

**MINUTES OF THE SCHOOL BOARD AUDIT COMMITTEE
OF MIAMI-DADE COUNTY PUBLIC SCHOOLS
JANUARY 25, 2005**

The School Board Audit Committee met on Tuesday, January 25, 2005 at 12:30 p.m. in the School Board Administration Building, Room 559, at 1450 N.E. Second Avenue, Miami, Florida.

Members Present:

Voting:

Mr. Jeffrey B. Shapiro, Chair
Mr. Carlos Trueba, Vice-Chair
Mr. Agustin J. Barrera, Board Member
Ms. Betty Amos
Mr. Robert Henderson, Jr.
Dr. Hank Mack
Ms. Lidia Monzón-Aguirre
Mr. Michael Moore
Mr. Robert Schomber
Mr. Robert Stein

Non-Voting:

Mr. Martin Berkowitz
Mr. Allen M. Vann

Members Absent:

Mr. Jack Levine

Call to Order

Mr. Jeffrey B. Shapiro, Chair called the meeting to order at 12:43 p.m.

Introductions

Mr. Jeffrey Shapiro greeted everyone and asked them to introduce themselves, and they did. The following persons were present:

Ms. Perla Tabares Hantman, Board Member
Dr. Rudolph F. Crew, Superintendent of Schools
Dr. Sonia Diaz, Deputy Superintendent
Ms. Ofelia San Pedro, Deputy Superintendent
Mr. Johnny Brown, School Board Attorney
Mr. Herb Cousins, Jr., Inspector General
Ms. Rose Diamond, Chief Facilities Officer
Dr. Richard Hinds, Interim Chief Financial Officer
Ms. Carolyn Spaht, Chief of Staff

Mr. Jerold Blumstein, Adm. Asst. to Dr. Karp
Ms. Denise Izquierdo, Adm. Asst. to Dr. Karp
Ms. Lubby Navarro, Adm. Asst. to Ms. Tabares Hantman
Ms. Marisa Toledo Quesada, Adm. Asst. To Dr. Pérez
Mr. Carlos Saladrigas, Adm. Asst. to Mr. Barrera
Ms. Willa S. Young, Associate Superintendent
Ms. Maria Teresa Rojas, Assistant Superintendent
Mr. Craig Sturgeon, Assistant Superintendent
Dr. Essie Pace, Region Superintendent
Ms. Enid Weisman, Region Superintendent

Mr. Eduardo Alfaro, Treasurer
Ms. Deborah Karcher, Executive Officer
Ms. Connie Pou, Controller
Mr. Jorge L. Garcia, Region Center IV Director
Dr. Carmen Marinelli, Region Center II Director
Mr. Jaime Torrens, Inspections Officer
Dr. Ronnie Hunter, Administrative Director
Ms. Iraida Méndez-Cartaya, Administrative Director
Mr. Carlo Rodríguez, Administrative Director
Ms. Daisy Naya, Assistant Controller
Mr. Antonio Martinez, District Director
Ms. Isora Castro, Executive Director
Mr. Ralph Cruz-Muñoz, Director
Ms. Alexandra Mirabal, Supervisor II
Lt. Dermot Horgan, M-DCPS Police
Mr. Joe Cardelle, Data Manager

Mr. Jose F. Montes de Oca, Assistant Chief Auditor
Mr. Julio C. Miranda, District Director
Ms. Maria T. Gonzalez, Executive Director
Mr. Trevor Williams, Executive Director
Mr. Norberto Ferradaz, Audit Supervisor II
Mr. Dario Rosendo, Audit Supervisor II
Mr. Michael Hernandez, Audit Coordinator
Ms. Teresita Rodríguez, Audit Supervisor
Ms. Catrina Carswell, Staff Auditor II
Ms. Cristina Pérez-Ibañez, Recording Secretary
Ms. Carolyn McClain, Administrative Secretary III
Ms. Cynthia Borders-Byrd, Ernst & Young, LLP
Mr. Shaun Davis, S. Davis and Associates, P.A.
Mr. Pablo Llerena, Grau & Company, P.A.
Mr. Richie Tandoc, Sanson, Kline, Jacomino & Co.
Ms. Susan Kairella, Certified Volunteer

1. Approval of the Minutes of the Audit Committee Meeting of December 7, 2004

Mr. Shapiro asked if there were any changes or questions to the minutes of the Audit Committee of December 7, 2004.

Dr. Mack referred to page 5 of the minutes, last sentence on paragraph six, and noted that it should read: Dr. Mack stated that under Operating transfer out – Debit Service Fund, there is also a difference of one dollar, and neither of the one dollar differences was due to rounding errors.

There was no further discussion; a motion was made by Mr. Robert Schomber, seconded by Dr. Hank Mack that carried unanimously, to approve the Minutes of the Audit Committee of December 7, 2004.

2. Introduction of new Chief Financial Officer

Ms. Ofelia San Pedro introduced Mr. Martin Berkowitz, Chief Financial Officer, gave a small summary of his illustrious career, and said that the District was lucky to recruit somebody of Mr. Berkowitz's caliber to assist in streamlining the District's operations.

Mr. Berkowitz thanked Ms. San Pedro and stated that it was a pleasure to be part of Miami-Dade County Public Schools. He said that he had twenty-five years of experience at Prudential Financial including four years as the Comptroller of the insurance operations, another four years as Chief Financial Officer in Investment Operations, and another four years as the Comptroller of the company. Mr. Berkowitz stated that he retired from Prudential in November 2000. Mr. Shapiro welcomed him on behalf of the Audit Committee.

3. Annual Financial Statements, Educational Impact Fee Fund for Fiscal Year Ended June 30, 2004

Mr. Pablo Llerena from Grau and Company, P.A. presented the Annual Financial Statements, Educational Impact Fee Fund for Fiscal Year Ended June 30, 2004. Mr. Llerena stated that the report

had been presented at the December 7, 2004 meeting, but committee members found some minor inconsistencies and directed the auditors to correct them and resubmit the report, which they did.

Mr. Robert Schomber referred to page 9 of the statements, and asked if there is any testing performed to verify the value of the contributions when they are not monetary. Mr. Llerena responded that there are files containing appraisals for properties donated. There was some discussion about budgets and expenditures of impact fees funds and Mr. Schomber requested that the Chief Financial Officer report, at the next Audit Committee meeting, how these funds are being spent. Mr. Schomber stated that the revenues increased dramatically from the prior year, while the administrative fees were reduced, which was a good trend. Mr. Berkowitz said that he would give an update at the next meeting. Ms. Tabares Hantman stated for the record, that on page 5 of the Audit Committee minutes of December 7th, it states that the Impact Fees report was tabled at the last meeting when Mr. Levine inquired about the \$15 million increase in the impact fees. A motion was made by Mr. Levine and seconded by Dr. Mack that carried it unanimously to table the item.

There was no further discussion; a motion was made by Dr. Hank Mack, seconded by Ms. Lidia Monzón-Aguirre that carried unanimously, to recommend that the Annual Financial Statements, Educational Impact Fee Fund for Fiscal Year Ended June 30, 2004, be received and filed by the School Board.

4. Auditor General of the State of Florida's Report No. 2005-074, Miami-Dade County District School Board Capital Construction Funding Activities during the Period of July 1, 2002, through June 30, 2003, and selected actions taken through May 2004.
 5. Auditor General of the State of Florida's Report No. 2005-72, Review of Charter School, Charter Technical Career Center, and District School Board Audit Reports Prepared by Independent Certified Public Accountants for the Fiscal Year Ended June 30, 2003
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Mr. Allen Vann presented these reports together and stated that they were submitted to the School Board at its January 19th meeting because of the dates in which they were received. He noted that the first report is on the Capital Construction Funding Activities, and pretty much mirrors the Internal Audit Report of Capital Outlay Budget that was presented to the Audit Committee last year and on which there was extensive discussion. Mr. Vann pointed out that there is nothing new in this report.

Mr. Vann stated that the second report from the Auditor General is basically a compilation of findings of charter school independent audits statewide for the 2002-03 school year. Mr. Vann noted that one of the criteria applicable to the Miami-Dade County District was the timely submission of annual financial statements. He pointed out that of the six charter schools that were late in submitting their reports; one belonged to Miami-Dade County, and we eventually received that report.

Mr. Schomber asked about the status of the request by the Audit Committee at its December 7th meeting regarding the inclusion in the School Board Legislative agenda, requiring CPAs reporting on charter schools, to notify the governing boards of deficit balances and implementation of a recovery plan. Mr. Jose Montes de Oca stated that the Office of Legislative Relations had prepared a board agenda item to be placed on the platform to take to the Legislature. Ms. Iraida Mendez-Cartaya stated that the board agenda item was submitted to the School Board at its January 19th meeting and was approved amending the Legislative Program to include the issues identified by the Auditor General in his report.

Dr. Mack referred to the response to item four, on page 25; which referred to the reported overcharges of \$133,770 as immaterial. Dr. Mack reiterated his long time position that any amount above \$.99 is material to the Audit Committee. Ms. Pou responded that the positions that were tested were randomly selected and as such should not be extrapolated to the entire population. Therefore, when compared to the total expenditures for capital programs, the amount is not material. Ms. Pou noted that this information had been verified with the Auditor General.

Mr. Trueba referred to pages 26 through 28, and asked what is the current objective as far as achievement and what will be the total acceptable level of delays and cost overruns. Ms. Diamond responded that for projects in progress it is difficult to implement new measures because the documents are bad; but going forward, a Chief Architect will be hired whose main responsibilities will be to review work and design-build what has been misused.

There was no action required, since these items were brought to the Audit Committee for information purposes.

6. External Audits of Community-Based Organizations

Mr. Norberto Ferradaz presented the external audits of community-based organizations and indicated that their audits were submitted on time and that there were some audit findings in two of the reports, which were briefly discussed. Dr. Mack abstained from voting on this item, because of his association with the Dade Marine Institute, Inc.

There was no further discussion; a motion was made by Ms. Betty Amos, seconded by Mr. Carlos Trueba that carried unanimously, to recommend that the External Audits of Community-Based Organizations, be received and filed by the School Board.

7. Office of Management and Compliance Audits' Activity Report

Mr. Vann presented the activity report for the Office of Management and Compliance Audits and noted the audits that are being presented today. He indicated that the Internal School Audits had thirty-six elementary schools, twelve secondary schools and twenty-one selected schools and centers that required a large amount of work. Mr. Vann referred to page 3 of the activity report, regarding the status of audits in progress and spoke briefly about how much work had been done and received. He mentioned that Mr. Jose Montes de Oca, Assistant Chief Auditor has completed another training session with new principals and assistant principals. Mr. Vann stated that four audits have been completed due to principal changes, as requested by the Audit Committee, and audits of thirty-three of the thirty-nine Improvement Zone Schools have also been done. Mr. Vann said that a Request-for-Proposal (RFP) is being prepared to outsource WLRN and other financial audits. There was a brief discussion on the selection of the external auditors and how they are evaluated by the District.

There was no action required, since this item was brought to the Audit Committee for information purposes.

8. Review of 2003 Annual Report on Security and Crime Statistics

Mr. Julio Miranda presented this review of the 2003 Annual Report on Security and Crime Statistics, stating that the data were accurate and that there were no findings. Mr. Miranda stated that this report was prepared by Miami-Dade County School Police Department and presented to the Florida Department of Law Enforcement. Mr. Miranda indicated that the objective was to verify that the data were accurate and comparative with other years.

There was no further discussion; a motion was made by Ms. Betty Amos, seconded by Ms. Lidia Monzón-Aguirre that carried unanimously, to recommend that the Review of 2003 Annual Report of Security and Crime Statistics, be received and filed by the School Board.

9. Internal Audit Report – Contractor Pre-Qualification Process, January 2005

Mr. Trevor Williams presented this audit report and introduced Mr. Michael Hernandez, Audit Coordinator II who performed the fieldwork. Mr. Williams stated that the audit was started prior to the change in the department's administration. He explained that the testing and analyses of contractor pre-qualification applications were those that went to the School Board between July 1, 2002 and December 31, 2003. Mr. Williams noted that the objectives of the audit were to determine whether adequate procedures and controls exist over the review and analysis of contractors' pre-qualification applications, the District's interests were protected and risks were limited by adequately screening qualified contractors, and whether there was compliance with applicable laws, regulations, and rules.

Mr. Williams commended the department for the recently enacted rule change, which has brought about many positive results. Mr. Williams noted that the findings indicate that the contractor pre-qualification process needs improvement in areas such as verifying the authenticity of contractor licenses, bonding company ratings, and pending and settled claims. Mr. Williams indicated that staff could perform more extensive reviews for renewal applications and improve the accumulation and dissemination of information relating to contractor's performance. He also noted the need to fill vacancies to adequately address the workload. Ms. Tabares Hantman referred to the recommendation on pages 6 and 7 of the report relating to the documentary evidence of all contractor-provided submittals, and evidence of review and verification and pointed out that the department needs improvement.

Mr. Barrera observed that most of the problems are due to lack of follow-up and as far as the Facilities department they have to do their job and document it. Mr. Berkowitz stated that the department is tightening on the documentation standards and agrees with the findings in the report. Mr. Berkowitz said that the department will be reviewing the Board Rules to see what can be done in conjunction with the Florida Statutes. Mr. Berkowitz also stated that in terms of communication, there were improvements made.

Ms. Perla Tabares Hantman asked Ms. San Pedro, what changes have been made or will be made. Ms. San Pedro replied that the audit period covered a time frame when there was a change in management and since that time there have been improvements in the process and modifications have been made to the Board Rules to help with the improvements. Ms. San Pedro explained that in order to take action against a contractor, there has to be proper documentation and a better attitude from management. Ms. San Pedro also noted that better controls will eliminate change orders over time.

Mr. Schomber expressed concern about the documentation of the committee's decisions and the lack of minutes of its meetings. Mr. Berkowitz replied that minutes would be both prepared and submitted for approval in the future. Ms. San Pedro added that there are things that need to change such as the frequencies of the reviews, and background checks to increase accountability. Ms. Tabares Hantman and Mr. Shapiro both expressed concerns about staffing levels. Mr. Berkowitz replied that they are working on filling the vacancies, and requests have been made to the Department of Human Resources for positions to be advertised within the District and outside. Mr. Shapiro encouraged management to fill these positions as quickly as possible.

Mr. Herb Cousins stated that he raised this issue in a letter to the prior Superintendent last year about contractors that were not performing and department procedures that were not being followed. Mr. Cousins indicated that in his letter there was a request for a legal opinion that should be included in the documentation forwarded to the School Board. Mr. Cousins noted that the audit report covered all the issues that needed attention. There was some discussion about the performance of contractors and how they are evaluated and Mr. Williams explained that there is an ongoing internal audit of contractors' evaluations that clarifies the process. Dr. Mack asked that this audit report should be transmitted with the Inspector General's memorandum and legal opinion. Mr. Vann asked if there was a written opinion from the School Board Attorney. Mr. Brown responded that there was a written opinion regarding disqualifying

contractors based on their performance and an analysis. Dr. Mack suggested that Mr. Vann meet with the Inspector General to make sure that his requirements are met. Mr. Vann stated that he would also provide the Audit Committee with the legal opinion when he presents the audit report on contractors' evaluation. Ms. Tabares Hantman concurred that the School Board Attorney's legal opinion and other documentation should be provided to the School Board. Mr. Vann indicated that this will also be sent to the Audit Committee meeting when the internal audit report of contractors' evaluations is presented.

There was no further discussion; a motion was made by Dr. Hank Mack, seconded by Mr. Agustin Barrera that carried unanimously, to recommend that the Internal Audit Report – Contractor Pre-Qualification Process, January 2005, be received and filed by the School Board.

10. Internal Audit Report – Audit of the Asbestos Abatement and Mold Remediation Program, January 2005

Mr. Trevor Williams explained that this audit was requested by the Inspector General and approved by the Audit Committee to look into the mold and mildew remediation program expenditure practices due to some concerns that had been raised. The audit was expanded to also include the asbestos abatement program covering activities during the fiscal years 1998 to 2004. Forty-eight projects were selected with a total contract value of approximately \$2 million. Mr. Williams mentioned that the system for monitoring, managing, and reporting asbestos abatement is well designed, but the execution was lacking. Mr. Williams noted that there were several weaknesses in internal controls and that the administration of contracts needed improvement. He cited specific examples of questionable costs, lack of documentation, and improper use of rates. Mr. Williams introduced Ms. Catrina Carswell, Staff Auditor II, who performed the field work. Mr. Cousins stated that he was concerned about the propriety of the expenditures of the program.

Mr. Barrera indicated that procedures appeared to be in place but were not followed. Mr. Shapiro concurred that procedures were not followed; he also noted that documents were missing and theoretically this situation could endanger the health, welfare of children in schools, and it needs to be corrected. Ms. Tabares Hantman asked what is being done about this serious issue that needs to be promptly addressed by staff. Ms. Diamond stated that the first step was to separate the inspections from the actual work, which has been implemented through a reorganization, which among other corrective measures designated Mr. Jaime Torrens, as the Inspections Officer, who will be in charge of these departments.

Ms. Diamond noted that the audit report stated that the mold remediation program was ad hoc, and in fact it was. She stated that part of the criticism, although not stated, is that the \$7 million budget was not spent and that money needs to go into the mold remediation program. Mr. Shapiro referred to page 16 of the report, where it notes the inadequacy of the contractors that are being used, and whether there is a staffing issue which precludes proper implementation of the procedures which were in place. Ms. Diamond responded that there is no staffing issue in the Asbestos side, but management needs to be reminded to enforce the procedures and the segregation of duties provides the checks and balances needed.

Dr. Mack referred to page 10 of the report and noted that the number of projects reviewed should be 17 instead of 18. There was a brief discussion on the lack of consistency and accuracy to fully substantiate the amount paid for asbestos abatement and the actual jobsite condition.

Mr. Schomber referred to page 17 of the report, and asked about liquidated damages and the staff response which states that sometimes they cannot assess them because of interference with the schedule from the school system. Mr. Williams responded that all forty-eight projects had been looked at but did not include those incidences as part of the findings. Mr. Cruz-Muñoz stated that the contractor

cannot start until the inspector gives the go ahead and air test must be passed before the room is returned to the school. Therefore, it is difficult to assess the liquidated damages when there is little control over the duration of the project. Mr. Williams stated that in six of the 48 projects that have been referenced it appears that liquidated damages could have been assessed.

There was no further discussion; a motion was made by Dr. Hank Mack, seconded by Ms. Betty Amos that carried unanimously, to recommend that the Internal Audit Report – Audit of the Asbestos Abatement and Mold Remediation Program, January 2005, be received and filed by the School Board.

11. Internal Audit Report – Audit of the Internal Funds of Region Center IV Elementary Schools, January 2005
Internal Audit Report – Audit of the Internal Funds of Region Center IV Secondary Schools, January 2005
Internal Audit Report – Audit of the Internal Funds of Selected Schools and Centers, January 2005

Ms. Willa Young introduced the Internal Audit Report for Region Center IV Elementary Schools and noted that the audits of the internal funds of thirty-six elementary schools were completed, with no audit exceptions. She also noted that the physical inventories in this report showed all but one school were reported as having “no unlocated” property.

Ms. Young also introduced the Internal Audit Report for Region Center IV Secondary Schools and noted that audits of 12 of the 16 secondary schools were completed and only two schools had exceptions. She also noted that the physical inventories showed no losses at any of the schools and only minimum losses in the Plant Security Reports. There was a brief discussion regarding Lindsey Hopkins Technical Education Center (discussed out of sequence) and Miami Jackson Senior High School and the administration expressed confidence that with the new reporting structure for the adult centers and the appointment of new principals, there will be no more exceptions at these centers.

Ms. Young introduced the Internal Audit Report for Selected Schools/Centers and noted that 17 of the 21 schools/centers were in compliance with prescribed policies and procedures, while four schools/centers had audit exceptions. She also noted that the physical inventories showed no losses at any of the schools and only minimum losses in the Plant Security Reports. Mr. Schomber requested that letters of commendation should be issued to all the schools without exceptions.

There was no further discussion; a motion was made by Ms. Betty Amos, seconded by Dr. Hank Mack that carried unanimously, to recommend that the Internal Audit Report – Audit of the Internal Funds of Region Center IV Elementary Schools, January 2005; Internal Audit Report – Audit of the Internal Funds of Region Center IV Secondary Schools, January 2005; and Internal Audit Report – Audit of the Internal Funds of Selected Schools and Centers, January 2005, be received and filed by the School Board.

12. Proposed Peer Review of the Office of Management and Compliance Audits

Mr. Vann explained that audit organizations performing audits and attestation engagements in accordance with GAGAS should have an external peer review of their auditing and attestation engagement practices at least one every three years by reviewers independent of the audit organization being reviewed. Mr. Vann indicated that the last peer review for the Office of Management and Compliance Audits was performed 3½ years ago. Mr. Vann said he had contacted the National Association of Local Government Auditors (NALGA), of which he is a member and they have a peer review program to help member organizations in their efforts to meet these standards and the only costs

will be travel, meal allowances, and hotel accommodations. Mr. Vann said that another alternative would be the Institute of Internal Auditors which would probably cost between \$25,000 to \$50,000.

Ms. Amos asked when would the results be presented to the Audit Committee. Mr. Vann responded that the peer review would be presented to the committee at its June meeting. Mr. Schomber stated that he trusted Mr. Vann's judgment. Mr. Shapiro asked what would be the duration of the peer review. Mr. Vann responded that it would be approximately five business days. Mr. Trueba asked who performed the last peer review. Mr. Vann replied that it was Grau and Company, P.A. There was a brief discussion about who should perform the peer review and the Audit Committee members agreed that it would be better to use the National Association of Local Government Auditors.

There was no further discussion; a motion was made by Mr. Carlos Trueba, seconded by Ms. Betty Amos that carried unanimously, to recommend that the Peer Review for the Office of Management and Compliance Audits be performed by the National Association of Local Government Auditors.

Meeting was adjourned at 2:57 p.m.

The agenda items were discussed in the following order: 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, and 12.

The intent of this section of the Minutes is to track those additional requests or changes made as a result of the Audit Committee meetings, so that there is an accounting and final disposition on all open items/issues.

| Request Made | Audit Committee Meeting Date Requested | Due Date (Future AC Meeting) | Responsibility |
|--|--|------------------------------|--|
| Periodic Update on Construction Accounting and Tracking System – Quarterly Reports | January 27, 2004 | Future AC Meeting | Facilities Planning and Construction/Information Technology Services |
| Modify Language in Future Audit Contracts with External Auditors | June 29, 2004 | Future AC Meeting | School Board Attorney/ Chief Auditor |
| Update of Maintenance Service Contracts | June 29, 2004 | Future AC Meeting | Facilities Planning and Construction |
| Update on the Review of Legal Fees to Outside Counsel | June 29, 2004 | Future AC Meeting | School Board Attorney/ Chief Auditor |