

**MINUTES OF THE SCHOOL BOARD AUDIT COMMITTEE
OF MIAMI-DADE COUNTY PUBLIC SCHOOLS
September 7, 2004**

The School Board Audit Committee met on Tuesday, September 7, 2004 at 12:30 p.m. in the School Board Administration Building, Room 916, at 1450 N.E. Second Avenue, Miami, Florida.

Members Present:

Voting:

Mr. Jeffrey B. Shapiro, Vice Chair
Mr. Agustin J. Barrera, Board Member
Ms. Betty Amos
Mr. Robert Henderson
Mr. Jack Levine
Ms. Lidia Monzón-Aguirre
Mr. Michael Moore
Mr. Robert Schomber
Mr. Carlos Trueba

Non-Voting:

Dr. Richard H. Hinds
Mr. Allen M. Vann

Members Absent:

Dr. Hank Mack, Chair

Call to Order

Mr. Jeffrey B. Shapiro, Vice-Chair called the meeting to order at 12:35 p.m.

Introductions

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

Dr. Michael M. Krop, School Board Chair	Ms. Ofelia San Pedro, Deputy Superintendent
Mr. Frank J. Cobo, School Board Member	Ms. Mercedes Tournal, Deputy Superintendent
Dr. Marta Pérez, School Board Member	Ms. Carolyn Spaht, Chief of Staff
Ms. Perla Tabares Hantman, School Board Member	Ms. Rose Diamond, Chief Facilities Officer
Dr. Rudolph F. Crew, Superintendent of Schools	Mr. Alberto Carvalho, Associate Superintendent
Mr. Johnny Brown, School Board Attorney	Ms. Willa S. Young, Associate Superintendent
Ms. Patricia Bass, Deputy School Board Attorney	Ms. Ana Rijo-Conde, Facilities Planning Officer
Ms. Ann Benjamin, Adm. Asst., Dr. Krop	Mr. Eduardo Alfaro, Treasurer
Ms. Susie Castillo, Adm. Asst., Mr. Bolaños	Ms. Connie Pou, Controller
Ms. Lubby Navarro, Adm. Asst., Ms. Tabares Hantman	Ms. Carol Renick, Assistant Superintendent
Ms. Julie Palm, Adm. Asst., Ms. Kaplan	Ms. Enid Weisman, Assistant Superintendent
Mr. Carlos Saladrigas, Adm. Asst., Mr. Barrera	Ms. Deborah Karcher, Executive Officer

Ms. Daisy Naya, Assistant Controller
Ms. Sylvia Rojas, Assistant Treasurer
Mr. Leo Fernandez, District Director
Ms. Blanca Valle, District Director
Dr. Ron Hunter, ACCESS Director
Dr. Carmen Marinelli, ACCESS Director
Ms. Isora Castro, Executive Director
Mr. Nick Diliello, Executive Director
Ms. Lucy Iturrey, Executive Director
Mr. John LaBonia, General Manager
Ms. Estrella Diaz, Instructional Supervisor
Ms. Lynne Kaplan, 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
Ms. Veretas Fernandes, Staff Auditor II
Ms. Cristina Perez-Ibañez, Recording Secretary
Ms. Elsie Berrios-Montijo, Administrative Secretary
Ms. Cynthia Borders-Byrd, Ernst & Young, LLP
Mr. Richie Tandoc, Sanson, Kline, Jacomino & Co.
Mr. Shaun Davis, Shaun Davis and Assoc., P.A.
Ms. Carmen Lopez, Sr. Accounting Clerk
Mr. Stan Corces, Office of Controller
Ms. Marie Bell, Oversight Advisory Board
Mr. Richard Bryant, Consultant – ITS
Ms. Susan Marie Kairalla, Citizen
Mr. Dan Ricker, Watchdog Report

Special Business

Mr. Jeffrey B. Shapiro stated that Dr. Hank Mack was ill and could not attend the Audit Committee meeting, and the Audit Committee wished him a speedy recovery. He also said that the Audit Committee meeting packages were delivered late because of Hurricane Frances.

Mr. Shapiro welcomed Mr. Agustin J. Barrera, School Board Member as the new representative of the School Board. He also welcomed board members, Dr. Michael Krop, Mr. Frank Cobo, Ms. Perla Tabares Hantman and Dr. Marta Pérez.

1. Approval of the Minutes of the Audit Committee Meeting of June 29, 2004

Mr. Shapiro asked if there were any changes to the minutes of the Audit Committee of June 29, 2004. Mr. Schomber referred to page two, and noted that it should include the discussion on the possibility of placing a penalty on the external auditors' contract for lateness and the request, at the time of the extension of negotiations, to allow the Chief Auditor to discuss with external auditors the possibility of imposing a penalty.

Ms. Perla Tabares Hantman stated that her assistant Ms. Lubby Navarro was shown as present when she was not in attendance.

Mr. Allen Vann said that Dr. Mack had pointed out to him that on the third paragraph of page five, it should read level of purchases, instead of lack of purchases.

There being no further discussion; a motion made by Mr. Carlos Trueba, and seconded by Mr. Robert Schomber carried unanimously, to approve the Minutes of the Audit Committee of June 29, 2004, as amended.

2. Introduction of new Audit Committee members

Mr. Shapiro welcomed Mr. Robert Henderson, Mr. Jack Levine and Mr. Michael Moore to the Audit Committee as new members, and expressed confidence that they will serve the community well.

3. Introduction and remarks from the Deputy Superintendent, Business, Operations, Finance, and Construction

Mr. Shapiro introduced Ms. Ofelia San Pedro, Deputy Superintendent of Business, Operations, Finance and Construction, and noted that she is a former Audit Committee member. Ms. San Pedro said that she was glad to be back with the Audit Committee even though it was in a different capacity, and praised the Committee's fine work. She noted that she started her career as an auditor and is a non-practicing Certified Public Accountant. She stated that there was a lot of work ahead and welcomed the challenge.

She introduced a key member of her staff, Ms. Rose Diamond, Chief Facilities Officer. Ms. Diamond has significant experience. She was a schoolteacher for fourteen years, and while teaching, she went to architectural school in the evenings and ended up running the New York Board of Education multi-million dollar Capital Program. Ms. Diamond also worked in private industry and with the New York City Construction Authority.

4. Annual Financial Report for 2003-2004

Ms. Ofelia San Pedro indicated that the Annual Financial Report would be presented to the School Board at its next meeting of September 8, 2004, as required by Florida Department of Education Board Rules.

Ms. Connie Pou, Controller, provided an overview of the financial statements. Ms. Pou, referring to the General Fund pointed out that the most notable change was the \$48.7 million increase in the undesignated fund balance (contingency), up from \$13.6 to \$62.4 million dollars. This was done in an effort by the School Board to improve its credit rating and reduce the cost of financing projects. Overall revenues increased by \$123 million. State funds increased by \$49 million due to an allocation for class size reduction, and were somewhat offset by a decrease in the funding for the Florida Education Finance Program. Local sources increased \$70 million, mainly because of an increase in the collection of property taxes. Expenditures increased by \$72.9 million. One of the most significant increases was in utilities. The other increase was in construction staff training. There was a decrease in business services because of cost containment and interest paid for our tax anticipation notes that decreased from \$128 million in the prior year to \$97 million in 2003-04. The area of General Administration reflects a significant increase of 26.44% or \$2 million, due to Charter Schools. For the Food Service fund, federal revenues increased by \$2.9 million, mostly because of the use of USDA donated commodities. General expenditures increased approximately \$6.8 million, mostly due to the insurance costs for AFSCME hourly employees. Capital Projects funds revenues increased by \$105.9 million as reflected in the State Public Education Capital Outlay (PECO) funds, and the State Land Advisory Board released approximately \$44 million during fiscal year 2003-04. Other increases were from the Effort Index Grants, Class Reduction and Miscellaneous State Revenues. In addition, local taxes for capital outlay and impact fees increased. In the area of Long-Term Liabilities Retirement Incentive Benefits decreased. Compensated Absences reflect a net decrease of \$14.4 million, which is attributed to the Deferred Retirement Option Plan (DROP). Ms. Pou concluded her presentation by noting that during fiscal year 2003-04, thirty-one charter schools were in operation, but only twenty-six are reported, as required by GASB 34, an accounting guideline.

Mr. Cobo asked if the increase in utilities resulted from increased oil prices. Ms. Pou responded that it was mostly due to increased electricity rates, based on the fuel adjustment. Mr. Cobo also asked how much is the State Land Advisory Board still holding from the school system. Approximately \$40 million, Ms. Pou responded. Mr. Shapiro asked when the funds will be released. Ms. San Pedro responded that she and the Superintendent are planning to meet with Mr. Easton, Chairman of the Land Advisory Board, to try to have the funds before December 31. She added that the Land Advisory Board has scheduled a meeting at the end of September. Ms. San Pedro introduced Dr. Richard Hinds, Interim Chief Financial Officer, and stated that she brought him back from retirement to help during the transition phase. Dr. Hinds served for twenty-two years in the same capacity before his retirement.

Mr. Barrera referring to page three, under the caption Central Administration; asked why there was an increase of 26%. Ms. Pou responded that the bulk of the increase includes administrative costs of the Charter Schools. Mr. Schomber asked why the School Board was required to pick up the increased cost to administer the Charter Schools. Ms. Pou replied that as part of the agreement with Charter Schools the District retains 5% for administration. Dr. Krop asked whether a \$2.3 million increase could be translated into personnel. If so, and it would be \$1,000 per person totaling thirty-five people involved in administering Charter Schools. Ms. Pou reiterated that it is 5% of administration costs and she would provide a breakdown at the next Audit Committee.

Mr. Schomber referring to page one, under the undesignated fund balance category, asked if the increase was because of purchase orders in progress not yet committed. Ms. Pou stated that the increase was due to a reduction of school purchase orders in process at the end of the year, which are re-budgeted the following year. Ms. San Pedro added that there is a significant amount of money that gets rolled over because of the purchase orders and that is why at the end of the year, there is so much outstanding. Ms. Pou stated that it has been a District policy to re-budget every unspent balance from the schools. Dr. Hinds stated that in Broward County by policy, commitments are not honored, but seen as a requisition not yet a purchase order. In Miami-Dade, the policy is to honor those commitments and carry them into the next fiscal year and by policy unexpended school funds are re-budgeted causing a rollover. The District can change the policy and convert these commitments into unappropriated fund balance and double the unreserved fund balance. Mr. Schomber asked for a discussion at the next Audit Committee meeting. Ms. Pou stated that a presentation will be made at the next Audit Committee.

Mr. Trueba stated that there have been issues related to findings of the internal audits and purchase orders that the Audit Committee requested follow-up on. These issues should be revisited. Mr. Vann referred to the last page of the minutes where there is a whole schedule of follow-up items with the dates when the follow-ups will be brought to the Audit Committee. Mr. Vann asked that if there is anything specific that the Audit Committee would like to discuss to let him know. Mr. Shapiro concurred and advised the Audit Committee members to look at the last page of the minutes and advise Mr. Vann of any additional follow-up. Mr. Shapiro asked Mr. Vann to meet with Ms. San Pedro and staff for the specific follow-up requested in this meeting for the next scheduled Audit Committee meeting.

There was no further discussion, a motion was made by Ms. Lidia Monzón-Aguirre, seconded by Mr. Robert Schomber that carried unanimously, to recommend that the Annual Financial Report for 2003-2004, be received and filed by the School Board.

Other Business

Mr. Shapiro recognized the arrival of Dr. Rudolph Crew, Superintendent of Schools, and welcomed him and his Chief of Staff, Ms. Carolyn Spaht to the community and the Audit Committee.

5. Office of Management and Compliance Audits' Activity Report and Annual Report of Activities Fiscal Year of 2003-2004

Mr. Allen Vann provided the Audit Committee with an activity/status report of on-going projects, performed by the Office of Management and Compliance Audits.

Mr. Shapiro stated that two important topics such as Construction Contractor Pre-qualification Process and Asbestos Management are scheduled to be presented at the Audit Committee in November*, and asked if they should be presented at separate meetings because they are complicated issues. Mr. Vann replied that the Inspector General's report on Asbestos Management might not be presented in November*. Mr. Vann stated that he would consult with the Inspector General and clarify the issue at the next Audit Committee meeting.

Mr. Schomber stated that he was concerned about the timing of the Management Letter and wanted to know at which Audit Committee meeting it will be presented. Because, in spite of paying \$31,000 extra last year to get the Management Letter out, it was still late. Ms. Cynthia Borders-Byrd replied that the external auditors have had several meetings with management and expected to sign off by October 18, 2004. She expects a draft of the financial statements, opinions and the Management Letter to be ready by October 31, 2004 in accordance to the terms of the contract. Mr. Schomber asked if that will give management time to respond, and whether the sign-off letter includes management's responses. Ms. Borders-Byrd stated that the Management Letter will be presented to the December Audit Committee meeting and the financial statements will be presented at the November* Audit Committee meeting pursuant to the contract. Ms. Pou pointed out that there would be no Audit Committee meeting in November*. Mr. Shapiro advised Mr. Vann to be aware of the timing and meet with Ms. Borders-Byrd to assure that the Management Letter is presented at a timely fashion.

Mr. Vann introduced and welcomed a new member of the Office of Management and Compliance Audits staff, Ms. Veretas Fernandes, Staff Auditor.

Mr. Vann presented the Annual Report on results of the audit activities for the fiscal year of 2003-2004. He pointed out that one of the requirements under the School Board Rule is that the Chief Auditor presents an annual report to the School Board Audit Committee, the School Board and the Superintendent on the results of audit activities. This report includes the internal audits performed by the Office of Management and Compliance Audits and the external audits by various outside audit organizations. The internal audits were categorized by performance audits, financial audits, property inventory audits, investigative audits, and information technology audits. Some of the highlights were the internal audits performed at 254 schools, which found that 224 schools were doing a great job. There were recommendations given to the other thirty schools.

The financial audits were WLRN Television and Radio stations and several other organizations such as The Miami-Dade Coalition for Community Education, Inc.; Magnet Educational Choice Association, Inc.; and Dade Schools Athletic Foundation, Inc. There will be a presentation from Mr. Richie C. Tandoc, Partner at Sanson, Kline, Jacomino & Company, LLP at this Audit Committee meeting regarding the outsourcing of these four financial audits.

In the area of property audits, 494 District work locations were visited, 92,000 pieces of property were counted and 99.88% found. Next year the workload will be less because the threshold was increased from \$750 to \$1,000; therefore, fewer items will be counted. The office also provided assistance to

* There are no Audit Committee meeting scheduled for November 2004; therefore, these items will be presented at the December 7, 2004 Audit Committee Meeting.

School Police, the Inspector General, and the Office of Professional Standards in their investigative effort. As mentioned in the Audit Plan presentation in June, the Office of Management and Compliance Audits expects to be doing less of this type of support work for the Inspector General. There were no audits issued during the 2003-04 fiscal year in the area of Information Technology Audits. The staff in that area mostly acted as a support to the audit staff, but we are hoping to do more audits in the Information Technology area during this current fiscal year, Mr. Vann concluded.

In response to a question from Mr. Schomber, Mr. Vann indicated that audits that were outsourced would still go through the Audit Committee. Referring to the Activity report, Mr. Barrera asked whether the audit project for Security and Crime Statistics relates to incidents in our schools or how security is performed. Mr. Vann responded that last year an annual report was given to the board on crime statistics at the school district, and this audit would focus on how the records are accumulated, the accuracy of the records, and whether a system was in place to maintain the accuracy and correct categorization of the reported crimes.

There being no further discussion, a motion was made by Ms. Betty Amos, seconded by Mr. Robert Schomber that carried unanimously, to recommend that the Annual Report on Audit Activities for Fiscal Year 2003-2004, be received and filed by the School Board.

6. Review of Office of Management and Compliance Audits' Policies and Procedures Manual

Mr. Vann presented the Office of Management and Compliance Audits' Policies and Procedures Manual to the Audit Committee for feedback and suggestions. Mr. Vann said that he had prepared this manual over the summer months, to replace an outdated manual. He noted that the manual focuses on the professional nature of internal auditing in a governmental/public school setting and welcomed the opportunity to get input from Audit Committee members.

Mr. Shapiro noted that it was an ethically driven type document, which sets the tone for the auditors and was worthwhile. Mr. Levine stated that he reviewed the manual and was concerned, based on his background as a Certified Public Accountant and chairing Audit Committees that the auditing department reports to management and the Superintendent rather than to the Audit Committee. He noted that if there is some evidence of impropriety, the Audit Committee must be aware of it without potential management interference.

Mr. Levine remarked that he had e-mailed Mr. Vann some information about the Whistleblower Act, and he asked whether the District has something in place. Mr. Vann stated that there is a state law that covers whistleblowers and the Inspector General has a hotline available. Mr. Levine stated that every employee should be able to call anonymously without fear of losing his or her job. Mr. Shapiro stated that the Inspector General came to the Audit Committee some time in the spring and announced that there was a hotline available with the mechanisms mentioned by Mr. Levine. Mr. Vann stated that he is not responsible for administering the whistleblower policy of the District.

Mr. Schomber asked Ms. Borders-Byrd to use the resources of Ernst & Young, LLP to review Best Practices throughout the country about the reporting function of internal auditors. Mr. Levine suggested that the external auditors should look into this issue. Mr. Schomber agreed, and said that as a former internal auditor for one of the largest companies in the State, it is his experience that the Chief Auditor report to the Board through the Audit Committee, and not to any operating officer in between. Mr. Schomber also said that he disagreed with the decision that was made a year ago regarding this issue and he would like to support Mr. Levine's suggestion to specifically ask the external auditors, as part of their review, to include under Best Practices the appropriate reporting line. In addition, the current

reporting relationship that Mr. Vann is being asked to assume does not comport with the School Board Rule and the School Board Members need to consider this issue.

Mr. Trueba asked how is the reporting line in violation of the rule. Mr. Shapiro asked that the request come from the whole Audit Committee not from an individual member, and that the final decision belongs to the School Board whether the School Board Rule is being complied with as it presently stands. Mr. Levine stated that it is the Audit Committee that has oversight for the School Board, because the School Board gave it that power. Mr. Shapiro reaffirmed the School Board will implement their rule.

Mr. Schomber noted that the School Board Rule specifically states that the Chief Auditor shall report to the Superintendent of Schools and his understanding is that he does not. Ms. Spaht responded that her understanding of the School Board Rule is that the Chief Auditor has direct access to the Superintendent of Schools and as of now he is reporting to a staff member, Chief of Staff with a dotted line to the Superintendent of Schools. Mr. Schomber restated that it is in violation of the School Board Rule. Mr. Brown said that the Chief Auditor should report to the Superintendent of School, as the School Board's designee. Mr. Vann stated the present method of reporting line is in fact in violation of the School Board Rule.

Mr. Shapiro stated that he agreed with Mr. Levine that the Audit Committee has a responsibility to the School Board and if there is a problem with the policy, as it is from the manual, then it is fair game for discussion. He said that first, there needs to be an understanding of the method of reporting and whether that is in violation of the existing School Board Rule. Mr. Shapiro asked Mr. Vann for the present method of reporting and the provisions of the Board Rule. Mr. Vann responded that he reports to the Chief of Staff, and the School Board Rule states "the Chief Auditor and the Office of Management and Compliance Audits shall report to the Superintendent of Schools, the School Board designee."

Mr. Shapiro asked Mr. Schomber whether, in his opinion, if the Chief Auditor reported directly to the Superintendent of Schools, instead of through his Chief of Staff, would this be satisfactory? Mr. Schomber responded that he does not agree with the School Board Rule and that is why he would like the external auditors to research on what the Best Practices are and what should be done. Mr. Shapiro stated that there are two distinct issues: one is Best Practices; the other is violation or non-violation of an existent School Board Rule. Mr. Shapiro also stated that he agrees that it is part of the Audit Committee role to see that the school system works appropriately and that the Audit Committee solicit as a committee, Best Practices from the appropriate parties. Mr. Shapiro asked if that is the wishes from the Audit Committee, and opened it up for further discussion.

Mr. Trueba stated that he joined the Audit Committee when this School Board Rule was at its final reading. For three months, there was debate until it was finally approved. Mr. Trueba said that because it was final, he felt that there was nothing else to do. Perhaps this rule should be left the way it is. Mr. Trueba stated he thought it should be tabled for the time.

Mr. Barrera asked if when the item was brought up the last time there was a study completed on what are Best Practices and was that presented as part of the School Board Rule or was it prepared without doing the homework as it should have been done. Mr. Shapiro said that if there were nine members sitting on the committee during these discussions, as the representatives of the School Board, there would be three times that many opinions to what was discussed.

Ms. Tabares Hantman stated that it is an issue of what is right or wrong. This has been her issue for years and finally it is what it is now, but Best Practices could show how things should be. Ms. Tabares Hantman stated that she does not believe that a Board member or even an Audit Committee member with different opinions could determine the Best Practices for this issue. Mr. Shapiro stated that the

sentiment is uniform and he entertained a motion to get appropriate outside sources to tell the Audit Committee what are the Best Practices in terms of the reporting function of the Chief Auditor.

Mr. Cobo reminded the Audit Committee that a former Audit Committee Member, Ms. Sharon Brown had eloquently expressed that the Chief Auditor should report to the Superintendent of Schools. Now, if the Audit Committee would like to change that it needs to go through the same procedure as before. Mr. Shapiro stated that he recalled a review of the function and reporting, which brought on an extensive debate. Mr. Shapiro reminded everyone that there was a motion in front of the Committee to request the proper outside source to determine to whom the Chief Auditor should report.

Dr. Crew stated that there is a line drawn directly to him, Mr. Vann will report to him according to the current organizational chart, and he agrees with Mr. Trueba. Dr. Crew said that he believes that Mr. Vann actually has a current reporting relationship to him and that is how he is regarded, so this discussion which already took place many months before should not be revisited. He reminded the Committee that there are more pressing matters, the Chief Auditor has a reporting relationship with the Superintendent and with his Chief of Staff in the event that he is not available, so there is someone whom he can actually report to in addition to himself, someone that is responsible for the day-to-day operation and preparation of these meetings. Dr. Crew said that he saw no reason for further debate in this issue.

Ms. Amos asked who the external auditors report to. Mr. Vann responded that the external auditors report to the Audit Committee and the Office of Management and Compliance Audits is responsible for the administration of the contract.

Mr. Shapiro asked if there is still a motion from the Audit Committee of Best Practices for the reporting line of the Chief Auditor and Audit Committee. Mr. Schomber asked if this could be part of the Management letter. Ms. Borders-Byrd replied that it would not be a problem.

Mr. Barrera stated that there was extensive discussion at the School Board in regards to who the Chief Auditor reports to, and who hires him. If the Chief Auditor is going to report to the School Board then maybe the School Board and not the Superintendent should hire him. If there is going to be a look into Best Practices then we should look into who contracts with the Chief Auditor, he said.

Mr. Shapiro suggested using the expertise of the external auditors and asked Ms. Borders-Byrd, if she understood the question asked by Mr. Barrera. Ms. Borders-Byrd replied that they would provide a survey of the reporting line of the Chief Auditor and Audit Committee, concerning large government and public companies including municipal, county and school boards in Florida.

Mr. Brown said that the issue is if the Chief Auditor shall report to School Board or designee. Mr. Schomber stated that there was a violation there because the School Board did not hire Mr. Vann. Mr. Vann responded that actually the School Board hired him because the agenda item went to the School Board meeting. Mr. Barrera stated that what the Superintendent does is bring to the School Board who he wants to hire and the School Board ratifies it, and unless there is a problem with the personal integrity of the person being hired, then the Board can not vote against the Superintendent's recommendation. Mr. Barrera stated that the Chief Auditor was hired by the School Board in the sense that the Board item was approved but there was no interview held with the School Board members. The person was brought in by the Superintendent.

Ms. Bass noted that the issue is that of the School Board wishes pursuant to policy and state law. The State Law is as Mr. Brown stated that it was, if you are going to have an Internal Auditor, it shall report to the School Board or its designee and if you chose by policy, he could be hired directly by the School Board.

Board, just as the Superintendent or School Board Attorney is hired. It is soundly within the discretion of the School Board to act and have a contract with the Chief Auditor. Ms. Bass noted that Ms. Tabares Hantman brought up this issue, quite some time ago, when there was a School Board Rule that stated that the Internal Auditor should report to the Deputy Superintendent of Management and Accountability and pointed out that it was in violation of the School Board Rule. Mr. Barrera stated that this is the first time he heard that the School Board could contract directly with the Internal Auditor, in the same manner as the School Board Attorney.

Mr. Shapiro stated that the motion is that the external auditors look into Best Practices in terms of the reporting line of the Chief Auditor and Audit Committee.

There was no further discussion; a motion was made by Mr. Robert Schomber, seconded by Mr. Jack Levine and unanimously approved for acceptance the Office of Management and Compliance Audits' Policy and Procedures Manual and the request that the external auditors look into Best Practices in terms of the reporting function of the Chief Auditor and include the results in their Management Letter.

7. Audit Plan for WLRN Television and Radio Stations, Miami-Dade Coalition for Community Education, Inc., Magnet Educational Choice Association, Inc., and Dade Schools Athletic Foundation, Inc.

Mr. Richie Tandoc, Partner of Sanson, Kline, Jacomino & Company, LLP, explained that his firm has been engaged to perform the audits for WLRN Television and Radio Stations and Direct Support Organizations which consist of the following: The Miami-Dade Coalition for Community Education, Inc.; Magnet Educational Choice Association, Inc.; and Dade Schools Athletic Foundation, Inc. for the fiscal year ended June 30, 2004.

Mr. Tandoc explained that the purpose of his audit plan is to document the responsibilities of the auditors, to the entities to be audited by communicating to the Audit Committee, management, and members of the engagement team, the details of the preliminary approach and scope of services to be provided. The primary objective is to express an opinion on the fair presentation of the financial statements, in accordance with accounting principles, and the standards contained in the Government Auditing Standards.

There was no further discussion, a motion was made by Ms. Betty Amos, seconded by Ms. Monzón-Aguirre, that carried unanimously, to recommend the engagement of Sanson, Kline, Jacomino & Company, LLP and the Audit Plan for WLRN Television and Radio Stations, Miami-Dade Coalition for Community Education, Inc., Magnet Educational Choice Association, Inc., and Dade Schools Athletic Foundation, Inc.

**8. Internal Audit Report of ACCESS Center 2 Schools Elementary Schools, August 2004
Internal Audit Report of ACCESS Center 2 Schools Secondary Schools, August 2004**

Ms. Willa S. Young introduced the Internal Audit Report of the Internal Funds ACCESS Center 2 Elementary Schools. She noted that the audits of the internal funds of twenty-seven of the twenty-eight elementary schools were completed. Twenty-five of the twenty-seven schools were in compliance with prescribed policies and procedures, while two schools had audit exceptions in the area of financial management and records. She noted that the audit of Biscayne Gardens Elementary School is not

included in this report, because of discrepancies noted in the area of Community School requiring additional information, which the school was not able to provide on time for the report.

Ms. Young also presented the Internal Audit Report of the Internal Funds ACCESS Center 2 Secondary Schools that had twelve secondary schools that were completed. In the secondary schools report, twelve schools were in compliance with prescribed policies and procedures. Four of the secondary schools had exceptions in the areas of internal funds and payroll. She also noted that property inventories for ACCESS Center 2 schools will be conducted later this year and will be published accordingly.

Dr. Krop referred to page 15, of the Elementary Schools report, and asked for the terms of the principals at Natural Bridge Elementary School. Ms. Young responded that the former principal left in March 2003 and the audit was completed in September 2004. Dr. Krop asked if there was a procedure when a principal changes schools that an audit be performed. Ms. Young responded that there is no rule but it is a good practice. Ms. Gonzalez replied that when there is a change in principal, an audit could be requested, and the Office of Management and Compliance Audits try to conduct the audit as soon as possible, especially if fraud is suspected. However, due to the lack of staff very few of these requests have been honored.

Mr. Schomber congratulated Ms. Young for having so many schools without exceptions and asked that congratulatory letters be sent to all principals with no exceptions.

There was no further discussions; a motion was made by Mr. Schomber, seconded by Ms. Monzón-Aguirre that carried unanimously, to recommend that the Internal Audit Report - Audit of the Internal Funds of ACCESS Center 2 Elementary Schools, August 2004 and Internal Audit Report – Audit of the Internal Funds of ACCESS Center 2 Secondary Schools, August 2004, be received and filed by the School Board.

9. External Audits of Henry E.S. Reeves Elementary School and three Community-Based Organizations: The Alternative Programs, Inc., Cuban American National Council, Inc., and James E. Scott Community Association, Inc.

Mr. Norberto Ferradaz presented the external audits of Henry E.S. Reeves Elementary School and three community-based organizations: The Alternative Programs, Inc., Cuban American National Council, Inc., and James E. Scott Community Association, Inc.

Mr. Ferradaz explained that the community-based organizations provide educational services to at-risk students, and have yearly contracts with the School Board. Henry E.S. Reeves Elementary is a public school administered by Edison Schools, Inc. under contract with the School Board. He noted two audit findings in the audit of Henry E.S. Reeves Elementary.

Dr. Crew asked that in regards to the audit exceptions, what has been the response from earlier audit exceptions. Mr. Ferradaz replied that independent certified public accountants are hired by these organizations to prepare these audits and we track the performance of those schools and highlight all audit exceptions. However, we must rely on their management to correct the exception.

Mr. Schomber asked if the school system has the authority to obligate them to correct their repeated exceptions. Mr. Ferradaz replied that there has been communication with them but the District has stopped sending the payments. In addition, Icare Baypoint Schools, Inc. has the audit in a draft form and a few findings to resolve. Dr. Crew stated that if these organizations cannot follow through with the small

things then what is left to say about the overall management of the school. There are many options where there have been repeated exceptions, such as withdrawing the contract and stating that they are not in compliance. Another option would be to give them an opportunity for one last best effort to substantially comply, and failure to do so will be considered breach of contract with penalty. Mr. Schomber agreed with Dr. Crew and stated that prior superintendents were not as aggressive and it should be done, since this is the taxpayer's money.

Mr. Barrera referring to page three of Edison Schools, Inc., noted that they are running on a deficit of a quarter million dollars, and asked whether they subsidize it with their own funds? Mr. Vann responded that they do and there is a note on page six that specifies that the school's deficiency of revenue over expenditures is funded by Edison Schools, Inc. Mr. Barrera stated that his concern is what would happen if in the middle of October, they decide to cut their losses and close up, how would we address the issue of the students and staff.

Mr. Cobo explained that Edison Schools, Inc. is paid on a monthly basis, if the school closes, payment is not issued, but what happens to the 977 students and where do they go, we would have to run this school. Dr. Hinds stated that the school belongs to the school system, and the teachers are on our payroll, the only problem would be changing the principal. He also indicated that there is no financial liability to the District. Dr. Hinds stated that the majority of the staff are Miami-Dade County Public Schools employees, the District pays the payroll tax, social security, everything. In addition, they are in a vendor relationship with the District and provide management program.

Dr. Crew stated that if the employees are on our payroll and everything else is an operational expense, then where is the \$5.2 million going. Ms. Toural responded that the \$5.2 million goes to reimburse salaries, utilities, upkeep of the schools, and instructional materials. In addition, this contract, through the Superintendent's office was reviewed by the Attorney's office for possibility of termination. Mr. Brown stated that the review has been completed with the appropriate steps to cancel the contract, but mediation is required with Edison Schools, Inc.

Mr. Shapiro inquired about the Icare Baypoint Schools Inc. audit report, which was due in March 2004. Mr. Ferradaz replied that there has been communication with them asking for the report and the District has stopped payments. Dr. Crew stated that these schools would not last, and that there is no gain in keeping them because ultimately the District will pay. Ms. Toural stated that Icare Baypoint Schools Inc. is a court adjudicated program and that the District provides the instructional programs at the schools. She also noted that the court mandates that the District provide an instructional program but in different settings. Mr. Cobo added that they have a proven record of accomplishment.

Mr. Cobo asked how much does Edison Schools, Inc. receive from the District. Dr. Hinds responded that page three of their audit shows gross revenue as \$5 million, but the District flows through one hundred percent of the revenue for those children. In addition, the net revenue payment is less because since staff is on our payroll, the District deducts those expenditures from the gross revenue and this statement does not show the amount of funds that actually flows from the District to them.

Dr. Krop referred to page five which reflects Edison Schools, Inc. invested \$1.5 million in technology and wondered if the District terminates whether the contract, they leave with that. Mr. Shapiro responded that it depends on the contract.

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 External Audits of Henry E.S. Reeves Elementary School and three Community-Based Organizations: The Alternative Programs, Inc., Cuban American National Council, Inc., and James E. Scott Community Association, Inc., be received and filed by the School Board.

10. Update- Capital Construction Long-Term Solution

Ms. San Pedro provided the update on the Capital Construction long-term solution. Ms. San Pedro stated that the Phase I Magellan system would be purchased, populated and implemented by September 15, 2004 and so will the new website for Facilities that will provide information on schools enrollment and number of classrooms. The management system, short-term solution, for keeping track of projects is on track for September 15, 2004. Major financial system items will be implemented by September 30, 2004. The Magellan deficiency information will collect all deficiency data from various parts of the organizations, modules will be written and it will be ready by the end of December 2004. Some data will be available as soon as module is available. Phase 4 will enhance reports from the management side. Information Technology tracking (Primavera) is on an eleven month timetable. The status report on Primavera will be given in the next Audit Committee meeting.

There was no action required, since this item was brought at the request of the Audit Committee.

11. Update – Capital Outlay Budget Implementation Schedule

Ms. Rose Diamond provided an update on the Capital Outlay Budget Implementation Schedule. Ms. Diamond stated that part of this update had to do with the planning of one-year, five-year, ten-year and twenty-year planning processes. This required written criteria to be developed for the five-year plan and they were developed the plan could not to go this month, because procedures need to be implemented that require a better process. This process involved ACCESS Centers input. more community involvement, higher level of projections, current enrollment and capacity information to develop the five-year plan. The five-year plan looked like a spreadsheet, not appropriate for a system of this size. Rather than delivering an incomplete plan to the School Board on September 8, 2004, we asked for time in the late fall in order to develop the proper type of plan that makes it transparent to see the priorities and thinking in choosing projects. The one-year plan is solid, but these plans should all be in one plan, driven from the same direction. Ms. Diamond indicated that Ms. San Pedro had covered all the information system items that were in this audit. There was some discussion on the number of abated positions to Capital that require reporting numbers of hours to identify whether they are Capital funded or not. There has been an ongoing review of purchase orders and to date \$2.5 million has been identified in the first two rounds, for purchase orders without activity for more than four-years, they are now working on purchase orders older than two-years to free up some money. Ms. Diamond stated that Ms. Rijo-Conde is working on the year-end summary of the impact fees.

Mr. Cobo stated that there was some damage during the bad weather, and asked if the school system is self-insured and are we receiving FEMA money. Dr. Crew replied that the School Board would be receiving a full-report on that.

Mr. Levine asked if Ms. Diamond had a report of indirect expenses towards this five-year, and ten-year plans. Ms. Diamond responded that she had a list going and it's approximately 90% Capital. Mr. Levine asked if the resources and energy of the administration, which are salaries and various resources, are going to be allocated to Capital construction. Ms. Diamond replied that where appropriate they will be, if Procurement, for example is working 25% on Capital then they can charge that time.

Dr. Krop asked if the money released from the Oversight Board had been allocated for specific projects in a timely manner. Ms. San Pedro responded that yes, there is even a list for the money that the Oversight Board is holding.

There was no action required, since this item was brought at the request of the Audit Committee.

12. Treasury Workstation Project

Ms. Silvia Rojas presented the Treasury Workstation Project. Ms. Rojas stated that this presentation demonstrates the challenges that can be overcome by utilizing the latest systems and techniques available to Treasury Management. By doing this, they are no longer having to concentrate on daily routine tasks, and allows time for high level analysis of revenues. She also pointed out that Sungard's ICMS System has integrated all of the Treasury functions. It seamlessly interfaces with mainframe systems and banks. In addition, the project reporting capabilities are providing accurate, timely, and flexible information to the department, Ms. Rojas concluded.

Ms. Rojas gave an explanation of the re-engineering of Treasury Operations and the many benefits of the Sungard ICMS System such as bank polling, cash management, investments opportunities, debt analyses, and in-house bank (IHB).

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

There being no further discussion, the meeting was adjourned at 3:04 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 Date Requested	Due Date (Future Audit Committee Meeting)	Responsibility
Update on Roofing Program	Standing Request	Future Audit Committee Meeting	Facilities Planning and Maintenance/Roofing Division
Update on Food and Nutrition Progress Report	September 24, 2003	Future Audit Committee Meeting	Department of Food and Nutrition
Periodic Update on Construction Accounting and Tracking System – Quarterly reports	January 27, 2004	December 2004	Facilities Planning and Construction/Information Technology Services
Modify Language in Future Audit Contracts with External Auditors	June 29, 2004	Future Audit Committee Meeting	School Board Attorney/Chief Auditor
Update of Audit of Maintenance Service Contracts	June 29, 2004	December 2004	Facilities Planning and Construction
Update on the Indoor Air Quality Issue.	June 29, 2004	Future Audit Committee Meeting	Facilities Planning and Construction
Update on the Review of Legal Fees to Outside Counsel	June 29, 2004	Future Audit Committee Meeting	School Board Attorney/Chief Auditor
Update of District Budget – Executive Summary	June 29, 2004	Future Audit Committee Meeting	Financial Affairs