MINUTES OF THE SCHOOL BOARD AUDIT COMMITTEE
OF MIAMI-DADE COUNTY PUBLIC SCHOOLS
November 13, 2008

The School Board Audit Committee met on Tuesday, November 13, 2008 at 9:00 a.m. in the School Board Administration Building, Room 916, at 1450 N.E. Second Avenue, Miami, Florida.

Members Present:

Voting:
Ms. Betty Amos, Chair
Mr. Robert Schomber, Vice Chair
Ms. Perla Tabares Hantman, Board Member
Mr. Manuel A. Gonzalez
Ms. Susan M. Kairalla
Mr. Willie Kemp
Mr. Nick Tootle
Mr. Vidal Marino Velis

Non-Voting:
Mr. Allen M. Vann

Members Absent:
Mr. Jeffrey B. Shapiro
Mr. Robert Stein

Call to Order

The Chair called the meeting to order at 9:07 a.m. and thanked everyone present, particularly the members, for attending this special meeting and stated that it was important to have this meeting.

Introductions

Ms. Amos asked everyone present to introduce themselves. The following persons were present:

Ms. Ana Rivas Logan, Board Member
Dr. Marta Perez, School Board Member
Dr. Larry Feldman, School Board Member Elect
Mr. Alberto M. Carvalho, Superintendent
Mr. Luis M. Garcia, Acting School Board Atty.
Dr. Grace Ali, Chief Financial Officer
Ms. Judith Marte, Chief Budget Officer
Mr. John Schuster, Chief Communications Officer
Mr. Joseph A. Gomez, Assistant Superintendent
Ms. Vera Hirsh, Assistant Superintendent, Human Resources
Ms. Maria T. Gonzalez, Asst. Chief Auditor - School Audits
Mr. Trevor Williams, Asst. Chief Auditor – District Audits
Mr. Jerold Blumstein, Administrative Asst. to Dr. Karp
Ms. Ana Lara, Administrative Asst. to Ms. Hantman
Ms. Vivian Lissabet, Administrative Assistant to Ms. Rivas Logan
Ms. Dalia Rosales, Admin. Asst. to Dr. Perez
Ms. Jackeline Fals, Admin. Asst. to Dr. Feldman
Ms.Deborah Karcher, Executive Officer, ITS
Mr. George A. Núñez, Regional Superintendent
Ms. Silvia Rojas, Treasurer
Ms. Enid Weisman, School Operations
Ms. Daisy Naya, Assistant Controller

Mr. Julio C. Miranda, District Director
Mr. Jorge Fernandez, Director
Mr. Luis Baluja, Audit Supervisor
Ms. Lourdes Amaya, Admin. Aide
Ms. Elsa Berrios-Montijo, Admin. Sec.
Ms. Sheryl Ragoo, Admin. Sec.
Mr. Steve Maldonado, ERP
Dr. Richard H. Hinds, Consultant
Mr. Michael Costello, KPMG, Director
Mr. Dennis Rodrigues, KPMG, Partner
Mr. Jayesh Patel, KPMG, Sr. Mgr.
Ms. Caroline Dellaway, Deloitte Consulting, LLP
Ms. Allison Eng-Perez, Deloitte Consulting, LLP
Mr. Mike Weeks, Deloitte Consulting, LLP
Ms. Annie Reisch, Staffing Providers
Mr. Senthil Kumar, Sierra Infosys
Mr. Tom Cerra, Consultant

1. Approval of the Minutes of the Audit Committee meeting of September 9, 2008

A motion was made by Mr. Gonzalez and seconded by Ms. Hantman to approve the minutes of the September 9, 2008 Audit Committee meeting. The motion was carried unanimously.

2. Introduction of new Audit Committee Member – Mr. Frederick F. Thornburg, Esq.

The Chair welcomed Mr. Thornburg. He made a brief introduction and noted that he was delighted to have been appointed to the Audit Committee and believes he can contribute to the Audit Committee.

EXTERNAL AUDIT:

3. Final Report – Oversight Services for ERP Implementation (BOSS)

Mr. Alberto M. Carvalho, Superintendent of Schools made the opening remarks for this item. He prefaced his remarks regarding BOSS by discussing the general state of affairs of the school system, which he believes is extremely relevant to this item, considering the potential liabilities that this project continues to expose the District to. He informed the Committee that following this meeting, a Budget workshop will be conducted to disclose in great detail the true liability this District faces. Mr. Carvalho expressed concern about the 2008-09 Budget that was approved by the Board and that it is still not balanced, and noted that the Budget will be balanced by the November 18, 2008 School Board meeting. He noted that the true liability position and true deficit, recognizing all of the known and unknown liabilities at this time is $158 million. He explained that he invited Mr. Vann, Chief Auditor and the Inspector General to review the process that led to that presumably balanced budget. In addition, they will monitor the budget processes, along with Business Advisory Counsel to the Superintendent and local CEO's. He stated that the books will be open to many eyes.

He expressed numerous concerns that resulted from the KPMG report. He recognized the challenges of the sponsorship and co-sponsorship of the project and noted that he changed the executive sponsorship of the project. The sponsorship now resides primarily with Ms. Deborah Karcher, the Executive Officer and two executive co-sponsors, Ms. Judith Marte, Chief Budget Officer and Ms. Vera Hirsh, Assistant Superintendent, Human Resources. He noted that this project will benefit from being shifted to ITS. Primarily, it will allow room to decrease staff rather than adding staff. Secondly, qualified staff will already be at ITS and responsibilities and duties will be shared.

In closing, Mr. Carvalho expressed his concern that the total cost of the project was never disclosed to the Board. He stressed that he would move towards reintroducing the Finance Module, which was previously deleted, with a view towards maintaining the current budget for the project. He agreed with KPMG that the implementer's contract favored the consultant and shifted the risks to the District. He committed to explore all legal and financial options to minimize the Board's exposure and to successfully implement the project.

Ms. Karcher gave a brief overview on the history and status of the project.

Mr. Dennis Rodrigues, Partner, KPMG summarized the report and highlighted the following key findings:

The project is at risk of cost and schedule overruns. As of the date of their report, KPMG estimates that the project is approximately four weeks behind schedule with the likelihood for further delays to occur in development.

The removal of the Finance Module has made the project more complex, increasing the risk of the system meeting its proposed "go live" target date. He noted that although it will be complicated to work with the two systems in parallel and that the District will not fully benefit from the system, it could work.

KPMG does not recommend that the BOSS Project be canceled. KPMG recommends three points: 1) That the BOSS PMO, working with ITS, develop a realistic schedule for the development of the legacy system interfaces; 2) That the BOSS PMO consider alternatives to the current development and deployment plans; and 3) Maintaining MSA to manage the District's financial operations should be considered a short-term solution and the implementation of the SAP Finance Module should be re-introduced back into scope.

Consequences of cancelling the project at this stage:

- Provides no working product and no return on the $34M Investment
- Inability to certify contractual requirements to the bank would prevent the District from "drawing down" on loan
- Over $28M pending reimbursement ($8,282,686 drawn to date)
- An asset is required to fulfill the requirements of the lease

Mr. Rodrigues pointed out that these systems have been adopted and used successfully by many other entities, including K-12 organizations and the implementation process has not been smooth sailing in any case. However, there have been cases where the systems have been up and running supporting the school operations for many years.

In closing, Mr. Rodrigues stated that the School Board is embarked with open eyes, but not enough information. He indicated that management needs to proceed forward carefully and get to the end with the best quality product for the least cost.

Mr. Tootle inquired on the following points:

1) How much time did KPMG spend on the assessment engagement?
2) Was the original purpose of the BOSS project to improve business efficiencies?
3) Was the issue on the Financial Module (black box) contemplated before the project?

Mr. Rodrigues responded that they spent 910 hours on the budget. Ms. Karcher followed by responding that the main focus of the project was to improve business efficiencies and explained that the Financial Module in the legacy system is a "black box" to us; it will not work as changes continue to occur on the operating system; and they were aware of it. However, the HR and Payroll Modules will not have this problem.

Mr. Tootle asked if the Finance Module is pulled out, will we loose the intent of the project.

Mr. Carvalho responded that by pulling out the Finance Module the original intent will be gutted.

Ms. Amos asked why the Finance Module was pulled out.

Mr. Maldonado explained the following reasons why the Finance Module was removed:

1) Not being able to hire and have on-board team staff as stated in the schedule, which led to delays
2) In March 2008, the project being two months behind, the blueprint of the finance portion was only 60% completed
3) The ability of business process owners to dedicate staff where there were competing priorities for the same resources
4) Forecasting that we will run over budget with the project

Mr. Maldonado explained that there were numerous discussions on the various options. He also explained that when specific decisions were made and specific values of the contract were being reduced, those decisions were made outside of his direct participation. Mr. Maldonado stated that at that time, he recommended to stop the project to get the right resources together to move it forward.

Dr. Perez explained that staff recommended and the Board approved removing the Finance Module, however, there was not enough information provided to the Board. She further explained that it was presented to them in a "stealth" way and pointed out that she had made a suggestion to hire someone like KPMG, and excuses were made on why it was not needed. She explained that finally when pressure was put on, KPMG was hired. She further explained that when the Finance Module gets incorporated back in to the project, it will be costly.

Mr. Carvalho explained that, in his opinion, the value of the contract was reduced, but not sufficiently comparable with the reduction of the scope of work and ultimate deliverables to the District.

Ms. Rivas Logan expressed concern and inquired on the following points:

1) What is the scope of the contract; was the contractual obligation met?
2) How much additional money will it cost to have an operational system?
3) What is the timeline to complete the project?

Ms. Karcher responded that considering a three-month delay, it will cost an additional $7 million in consulting fees plus contracted costs.

Mr. Carvalho stated that assuming nothing changes, and recognizing there was an understatement of the liability and the return on investment up front, and the contract not posing any risk on the side of the service provider but on our side, he believes there is sufficient ground to renegotiate. He explained that, before he goes to the Board to request additional funding, he will seek advice from counsel regarding our rights under the contract. He noted that he agrees with Ms. Logan and Dr. Perez's points and also with comments made by Ms. Hantman at numerous Board meetings. He reiterated that he will exhaust every possible option that is available to rectify some of these deficiencies.

Mr. Schomber noted that he agrees with comments regarding schedule and cost. He expressed concern on the following points:

1) What is the Return on Investment (ROI) on the original project?
2) What has the project become as a result of losing the Finance Module?
3) What will it become by adding the Finance Module back?

Ms. Karcher responded that they will be recalculating the return on investment based on the cost that she felt should have been there to begin with. She noted that they will be exploring, in more detail, what SP-1 and other scenarios will do to the ROI. She believes the return on investment would be less than originally stated because the cost has increased.

Ms. Amos invited Deloitte representatives to comment on these discussions.

Mr. Weeks stated that numerous questions have been raised and noted that Deloitte is committed to the success of the project. He further noted that they are welcoming and anxious to meet with Mr. Carvalho to commence discussions to move forward. Mr. Weeks stated that Deloitte will continue to meet their contractual obligations as they have in the past. He offered to meet with board members individually. He concluded by stating that they heartily embrace KPMG's recommendation to have more transparency and look forward to that.

Ms. Amos spoke about the following steps that will be taken to move forward. She mentioned a workshop will be held to continue discussions, make decisions, and re-negotiate.

After a lengthy question-and-answer session, the Committee moved to accept the report and expressed their appreciation to KPMG for a thorough job. The Committee agreed with the Superintendent's proposal to continue KPMG's oversight of the project, especially with regard to ensuring that cost and delivery schedules are maintained.

Mr. Carvalho recognized Dr. Richard Hinds and noted that upon approval of the Board he will return as the Associate Superintendent for Business and Finance Operations.

4. New Business

The Chair announced that the term of service has expired for Audit Committee member, Mr. Velis and thanked him for his time and effort over the years.

Mr. Velis thanked Ms. Rivas Logan for appointing him to the Committee and placing her confidence to give him the opportunity to serve.

Adjournment

Ms. Amos adjourned the meeting at 10:39 a.m.