follow up audit to ensure we check on these things. Now that this has been identified, it absolutely needs to be fixed, because there is no third time we want to see this. I apologize to the Committee for seeing this and I'm really disappointed that this occurred. We need to get this fixed and ensure that it doesn't happen again. Typically, you don't see this. Most other follow ups have been addressed appropriately."

Dr. Lynch-Walsh stated “The original audit was dated March 2016. In the exhibit from this update, there is a sample invoice that looks like it has signatures. Invoices should not be paid if not properly authorized for payment by various and assorted department heads. When I read this report, I said how does this keep happening? I’m pretty sure that Mr. Bays informed everyone of the outcome of the audit. Mr. Bays, who would approve these invoices for payment? Compared to 2014 where there were multiple lines for signatures, there’s a line for Foreman, Supervisor, and Director. In 2016 and moving forward till today, who would be approving those invoices?”

Ms. Fertig asked if Mr. Bays could give the name of the position, rather than the name of the person responsible.

Dr. Lynch-Walsh stated “If you look at page 44, it shows Roy Norton, Manager I, prepared the response. Are there other Manager I’s who would be approving these invoices or is he the only one?”

Mr. Sam Bays responded “There are three managers in the Grounds Department. I am the Director. I did not sign those invoices, but I certainly did write the responses.”

Dr. Lynch-Walsh stated “Was everyone copied on the response who would be signing these invoices? Basically, we have a response that has the name of one Grounds Manager who would be signing the invoices, and that person copied the other Grounds Manager and the Supervisor who would be signing these invoices. That would lead a reasonable person to conclude that there was no logical reason for them to continue signing invoices that were clearly being overpaid. This response was written February 29, 2016. How is it possible a year later that they are still happily signing off on incorrect invoices? Surely, they all knew.”

Ms. Fertig stated “I guess that’s the point of the audit.”

Dr. Lynch-Walsh stated “Precisely, and to not keep repeating the same mistakes. The defense that Mr. Bays left the Audit Committee meeting and didn’t tell us doesn’t hold water because on pages 44, 45 and 46, there’s the proof that they all knew. How did they keep doing this, and they’re all still employed here, I believe. Even if you put controls in place, these are people who knew there was a problem, so what assurance would this Committee have that any internal controls put in place would actually be followed?”

Mr. Bays stated “There is no one who would have knowingly, deliberately signed an incorrect invoice. Any such signature was an error. They did not realize the invoices were incorrect. No one on our team would sign an incorrect invoice deliberately.”

Dr. Lynch-Walsh asked “For this company?”

Mr. Bays stated “For any company.”

Dr. Lynch-Walsh stated “You’re saying that despite what I’m reading with my own two eyes, on page 44 where they talk about \$425 per portable, that you have multiple people, one of whom we hope did the calculation to ensure it was correct, none of these people that were signing off . . . Maybe we need to see all the mistakes.”

Ms. Fertig stated “I think one thing we can ascertain from this is that it shouldn’t have happened. Mr. Runcie stated that it shouldn’t have happened and if it happens a third time, there will not be a fourth time. Hopefully, we are not going to see this, but you will bring this back in 6 months and review those contracts.”

Mr. Runcie stated “We will bring it back and ensure that changes are in place and we’ll have it reviewed again.”

Dr. Lynch-Walsh stated “The auditors keep spending their time in follow ups making the same recommendations. Everyone keeps promising to follow internal controls.”

Ms. Fertig stated “They have received repayment on this. Can you schedule this for a follow up for 6 months? You want it brought back to us to make sure they are complying?”

Dr. Lynch-Walsh stated “Right, and do we get to pick the consequences?”

Mr. Runcie replied “No you don’t, because you are not running this District. I have already indicated what we’re doing and I’ve indicated what the consequences will be.”

Ms. Coker stated “This bid is going to expire mid-2018, so we will be going out to bid. We are looking at changing some of the scope of services and going from an ITB (Invitation to Bid) to an RFP, which will allow for better pricing and even the possibility of piggybacking from other school districts that have competitive prices. I know you’re going to look at this again in six months, but ultimately, that bid is going to change.”

Ms. Fertig stated “That’s perfect time. We’ll be able to see what you’ve accomplished by changing the bid.”

A motion was made to transmit. Motion carried.

The Committee thanked Ms. Susan Grant for serving the District as a member of the Audit Committee for four years. Ms. Grant is relocating and therefore, this will be her last meeting.

Meeting adjourned at 1:30 p.m.