

The School Board of Broward County, Florida
AUDIT COMMITTEE

MINUTES OF AUDIT COMMITTEE MEETING

November 19, 2015

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
Dr. Henry Mack (attended by phone)
Mr. Robert Mayersohn
Mr. Andrew Medvin

Staff Present:

Mr. Robert W. Runcie, Superintendent of Schools
Dr. Valerie Wanza, Office of School Performance & Accountability
Ms. Shelley Meloni, Office of Facilities & Construction
Mr. Jermoth Rose, Accounting & Financial Reporting
Mr. Bill Nealon, Treasurer's Office
Ms. Christy Bradford, CTACE Department
Mr. Patrick Reilly, Chief Auditor, Office of the Chief Auditor (OCA)
Ms. Ali Arcese, Manager, Property & Inventory Control, OCA
Mr. Robert Goode, Manager, Facility Audits, OCA
Mr. Gerardo Usallan, Manager, Operational Audits, OCA
Ms. Patricia McLaughlin, Confidential Clerk Specialist C, OCA
Ms. Megan Gonzalez, Confidential Clerk Specialist B, OCA

Guests Present:

Mr. Brett Friedman, McGladrey, LLP

Old Business

Discussion was held regarding whether items could be added to the agenda and whether it is proper to discuss items that are not on the agenda. Discussion further ensued about a process and a timeline.

Note: Pursuant to the Audit Committee meeting, the Audit Committee's bylaws were reviewed. **ARTICLE VI: MEETINGS**, Section 8 states: Meetings will follow the approved agenda. Each item on the agenda will be discussed to the satisfaction of the members present. Meeting discussions will be restricted to those topics on the agenda. In addition, School Board Policy 1002.1 states the Audit Committee's role is to review audits. The Other Discussions category on the agenda is for Audit Committee business, such as Audit Committee dates, elections, etc.

Mr. Pat Reilly stated "On Monday, November 16, I sent an email advising the Audit Committee that I had met with Ben Leong, Chief Financial Officer, and per his request, the CAFR (Comprehensive Annual Financial Report) was being withdrawn from this meeting agenda and would be presented at the next Audit Committee meeting on January 21, 2016 for the following reasons: In the middle of the year, the former Accounting Director passed away; the Accounting staff performed the year-end closing and worked on compiling the CAFR. Unfortunately, one of the key accountants was hospitalized last week, which delayed some of the work necessary to complete the CAFR and some of the accounting staff worked last week to try to fill the void. Another issue was the late information regarding GASB 68 from the State, which further delayed the compilation of the CAFR. In addition, the Broward Education Foundation's financial information will not be available until December 8, 2015. I concur with Mr. Leong, since this would have given you (Audit Committee) less than two days to review the CAFR. Mr. Leong also needed additional review time and he didn't want to bring an incomplete report to the Committee."

A motion was made to table the report until the January 21, 2016 Audit Committee meeting with the missing information added. Motion carried.

Dr. Henry Mack asked if this would affect the District's receiving the annual award. Mr. Reilly stated that it would not affect receiving the award, per Mr. Brett Friedman and Mr. Ben Leong.

A motion was made to adopt the agenda. Motion was approved.

A motion was made to approve the minutes from the October 15, 2015 Audit Committee meeting. Motion carried.

Regular Agenda Items

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

Mr. Reilly stated "This report contains Internal Fund audits of ten schools. All schools complied with the School Board policies and procedures for Internal Funds."

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-three locations; twenty locations complied with the policies and procedures in Business Practice Bulletin O-100, which deals with Property and Inventory control. There were three locations that had some unaccounted for items that are noted in this report.

Mr. Robert Mayersohn asked “What happens with the items that are unaccounted for?”

Mr. Reilly replied “During the physical inventory, if they’re not identified, the location has a 30 day window to try to determine what occurred. There are multiple things that may have happened, such as items being surplus, transferred, stolen, given to someone without a properly documented property pass, etc. After the 30 days, if not located, the item is removed from their “live” inventory and after two years, it is completely removed. It is no longer treated as an asset on their books. Sometimes an item is located and is added back to their inventory.”

Mr. Mayersohn asked “In the Standard Practice Bulletin, schools are required to perform inventory audits every six months?”

Mr. Reilly stated “Yes.”

Mr. Mayersohn asked “So, the schools are self-reporting? There’s no identification that items are missing in that six months. For example, you perform the audit in October. In April they did their self-inventory. In April, is there some sort of reference to April’s self-report to state that all items were located or show what items were missing?”

Mr. Reilly stated “If something ended up in that period between October and April that had to be added back or deleted, you would see that on the record. One could take the October inventory report and compare it to the April inventory report, but there is no one at the school doing that. It’s an internal control tool that will help them identify if there are items missing or added to their inventory that are not on their records.”

Mr. Mayersohn stated “Some schools are doing a great job, but some are still having challenges.”

Mr. Reilly stated “Since we’ve changed the Business Practice Bulletin to include items under \$1,000 that are now on their inventory, the auditors are seeing items that are physically there but not on the location’s inventory database, that just need to be added.”

Mr. Mayersohn stated “I know there have been improvements, but if they’re doing a self-inventory every six months, there should be some type of audit form similar to what’s here to know ahead of time.”

Mr. Reilly stated “They all have to keep a property book to keep police reports and other documentation.”

Mr. Mayersohn stated “I want to thank Dr. Wanza for her much improved response. It would also be good if you could identify the Standard Practice Bulletin that you refer to in those recommendations.”

Mr. Brendan Barry asked “Could you explain to me the physical process. On page 21 and 22, there is a list of 33 items. Did someone go out there and physically walk around and look for all these things and then prepare this report?”

Mr. Reilly stated “We have a report called the PNI811 that shows everything in the location’s inventory that are over \$1,000, as well as some items less than \$1,000. We have a barcode system that reads the information. They verify the inventory.”

Mr. Barry asked “Someone goes and scans those items in every room and then this report is given to the Principal, I presume.”

Mr. Reilly stated “Yes. Also, the location can request a download of this report at any time.”

Mr. Barry asked “Is there an audit of this report. For example, if an item is found after the audit, does the Auditor go out to verify the item?”

Mr. Reilly stated “We would if there are significant items. If it’s one item, we would not make a special trip, but we would verify it next time we go out there. If we have someone near the location, we may have someone go out and verify the item.”

Ms. Mary Fertig asked “Were there any police reports filed on any of these items?”

Mr. Reilly stated “We wouldn’t normally put them in the report, but there may have been. If they had a police report prior to the audit; that would be an acceptable item that would have been cleared.”

Mr. Barry stated “I was more interested in the process of the audit and you’ve made me feel very comfortable about that. This whole report, to me, is beyond my scope. One report from the Principal states that he spoke to the Technology Specialist. A month later, the Principal states that he doesn’t have a Technology Specialist. There are 15 laptops missing from an elementary school. This seems to be an issue at that school, but I like the audit. I like the work you did.”

Dr. Nathalie Lynch-Walsh asked “A lot of these missing items are old by technology standards. If you got rid of things that weren’t being used, they wouldn’t be around to be missing.”

Mr. Reilly stated “We have a process where these items are picked up and removed from inventory and are then auctioned or salvaged, etc. There was a time where portables were a dumping ground for all the equipment, which would sit there for a year or two before it would get picked up. As soon as an item is no longer being used, it should be removed from the location’s inventory and taken off the books.”

Dr. Lynch-Walsh asked “Is there a policy? Are there procedures for that?”

Mr. Reilly stated “There are very strict rules on surplus inventory. Most people don’t want to let anything go if it’s functional and working.”

Dr. Lynch-Walsh stated “An Apple computer from 2003?”

Ms. Fertig replied “You’d be surprised how many schools are still using that. That’s the equipment they have. We’re glad to be able to replace some of it now, but for some schools, they have things even older equipment that they are still using.”

A motion was made to transmit. Motion carried.

Internal Audit Report – Review of Construction Change Orders Categorized as Architects’ and Engineers’ Errors and/or Omissions (deferred from October 15, 2015)

Mr. Reilly began “This was discussed at the last meeting. Mr. Runcie requested that the responses be revised by management, mainly to ensure compliance with their Design and Construction Bulletin, which was reviewed by McGladrey, now known as RSM. On page 38 of the report, we have the revised responses from OFC. We wanted to emphasize that the demand letters will be issued to the consultants and insurance carriers. If no resolution occurs, they will request the assistance of the General Counsel. In addition, the development of contract language that will be included in the Professional Services Agreement will clearly define the process for identifying, calculating and recovering costs resulting from errors and omissions change orders. The report still contains the original response and if the Audit Committee accepts the new response, we will be able to transmit this response.”

Dr. Lynch-Walsh asked “Just to clarify, demand letters are going out. I believe the Chair asked that question at the last meeting stating that demand letters were currently going out. I see a sentence ‘OFC has developed a template demand letter and is in the process of gathering information in anticipation of completing them following discussion with the Office of General Counsel’. Does that mean that letters are or are not going out currently?”

Ms. Shelley Meloni stated “Demand letters have not been sent out. We did revise the template from the old version. We are calculating the recovery amounts and working with our Legal Department, because there are some consultants on the list that may be involved in other legal matters with the Legal Department. Once we go through that list and clarify which ones we are going to issue the letters to with the calculated amounts, we will insert the information into the template and issue the letters.”

Mr. Reilly stated “I think that applies to the 2012, 2013 and 2014 change orders that we looked at, but in the future as new items occur, the demand letters will be sent right away by OFC, once they determine that there was an error or omission. If there is no resolution, the General Counsel’s Office will be contacted, as stated in the Design and Construction Bulletin.”

Dr. Lynch-Walsh asked “What would the date be for the completion of this template?”

Ms. Meloni stated “We have identified several that we are creating the letter for, once we have some conversation with our Legal Department.”

Dr. Lynch-Walsh asked “What is the deadline?”

Ms. Meloni stated “Probably by the end of the calendar year.”

Dr. Lynch-Walsh asked “I may have missed this in the last report; in 2010 on page 30 of the same document, it says ‘General Counsel recommended including in the School District’s architectural contract verbiage regarding errors and omissions. Staff is requested to develop contract language that clearly defines terms essential to the identification, calculation and method of recovery of additional costs resulting from errors and omissions. The contract should be clear and equitable so that everyone can adhere to the process.’ I understand that’s happening now, but for the last 4 to 5 years, this recommendation was never followed?”

Mr. Reilly stated “Mr. Carland mentioned at the last meeting that the contracts were being revised. The language that was good for the District’s position on the Professional Services Agreements wasn’t really in there. We were suggesting that they put that language in there. Like you said, it was mentioned in 2010.”

Dr. Lynch-Walsh asked “What’s the deadline for having that language put in there?”

Ms. Meloni replied “We are working with the Legal Department. We are revising the Professional Services Agreement. That language has not been finalized. We plan on taking the Professional Services Agreement for Board approval on December 8, 2015.”

Dr. Mack stated “My concerns have been addressed, but we haven’t had much response from the Legal Department on specific issues. I’d like to follow up to ensure that they are going to meet that deadline.”

Mr. Mayersohn stated “We would like a follow up from Mr. Reilly at our January meeting that the template has been completed. Is the contract language still being developed?”

Ms. Meloni replied “It is, yes.”

Mr. Mayersohn asked “Was there a target date for that, as well?”

Ms. Meloni stated “The target date for us is obviously to get it to the Board on December 8th, because we will be issuing a revised PSA.”

Mr. Barnes asked “Are we still doing business with these contractors that we need to recover money from?”

Ms. Meloni replied “We really don’t have many consultants on board at this time. It is, again, our intent to issue a request for qualifications that will solicit a group of consultants, architects and engineers and there may be some of the ones included that may wish to come back into the District and do work.”

Mr. Barnes replied “You didn’t answer my question. Are we presently doing business with contractors that you’re trying to recover monies from?”

Ms. Meloni replied “No.”

Note: Subsequent to the Audit Committee meeting, Ms. Meloni sent the following revision to Mr. Reilly:

Pat:

I wish to correct my response to the question posed by Mr. Barnes at today’s Audit Committee Meeting on the topic of Errors and Omissions. When asked by Mr. Barnes if we are doing business with contractors from whom we are attempting to recover monies, my response was no. After returning to the office and reviewing the list, I realized there are three companies that we are currently doing business with. They are Manuel Synalovski (Fort Lauderdale HS Replacement); ACAI (Coral Springs MS Fire Sprinkler); and GLE (Forest Hills ES HVAC Renovations). Please correct record, as indicated. Thank you for your attention to this matter.

*Shelley N. Meloni, R.A., NCARB, LEED AP
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Mr. Herbst asked “At a subsequent meeting, if you could build on the previous question, would you bring back information that covers the procedures for debarring a contractor from further work; whether it has to be something criminal; is there any kind of performance standard that must be met, so that we understand when we’re dealing with this. I understand there are times when there’s a limited pool of vendors that we have to choose from, but I’d like to know our procedures for deciding that we don’t do business with someone.”

A motion was made to transmit. Motion carried.

Mr. Mayersohn asked “Business Practice Bulletin O-100, which was updated in April 2015, includes the trackable Smart tangible personal property. Will that be audited, as well, or schools are just tracking that?”

Mr. Reilly stated “It is being added and is now a requirement.”

Mr. Mayersohn asked “Can we make sure that the Principals are aware that those will be in their inventory items to be tracked?”

Mr. Reilly stated “They normally send a blast email, but I’ll double check.”

Meeting adjourned at 1:20 p.m.