

The School Board of Broward County, Florida  
**AUDIT COMMITTEE**

MINUTES OF AUDIT COMMITTEE MEETING

April 30, 2015

Dr. Henry Mack, Chair, called the Audit Committee meeting to order at 12:30 p.m. at the Kathleen C. Wright Building in the 1<sup>st</sup> Floor Board Room. Members and guests were introduced.

Members Present:

Mr. Moses Barnes  
Ms. Earlyn Barton-Oden  
Dr. Robin Behrman  
Ms. Mary Fertig  
Dr. Nathalie Lynch-Walsh  
Dr. Henry Mack  
Mr. Robert Mayersohn  
Mr. Andrew Medvin  
Mr. Duane Wolter

Staff Present:

Mr. Robert W. Runcie, Superintendent of Schools  
Mr. Jeffrey Moquin, Chief of Staff  
Ms. Shelley Meloni, Executive Director, Facilities Design & Construction  
Mr. Scott Krutchik, Accounting & Financial Reporting  
Ms. Ronley Alexander, Benefits  
Ms. Sharmila Laljie, Director, Payroll  
Mr. Patrick Reilly, Chief Auditor, Office of the Chief Auditor (OCA)  
Mr. Mark Magli, Manager, Property & Inventory Control, OCA  
Mr. Robert Goode, Manager, Facility Audits, OCA  
Mr. Gerardo Usallan, Manager, Facility Audits, OCA  
Mr. Joe Wright, Auditor III, Facility Audits, OCA  
Ms. Meredith Filcman, Auditor III, OCA  
Ms. Ceci Guerrero, Auditor III, OCA  
Ms. Patricia McLaughlin, Confidential Clerk Specialist C, OCA  
Ms. Megan Gonzalez, Confidential Clerk Specialist B, OCA

Guests Present:

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

## **Old Business**

A motion was made to approve the minutes from the March 12, 2015 Audit Committee meeting.

Motion carried.

## **Regular Agenda Items**

### **McGladrey, LLP – Communication to the Audit Committee – Audit Plan and AU-C 260 Communication**

Mr. Brett Friedman presented an overview of the audit planning process. “Our obligation this year is to focus on a financial audit, with regard to the Comprehensive Annual Financial Report. This year, the Auditor General is performing an Operational and Compliance audit and they will be performing the Single Audit, as part of their work. One of the key things we like to address is communication. If you have any concerns, particularly regarding fraud or suspected fraud, please feel free to reach out to us or to Pat Reilly. We will be speaking with the Chair of the Committee to get feedback on any concerns you may have. We will come back later to discuss any significant findings in the audit. We will advise if we encounter any significant difficulties, if there are any disagreements with management, any concerns where management is consulting other accountants, or any potential problems or misstatements. Those will all be presented to you at the conclusion of our audit. Our firm and all our employees are independent with regard to the School Board, both in appearance and actuality. We have no relationships or financial interests of any kind that would impair our judgment or ability to serve as independent auditors. We use materiality in planning and executing the audit. That is something where we use our guidelines and judgment, based on what would materially mislead the users of the financial statements. It is a key component that drives how we look at things. There’s no way we could look at 100% of all transactions, we use materiality as a guide and perform sampling to give us enough support to render an opinion on the fairness of the financial statement presentation. We’re very keenly aware that these statements are relied upon by the citizens of the community, by the bond holders, the Federal and State agencies giving funding. Also, the Audit Committee and School Board members rely on it, as well as management. To reiterate, our responsibilities are outlined in accordance with Generally Accepted Auditing Standards and Government Auditing Standards. On page 10, we highlight certain management responsibilities. It’s important to point out that the financial statements are the responsibility of and are prepared by management. We perform our testing to determine if they are fairly stated. They (management) are required to provide assistance with the audit and make all financial records available to us and to ensure that the School Board complies with all laws and regulations. Management is also responsible for compliance with the provisions of all Federal grants the District receives. At the conclusion of this year’s audit, you will receive our Independent Auditors’ Report on the basic financial statements and a copy of the Management Representation Letter. We will also issue a Management Letter, in accordance with the Rules of the Auditor General. Since the Auditor General is performing the work for this current year, we will not be performing the Single Audit Report. We will also be issuing an Audit Committee Letter, which is a summary of our results. The Auditor General implemented a new provision to issue an examination report in accordance with Professional Standards 601, so there will be an additional Examination Report, with regard to the School Board’s investment of public funds. On page 12, there is a high level overview of the timeline for the engagement. First, the most important step is coming here to present the

Audit Plan to you in April. In May we will meet with Scott (Krutchik) and his team to do our planning. We will be at every Audit Committee meeting throughout the year. Our final fieldwork is scheduled for late September, ending in early November. Throughout that process, we'll be having weekly status meetings with key management from Finance. We anticipate completing the audit in mid-November and presenting the results at your November meeting. The audit will then be presented to the School Board in December, in order to meet the School Board's filing requirements of March 31<sup>st</sup> with the State."

Dr. Mack asked Mr. Friedman to make some recommendations regarding Charter Schools. "I think there should be some modifications to the existing legislation, because it's not really clear what our overall responsibilities and liabilities are in some cases."

Mr. Friedman agreed to discuss Charter Schools. "Regarding the financial statements, on page 17, one of the key things regarding Charter Schools is that they have separately engaged auditors. We will communicate with those auditors. We will obtain verification from them, as well as their reports, which will roll up into the School Board's financial statements. I know that there are bigger issues with the whole concept of the School Board's responsibilities vs. the ability you have to influence their operations. On page 18, we highlight some areas of focus, such as the control systems in place. Some of the key processes that are in place include the cash receipting and revenue, payroll, purchasing, accounts payable and grants administration. We will also look at property and equipment and capital assets as a major line item within the financials. One key thing is the District's self-insurance liability. The District uses outside actuaries to provide your estimate. There is discussion on what assumptions are used. We do, as part of the audit each year, look at the reasonableness of those assumptions, but a key component is the self-insurance liability, as well as the estimate for other post-employment benefits. Another new thing this year is GASB 67 and 68, which are pension statements, which will for the first time, require the School Board to actually show in the face of their financials, the portion of the Florida Retirement System obligation that belongs to the School Board. FRS is compared across the country. The portion that belongs to Broward Schools will be provided by FRS to management and that number will appear in the face of the statements as a liability recorded by the School Board. It's not something that never existed before; it's just the first time you will actually see the physical number. Also, we will look at non-routine transactions. We know there is some new debt issuance that occurred after last year's fiscal year end. Our audit is not a forensic audit, but we are responsible for performing certain procedures to obtain reasonable assurance that the bank statements are free from misstatements, whether caused by error or fraud. Part of that will involve meeting with various staff members and members of management, the Superintendent, the Audit Committee Chair, the Comptroller, etc. We will perform testing in accordance with SAS 99 as part of our audit."

Discussion followed.

Dr. Mack introduced Dr. Nathalie Lynch-Walsh, new Audit Committee member.

Dr. Lynch-Walsh stated "I am currently the Chair of the Facilities Task Force and have been on that task force for three or four years. I have two children in elementary schools, which started my volunteering. I started with SAC meetings, I-Zone, Central Area, and several others. I am also very active on the Boundary Committee and have done several boundary proposals. I participated in the Board member re-districting. My background is in corporate accounting. I

began teaching at a college level. I have a Ph.D. in global leadership, with a specialization in corporate and organizational management.”

Dr. Mack stated “You’ll probably have some problems being on the task force and the Audit Committee because at times your thinking will overlap between the two.”

Dr. Lynch-Walsh stated “I’m actually expecting it to help. Our former Chair, Charlotte Greenberg, I understand, served on both committees. I think it will improve the flow of communication between the two groups.”

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

Mr. Patrick Reilly stated “This report contains internal fund audits of thirty-four schools. Thirty-three schools complied with the School Board policies and procedures for internal funds. There was one school that had an audit finding related to disbursement procedures and the use of unlicensed catering services used at the school for a function. A reimbursement was made to a school employee, rather than directly to a vendor. Also, the invoice was improper as supporting documentation for the expenditure. We met with management and recommended that they follow the disbursement procedures and require vendors to be licensed.”

Ms. Earlyn Barton-Oden asked “Is this something that has happened before at this school?”

Mr. Reilly stated “It may have happened in the past. This came up during the audit that we performed. Moving forward, we don’t expect to see this, now that it has come to their attention.”

Dr. Mack stated “It has not come before the Audit Committee as an item before.”

Mr. Moses Barnes stated “It seems to me that when this infraction occurred, the school was under the Business Support Center. It seems that one of the reasons why the District went to the Support Center was to correct some of these exceptions. If we have a school under the Support Center, it seems the resources would be there, because the bookkeeper had to issue the check for this caterer. I would think that person at the Support Center would know that this was not permissible.”

Mr. Reilly stated “I agree. I think they will be more aware of that now.”

Mr. Robert Mayersohn asked “Is management here to address this issue?”

Dr. Mack stated “No.”

Mr. Mayersohn stated “We are addressing the issue to ensure that catering vendors are licensed and I would assume, insured, as well. Does the District require that for other vendors? If we’re checking specifically for catering licenses, I would say we check for other entities, as well.”

Mr. Reilly stated “I agree, especially in this instance, where food is being served to students. A couple of years ago we performed a review of concession stands and determined that there were no inspections being done. That report brought attention to that particular area.”

Mr. Mayersohn stated “Looking at this occurrence, basically, someone was being reimbursed by internal funds for an event that was outside the scope of what the school was doing. It was a

booster club. I think there may be other situations where internal funds are used to pay a specific vendor. That vendor may be required to have workers' compensation insurance or other licenses. Do we normally check those?"

Dr. Mack stated "We deal with it only if it's an item on the audit report."

Mr. Mayersohn stated "The recommendation stated the Business Support Center will implement procedures related to catering licenses; maybe they should include all licenses. Why separate a caterer vs. a plumbing company?"

Dr. Mack stated "That would be a question for the Superintendent. It makes sense to me, because we have a lot of vendors."

Mr. Duane Wolter asked "Did we do a reasonableness check to see if \$1,000 was reasonable?"

Mr. Reilly stated "It was difficult to determine exactly how many people attended. That was one of our concerns whether they paid too much money, as well as the legitimacy of the caterer. It was unusual that the individual paid cash to purchase the items for the caterer and then got reimbursed. There are some questionable activities with that."

Ms. Mary Fertig asked "Can we get a written response on this item?"

Mr. Reilly replied "Yes, we will do a follow-up."

Ms. Lynch-Walsh stated "It's been a long time since I did accounts payable as a staff accountant. I'm trying to understand how the payment would have been made by the Business Support Center in the first place. Don't they have procedures?"

Mr. Reilly stated "They do. They are processing the transaction that was initiated at the school and looking for approval, invoices, and availability of funds in the account. This particular one should have been scrutinized more."

Ms. Lynch-Walsh stated "Yes, it shouldn't have been paid, since three of the five things were missing."

Mr. Reilly stated "They had the items, but it was handled as a reimbursement, rather than paying directly to a vendor. It was approved for payment; it did occur. They were obligated to pay at that point. From the start, they should have ensured that they had a legitimate caterer who was licensed and insured; they should have had an estimate on the number of people, the cost, etc. They could have gotten some additional quotes, although the amount did not require that. The invoice doesn't show how many people they were ordering for."

Ms. Lynch-Walsh asked "Is it possible to get a copy of the accounts payable procedures?"

Mr. Reilly stated "They are following the Standard Practice Bulletins on cash disbursements, which tie into a process of having authorization in advance, a receipt of goods, someone checking the documentation and signing and proper segregation of duties. All those controls are there."

Ms. Lynch-Walsh asked “But do they have department procedures? I’m finding across the District that we have a shortage of procedures in place. Do they have procedures beyond the bulletin?”

Mr. Reilly replied “I can have Nell Johnson follow up with you. I know she follows the rules for internal funds, which is the Florida Administrative Code, which is detailed in the Standard Practice Bulletins.”

Mr. Barnes stated “The school is under the control of the Support Center. Is there a person physically there at the school?”

Mr. Reilly replied “No, the Business Support Specialists are handling more than one school, so they are not at each school on a daily basis.”

Mr. Barnes asked “When a check is signed from internal accounts, who signs the check, the Principal or the Business Support Center?”

Mr. Reilly replied “The Business Support Center is signing the checks.”

Mr. Barnes asked “In reality, if the school is under the control of the Business Support Center and they are signing the checks, what role does the Principal have?”

Mr. Reilly stated “The Principal has to initiate the transaction before it gets to the point of writing a check, so they are still responsible for the operations of their school, approving the disbursements and revenues. When it’s time for payment, they are developing the documentation that is forwarded to the Business Support Center’s representative to process the payment.”

Mr. Barnes asked “If I was a Principal under the control of the Business Support Center and a check was presented to me to be signed, I would probably sign it, thinking that I’m under the Support Center, so everything is in order.”

Mr. Reilly stated “That’s why it’s important before the transaction occurs that they are following the Standard Practice Bulletins, which provides guidelines for approving the activity, the purchase, the fundraising activity. It initiates with the Principal, who is still responsible for the activities. The Business Support Center assists the schools with bookkeeping and accounting processes, but the Principal is responsible to receive the financial statements each month and review the transactions made by the Business Support Center.”

Dr. Mack stated “I think the Principal is more involved now with the Business Support Center, because the Principal has to approve the transactions before they go to the Support Center.”

Ms. Fertig stated “This is the first time we’ve had anything come before us that was questionable with the Business Support Center, so I think that’s a good thing. I think it points out the need for the school based personnel to really know the policies, because they will not pick it up through the Bookkeeper.”

Mr. Wolter asked “We received a response from the Business Support Center. Should we have gotten a response from the Principal?”

Mr. Reilly stated “There would be cases where the Principal would be responding. Whether the schools are under the Business Support Center or not, the reports are sent to Dr. Blackburn. In this case, we felt the Business Support Center should respond, because it dealt with the process of paying the disbursement. The situation with the caterer is more of a safety issue, but since that came up, we wanted to bring it forward, to ensure we don’t have that situation in the future.”

Ms. Lynch-Walsh asked “Does the Business Support Center report to Accounting?”

Mr. Reilly replied “No, they report to the Chief Strategy and Operations Officer, Mr. Woods.”

Ms. Lynch-Walsh asked “Does the person who heads the Business Support Center have a background in accounting?”

Dr. Mack replied “She is the former Director of Accounting.”

A motion was made to transmit. Motion carried.

### **Internal Audit Report – Property and Inventory Audits of Selected Locations**

Mr. Reilly stated “This report contains twenty-eight locations, twenty-five schools and three departments. All twenty-eight locations complied with the policies and procedures in Business Practice Bulletin O-100, which deals with Property and Inventory control. This report represents approximately \$40 million worth of assets that were reviewed.”

A motion was made to transmit. Motion carried.

### **Internal Audit Report - Current Status Update – McGladrey, LLP Operational Review of the Office of Facilities and Construction**

Mr. Reilly stated “This is a current status of the McGladrey Operational Review of the Office of Facilities and Construction that was performed in accordance with this year’s Audit Plan. The original report was issued in June 2012 and brought to the Audit Committee. There were 43 original observations and recommendations in the report. We performed a current status in February 2014 and were able to clear 20 of the 43 observations. This report is a current status on the remaining 23 observations. We met with management to review all the items; we determined that of the 23 we reviewed, three have been implemented, one is partially implemented, three were implemented, but not in use yet. We have sixteen that were listed as ongoing; fourteen relate to the District’s revised CM @ Risk contract in place. If we get that contract approved by the Board; that would more than likely clear those fourteen items. They relate to changing the contract. The contract went to the Board twice, but there were various things they wanted to add. Right now, the District is not using the CM @ Risk delivery method. The other two items are related to IT devices they would like to get for the staff. Those are still open. There are a couple of construction bulletins that are partially being used that we identified in the report.”

Mr. Mayersohn asked “Regarding the fourteen items related to the CM @ Risk contract, the Office of Facilities and Construction states it is not a priority. McGladrey said it was a priority. Is it, or is it not, a priority with the District?”

Mr. Robert Runcie stated “It would be a priority if we were engaging in work where we had to use that particular contract. At this time, it is not being used.”

Ms. Shelley Meloni stated “We are currently not using the CM @ Risk delivery method. We are going forward with Design/Build and Design/Bid/Build. That’s been across the board for our upcoming work. The urgency to get the contract revised on the CM @ Risk is not there at this point, because we have a delivery method in place that’s being utilized.”

Dr. Mack stated “If the administration thinks that they are going to wipe out fourteen exceptions pertaining to CM @ Risk, you’ve got another thing coming. Back in 1998, the School Board came to the Audit Committee and asked us to look into the CM @ Risk concept and contract. Our reaction to that contract stopped a \$115 million project. I was the individual who re-wrote that contract and negotiated it with the contractors in the County, some of which are still doing business with the School Board. It was presented to the School Board and accepted. We requested years ago that the Construction Department prepare a new construction contract for CM @ Risk that would address all the concerns that we had over the years. An initial draft was prepared and went to the Board a couple of times, but never came to fruition. It may not be a priority of this School Board, but it’s certainly a priority of this Audit Committee. There was nothing wrong with that contract, it was just the incompetency of the people who were trying to run it. I’m suggesting, Mr. Superintendent, that contract go back before the Board, because the next Construction boss that comes through here may like it and may be competent to run it. I think we would be remiss not to have such a contract in our files.”

Mr. Runcie stated “We do intend to bring it back to the Board. I’m not sure of the timeline.”

Ms. Meloni stated “We do intend to bring it back. We’re also in the process of revising the contracts that we will utilize more, for instance, the Professional Services Agreement, the fees and RFQ’s, and the Design/Bid/Build contract.”

Mr. Runcie stated “When Ms. Meloni mentions priority, she means priority for projects that we have on the table that we would actually use. In terms of actually getting this contract approved, that remains a priority, because this was something we had to fix per the audit. We will be making some modifications and will be presenting it (contract) to the Board. From the standpoint of taking corrective action for these audits, it’s a priority item.”

Ms. Meloni stated “Dr. Mack, we are looking at approximately 6 to 8 months.”

Dr. Mack stated “That is not acceptable.”

Ms. Meloni stated “How about 4 months?”

Dr. Mack stated “Much better.”

Mr. Mayersohn stated “For the record, could we document Ms. Meloni’s response of 4 months, as opposed to ‘not a priority’?”

Ms. Fertig stated “I think some of these concepts were overarching, so hopefully, they are being included in everything. On Observation #36, Review of Change Orders, I see that has been implemented. One of the concerns we had about the process all along was that there was nothing



in writing. I know when the former attorney, Mr. Marko, was here, he stated he would review every change order on a case by case basis to see if it had to be re-bid. I'm concerned now that there's a process for change orders that excludes the auditor and the attorney. Are these change orders under a certain amount of money? What is your process for determining when to re-bid?"

Ms. Meloni stated "If you recall, we had this discussion previously. We talked about the thresholds for re-bidding a project. It depends on whether the work is directly related to the project, if it's a code requirement, etc. Those were the parameters used to determine whether to use a change order or re-bid. Those parameters are still in place. One of the key points is that it must be related to the project. If not, then it goes outside of the scope of work and would be re-bid."

Ms. Fertig asked "Is this in writing? Is there a process?"

Ms. Meloni stated "I believe I shared this with the Committee. Yes, it is in writing."

Dr. Mack stated "It was never our intent to prevent the auditors or attorneys to be involved in that process. They were instructed not to make decisions. They were there to observe and ensure that the written processes were followed."

A motion was made to transmit. Motion carried.

**External Audit Report – Department of Management Services, Office of Inspector General – Florida Retirement System (FRS) – Compliance Audit of Broward County Public Schools**

Mr. Reilly stated "This is an external audit report. The Audit Section of the Department of Management Services, Office of Inspector General performed an on-site audit of the District's operations to determine if the operations pertaining to retirement coverage comply with the Florida Statutes and associated rules. There were 5 areas that were noted in their report. The first had to do with retirement coverage, which is compulsory for employees who fill full-time or part-time regularly established positions as defined by the FRS Rules. They are eligible to receive FRS contributions. One of the issues they had was when a temporary position extends beyond six months, it becomes a regularly established position for retirement purposes on the first day of the seventh calendar month or on the first day of the month following the month in which the decision is made to extend the position beyond six months, if earlier. They noted instances where employees were set up as temporary, and when they were eventually classified as full-time, the District was reporting all of the contributions in one lump sum in one payroll period. FRS requires that the initial contributions be recorded on the original date of hire. The District has responded to ensure that they do this on the original hire date in the future. A second finding was noted relating to one employee who entered the DROP program in January 2013 and the District paid his annual leave in February 2013 and the District did not report the payment to FRS until October 2013. The FRS requires that future annual leave payments are reported when paid. In this case, this was an isolated clerical error. A third finding was related to employees who received Workers' Compensation payments. Employees are entitled to receive retirement service credit. There's a period when an employee receives Workers' Compensation, they receive 66 2/3 percent of their salary. When the injured employee comes back to work, there is a rule that the employee has to wait one month and then is restored back, so he/she can get full FRS payments based on his/her entire salary. When an employee returns to active employment, the District is required to

make retirement adjustments if the employee's earnings during the period were reported at less than his regular pay. This allows the employee to get full credit for their actual wages toward their Florida Retirement. The FRS Department requested that Workers' Compensation adjustments be made to the affected employees noted in the FRS Review. Also, their review of DROP participants noted that the earnings reported to FRS were different than the amounts paid to the DROP participants. The District was requested to adjust the employees listed in their sample to ensure that the correct amounts are reported to the FRS. There was one other area where the FRS auditors reviewed 2013 W-2 forms and the reported related earnings to FRS. The District reported earnings for retirement that differed from the 2013 W-2 forms. The FRS requested that adjustments be made, since the District was not including these specific payments as FRS eligible payments, when they should have been. For example, if a bonus was paid to an employee, that would not be FRS eligible, but would be a taxable amount for IRS purposes and listed on the W-2 form. There was one employee who received additional salary for performing duties as a bus aide for students. This was treated as a bonus, but it shouldn't have been. It should have been counted as earnings and should have been included as FRS. That item will be corrected. There were some individuals who received Lead money and had some discrepancies between their W-2 forms and the amounts reported to FRS. FRS required that the District make the necessary adjustments. The District is in the process of taking corrective action on these findings."

Dr. Mack asked for a follow up at the September meeting.

A motion was made to transmit. Motion carried.

Meeting adjourned at 1:30 p.m.