

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

MINUTES OF AUDIT COMMITTEE MEETING

March 12, 2015

Mr. John Herbst 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  
Mr. Brendan Aloysius Barry, Esq.  
Ms. Earlyn Barton-Oden  
Dr. Robin Behrman  
Ms. Mary Fertig  
Ms. Susan Grant  
Mr. John Herbst  
Mr. Gary Hines  
Dr. Henry Mack (attended by phone)  
Mr. Robert Mayersohn  
Mr. Andrew Medvin

Staff Present:

Mr. Robert W. Runcie, Superintendent of Schools  
Mr. Jeffrey Moquin, Chief of Staff  
Dr. Desmond Blackburn, Chief School Performance and Accountability Officer  
Ms. Sonja Coley, Office of Facilities and Construction  
Ms. Rosemary Russo, Coordinator, Family Counselors, Student Services  
Mr. Patrick Reilly, Chief Auditor, Office of the Chief Auditor (OCA)  
Mr. Mark Magli, Manager, Property & Inventory Control, OCA  
Ms. Ann Conway, Manager, Internal Fund Audits  
Mr. Robert Goode, Manager, Facility Audits, OCA  
Mr. Gerardo Usallan, Manager, Facility Audits, OCA  
Mr. Joe Wright, Auditor III, Facility Audits, OCA  
Ms. Patricia McLaughlin, Confidential Clerk Specialist C, OCA  
Ms. Megan Gonzalez, Confidential Clerk Specialist B, OCA  
Ms. Meredith Filcman, Auditor III, OCA  
Ms. Sheryl Harris, Strategic Achievement

Guests Present:

Ms. Chantelle Knowles, McGladrey, LLP

## **Old Business**

A motion was made to approve the minutes from the January 22, 2015 Audit Committee meeting. Mr. Brendan Barry requested two changes be made as follows:

Page 8, Review of Construction Services Minor Projects Bid No. 2014-35, first paragraph, end of first sentence, add “on unrelated matters”.

Page 11, last paragraph “Mr. Brendan Barry stated “I’d like to add in summary that I did not participate and I abstained from discussions and voting.”

A motion was made to transmit with suggested changes. Motion carried.

## **Regular Agenda Items**

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

Mr. Patrick Reilly stated “This report contains twenty-three internal audit reports. Twenty-two schools complied with the prescribed policies and procedures for internal funds. There was one high school that had some audit exceptions due to non-compliance with various policies and procedures, specifically in the area of Athletics. The deficit balance in the Athletic account was cleared by transferring funds from Clubs, Trusts and the General Fund accounts. For the June 30, 2014 fiscal year, there was approximately \$22,000 transferred to cover the deficit. In that year, there were 97 incidents where disbursements were made from the Athletic account without funds being available. In other areas, there were tickets that were confirmed to be missing, based on a review of the inventory. Also, some tickets were reused. There were also some pre-numbered forms that were missing and late remittances of cash deposits. Some student incentive accounts were not used for students, but rather for staff incentives.”

Mr. Robert Mayersohn stated “We had a similar instance at Dillard High School a few months ago. I believe the response was that we would see updates that they were paying back the funds. I would also ask the Superintendent for updates that the money is being paid back for Miramar High.”

Mr. Robert Runcie stated “We will follow the same process as before. I know they’ve already begun to pay back the funds, and that’s being monitored. Pat probably has the exact amount. We’ll probably put some other recommendations in place, relative to these issues.”

Mr. John Herbst asked “Related to the payback, the response states ‘utilizing vending commissions’. What impact does this have on other programs in the school, if we’re taking the vending commissions now and utilizing them to repay this deficit? Also, with the paying back of \$2,000 per month until February 2016, is that going to leave these other clubs and programs in a position where they won’t be able to sustain their activities, due to the length of time for payback?”

Mr. Reilly stated “Currently, they are paying back the school with the vending commissions. That is really the only revenue they can use. As of December, about \$22,000 has already been repaid,

but the effect is that this year's vending commissions are not benefitting the current students. There were several large amounts due to various clubs that have already been repaid."

Mr. Moses Barnes asked "It is my understanding that if the profits from vending machines are being generated by the entire student body and all students use the vending machines, how can they take all the money and use it for Athletics?"

Mr. Reilly stated "It's at the discretion of the Principal on allocating the vending machine funds. There was a policy change where 25% of vending commissions can be used for staff incentives. Right now, the school is using it all for the payback. Many schools do use vending profits to assist multiple clubs. In this school, most of the vending commissions were used primarily for Athletics, even in prior years."

Mr. Barnes stated "As a Principal, per policy, if the vending machines generate \$1 million per year, the Principal has the discretion to say that 100% can go to Athletics?"

Mr. Reilly stated "Yes, he/she could per policy."

Mr. Gary Hines asked "Don't you have a policy in place that denies the Principal's use of student funds without students' permission. I understand in this case the Principal did not get the students' permission to use these funds."

Mr. Reilly stated "There is a policy, Cash Disbursements, which prohibits spending funds that are not available or approved by the Principal."

Mr. Runcie stated "That's why this is an audit exception, because that process wasn't followed. We will have to take appropriate action consistent with what we've done in the past with Principals and individuals who have not adhered to the policies."

Mr. Andrew Medvin asked "Were your scope and procedures for this audit pretty much the same as for other high schools?"

Mr. Reilly replied "Yes, we perform a review of the General Ledger and the Auditor observed multiple transactions being charged to the Athletics account without available funds, which led her to increase the audit scope in that area."

Mr. Medvin stated "It seems that these audit results are egregious. I don't know if this is a systemic problem. I think it's rather extreme."

Mr. Runcie replied "The Audit Committee has seen audits on a regular basis for many schools. This is not a systemic problem. When we do find these issues, we provide guidance and take the appropriate disciplinary action. The last few cases where this has materialized has been subsequent to a Principal transition. As a new Principal comes in and makes changes to a school, these things are identified. Part of it is to ensure that there is proper training, although these folks know. We will have to be very clear about the consequences associated with violating these policies. This is not the type of leadership we want in our schools, because it impacts a lot of students negatively. I understand the importance of sports programs, but sometimes, in my opinion, we put too much emphasis on it. We are in the business of educating students, helping them to develop their

potential. There are lots of clubs such as Debate, Honor Society, Student Government, that I feel hold the same level of importance and need to be regarded accordingly.”

Ms. Fertig stated “I think we had this a few months ago at Dillard, and I’d like to reiterate what I said back then. I think the money obviously needs to be paid back, but not at the expense of the current students. I don’t think today’s students should pay for yesterday’s mistakes. Regarding Principals using money from student organizations for faculty, how do Principals usually pay those expenses? Is there a fund that pays for that? I’m wondering why several times each year schools take money from student organizations without a vote.”

Mr. Reilly stated “Last year, effective February 2014, the policy was changed to allow 25% of vending commissions to be expended on staff appreciation. Many years ago, the schools had a Principal’s Discretionary Account and that was abused by using a lot of money for staff that should have been used for students, which, in some cases, amounted to \$30,000. The Audit Committee spoke about that several years ago, which led to the elimination of the Principal’s Discretionary Account. After the Principal’s Discretionary Account was eliminated, a lot of money was extracted from the Student Government Accounts. Everyone agreed it would be best to have some money for staff. We spoke to other Districts and to the State Auditor General and the Department of Education. They allow a percentage to be used for staff appreciation, if it is in a written policy. The District initiated a 25% amount for staff appreciation, based on vending machine profits. That’s in effect now and that’s where those expenses should be taken from.”

Ms. Fertig stated “It looks like this was 2013-14, so that’s in place now, but may not have been in place at that time. I hope you monitor these paybacks to ensure that no students enrolled in school are suffering because of the actions that occurred in prior years. Obviously, you want to hold adults accountable. Miramar High Schools track pictures are the pictures we used throughout the Bond issue to show that the Athletic facilities and pathetic press box were in terrible shape. I wouldn’t want to see their program further reduced in their capacity to address these things because they are paying back for what some adult did wrong.”

Mr. Runcie stated “None of those enhancements to those programs at Miramar or any other school would be impacted by this, but in terms of what would occur for other activities in the school, I definitely get your point. We’ll make sure we address that.”

Mr. Barry asked “On page 90, it states that of the \$39,000 that was stolen, \$22,000 has already been paid back since September. That’s over \$3,700 a month, but they’re proposing only to pay \$2,000 a month. I would think that we should continue at \$3,700 a month and get that money back where it belongs quicker.”

Dr. Blackburn stated “For the two comments, on the sensitivity of the current students and in combination with the fact that this is the only source of income that the school has to repay, the monies must be repaid, but the repayment schedule has been created for the maximum sensitivity to the current students. I would offer that we keep the repayment schedule as is and monitor the payment schedule to make sure there is not a negative impact on today’s students.”

Mr. Herbst asked “Mr. Superintendent, you made reference to disciplinary actions. I understand that there is a new Principal and this is a problem that was inherited. As the prior Principal goes somewhere else, what is the discipline that goes with that prior Principal or has he left the District?”

Mr. Runcie replied “No, that individual is still with the District. We will follow up with that individual.”

Mr. Herbst stated “It appears that some of the violations appear to be flagrant in nature; this is not a case where a mistake was made. It gives the appearance that this was a disregard for all the internal controls. I appreciate that further discipline will follow.”

Mr. Mayersohn asked “Is the Athletic Director still employed with the District?”

Mr. Runcie stated “No.”

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-one locations, twenty schools and one department. Eighteen locations complied with the prescribed policies and procedures, specifically Business Practice Bulletin O-100 - Procedures for Property and Inventory. There were three schools that had some minor audit exceptions. Overall, there were \$38 million of assets reviewed and 74 items, with a historical cost of \$128,000, were not located.”

Mr. Mayersohn asked “Mark, when you do these inventory audits, do you audit all the technology or just over a certain threshold?”

Mr. Mark Magli stated “We conduct our inventories with a pre-existing download record of all assets above \$1,000 and we do a cursory review of items below \$1,000 to establish whether the school has control over those items, as required.”

Mr. Mayersohn asked “You don’t review any items under \$1,000. Is that correct?”

Mr. Magli replied “We don’t have records established for those items under the \$1,000 historical purchase price, but we have developed a level of records, based on the cooperation of the schools. As I said, we perform a cursory review. If we don’t have existing records, we only have the ability to verify what we see.”

Mr. Mayersohn stated “I know this is beyond our scope, but as we see the cost driven down on some of these technology items, it may be something that, through the Superintendent, we recommend that the Board look at lowering the threshold from \$1,000 to \$500. I don’t know how much time consumption that would take and what the cost versus the reward would be, but something especially with bond money and technology purchases, so that there’s an oversight on what’s being purchased with public funds.”

Mr. Reilly stated “The Business Practice Bulletin has guidelines for items under \$1,000, particularly the computers and IT equipment. The locations are required to keep a subsidiary list. All items over \$1,000 are on our Master Database and the idea would be to have the items less than \$1,000 all in one database. The law requires that items valued at \$1,000 and above be on the database, but we have somewhat of an old Property system. We are having discussions about implementing a new SAP Fixed Asset module that we purchased from SAP, so everything could be in one place.”

Mr. Mayersohn asked “Is that a recommendation from the Chief Auditor?”

Mr. Reilly stated “It’s always something that I felt we need to have. It’s better than having the information in two separate places. It should flow from the point of purchase to identify the items. Trying to capture items after the process is not the way to do it.”

Mr. Mayersohn stated “If it’s appropriate, I would make a recommendation or a motion to work with the District to try to improve the whereabouts and records of those items.”

Mr. Hines asked “Are we looking at the historical or the depreciated cost? Some of these items are depreciated to \$61.00.”

Mr. Reilly stated “The schedule, depending on the type of asset that we’re depreciating, is broken down on page 2. We could have items that are fully depreciated with a value of zero at this time, but we’re showing the historical cost, less the depreciated value of the assets in the schedules.”

Mr. Hines asked “Is that what the law says?”

Mr. Reilly replied “Yes, you have to keep it on the books at the historical cost.”

Mr. Runcie stated “If I’m spending our resources properly and allocating the limited resources that we have, my preference would be to audit things that have a real value of \$500 or more. Auditing something with a historical value of zero, I don’t know what that gets us as an organization.”

Mr. Herbst stated “I’ll echo the Superintendent’s comments. In fact, most organizations are moving in the opposite direction. A \$1,000 threshold is considered in the auditing profession to be extremely low for inventory purposes. We use a \$5,000 threshold, because the cost benefit of tracking and then verifying the existence of our operating supplies really doesn’t add value in the grand scheme of things. If you look at this from a risk perspective, the risk is not necessarily in the \$300 items walking out the door. That’s a practical risk, but not a material risk to the financial statements or the integrity of the District. It’s not an effective use of staff’s time to track all that or the Auditor’s time to go out and verify. The cost of all those people looking at those items will exceed the value of what you’re getting. I’m not sure that it meets the cost benefits test.”

Ms. Fertig stated “On page 27, regarding Westpine Middle, you state that 176 items were located at the school that did not appear on the Master File of Assets. Were most of those old items no longer being used in the storeroom?”

Mr. Magli replied “No. Most of those items were laptops and various things involved in the programs that are housed in carts. We get the documentation’s certified values and we make sure that the school is incorporating that into their internal controls and their on-site tracking, per the Business Practice Bulletin.”

Ms. Fertig stated “That’s a large number. Is that typical?”

Mr. Magli stated “It’s fairly typical.”

Ms. Fertig stated “If you weren’t using this technology, you may not need to keep track. Since schools are utilizing so much old technology, not keeping track would be a problem for teachers if we can’t afford to replace these items.”

Mr. Herbst stated “If you look at some of the property numbers here, you’ll see 97, 03, 98, and 2000. Many of these items were probably scrapped and the paperwork wasn’t done properly. Is that a safe assumption?”

Mr. Magli replied “I couldn’t speculate on whether that would be the case. We have a process by which we gather the materials. In that process, it’s very difficult if it stays for a long period of time between when they document it and when they have the actual removal. Things can happen. If someone wanted to do something, it’s a vulnerable position. We definitely use a lot of old stuff, and we’re hoping to change that. It’s a usability thing. The schools have worked hard to try to maintain this and when the stuff is being used, it’s less vulnerable, but that’s creating a culture within the school that even teachers make sure things are returned to their proper place. I think they’ve taken great steps. One point about the undervalued items that they’re tracking, is that some schools have an expanded database that they keep, well beyond laptops. They keep all kinds of stuff in there and make an effort to do that internally. As it relates to the paperwork, certainly there are some paperwork issues. Generally, if there are only a few of those, you are not seeing those, because there is an allowance for that.”

A motion was made to transmit. Motion carried.

### **Review of Hallandale High Roof Replacement Project No. P000889**

Mr. Reilly stated “This report was performed in accordance with our Audit Plan. We identified that the contractor voluntarily defaulted on the project. At that point, the Surety Company has to complete the project. They did that. The roof job was completed. The replacement contractor did a nice job on it. There was a delay with the original contractor. They were unable to complete the project, which resulted in a delay of 667 days. Per the contract, the delay would be subject to liquidated damages for failing to meet the completion date. That is the issue that we wanted to point out. This project still needs to be closed out. We recommended that liquidated damages be pursued on this contract, which total approximately \$667,000.”

Mr. Medvin asked “Who is responsible for these liquidated damages?”

Mr. Reilly stated “The Surety.”

Mr. Hines stated “\$667,000 is a lot of taxpayer’s money. Do we have a policy regarding liquidated damages? Is this something we do all the time?”

Mr. Runcie stated “I think we just indicated that we will be working with Legal to pursue this. Anytime there are liquidated damages, that would be our normal course of action. I think it’s appropriate to go to the Insurance Company to try to get something out of it. It was part of the contract terms, even though we were able to get the work completed by a replacement contractor.”

Ms. Sonja Coley added “We will speak with the Legal Department. I’m not sure if we can assess liquidated damages against the Surety. Our original contract was with the defaulting contractor.”

Mr. Runcie stated “This situation might be a little different on how we pursue that with the contractor, because of the default of the contractor versus normal delays. Whatever we can do, that’s what we’ll pursue.”

Mr. Hines asked for a follow up report when the project is closed out.

Mr. Mayersohn stated “Management’s response could have been explained more efficiently. There is no indication of whether management agrees or disagrees with the findings or if they planned to pursue through Legal. This should have been clearly explained.”

A motion was made to transmit. Motion carried.

**Review of the Family Counseling Behavioral Health Program Grant for the Period Ended September 30, 2014**

Mr. Reilly stated “This is a grant that we audit each year, in accordance with the agreement with Broward County. In general, the grant provides free family group counseling, individual counseling for Broward County children ages 4 through 17 or through age 21 if enrolled in school. We reviewed this grant. Our matching funds were approved by the Board. Those funds and the matching funds from Broward County were received and used in accordance with the agreement.”

Ms. Rosemary Russo stated “The Family Counseling Program is a very effective program, which aims itself toward academic achievement, appropriate behavior in school, regular attendance and graduation rates. The money is a tremendous investment in our future. We really appreciate that for over 25 years the County has been in collaboration with the School Board to provide service, free of charge, to any student, any family that is in need. The success rate has been really tremendous. This year, due to the success rate, the County has awarded us an additional \$300,000. We are looking forward to continually expanding. Last year, Mr. Runcie’s vision was to put a Family Counseling location in every Innovation Zone, so that people could access the program and services more readily.”

Mr. Mayersohn asked “Is the County the funder of last resort?”

Ms. Russo stated “Yes, the grant reimburses us for every unit of service, which is an hour of time for anyone who would not be able to access this type of service through their private insurance or Medicaid, so the County is the funder of last resort.”

A motion was made to transmit. Motion carried.

Meeting adjourned at 1:15 p.m.