

**MINUTES OF THE SCHOOL BOARD AUDIT COMMITTEE  
OF MIAMI-DADE COUNTY PUBLIC SCHOOLS  
September 14, 2010**

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The School Board Audit Committee (AC) met on Tuesday, September 14, 2010 at 12:30 p.m. in the School Board Administration Building, Conference Room 916, at 1450 N.E. Second Avenue, Miami, Florida.

**NOTE:** It should be noted for the record that unfortunately it was discovered after the September 14, 2010 Audit Committee meeting that the apparatus utilized to record the discussion at the meeting failed to function properly due to a hi-tech glitch. Accordingly, the contents of this communiqué are necessarily based upon staff's notes taken at the meeting and the recollection of the A/C Chair, Chief Auditor, and OMCA's staff.

**Members Present:**

Voting:

Mr. Frederick F. Thornburg, Esq., Chair  
Ms. Perla Tabares Hantman, School Board Vice Chair  
Ms. Susan Marie Kairalla  
Mr. Willie Kemp  
Mr. Peter A. Lagonowicz, Esq.  
Mr. Rayfield McGhee, Esq.

**Members Absent:**

Mr. Manuel A. Gonzalez, CPA, Vice Chair  
Ms. Wendy Lobos  
Mr. Jeffrey B. Shapiro, Esq.

Non-Voting:

Dr. Richard H. Hinds, Associate Supt./CFO  
Mr. Jose F. Montes de Oca, CPA, Chief Auditor

**Call to Order**

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The AC Chair called the meeting to order at 12:47 p.m. and warmly welcomed everyone in attendance. He apologized for the slight delay in starting the meeting and explained the delay resulted from the conference room being occupied by a previous district meeting which was unexpectedly overextended by a few minutes.

Thereafter and as a housekeeping item, Mr. Thornburg made reference to the meeting handouts "*Guide to Board Members*" by Barnes & Thornburg LLP, the successor law firm he was associated with for a number of years and "*The PCAOB's Proposed Standard on Communications between the Auditor and the Audit Committee*". The Chair briefly described the handouts and reviewed their relevancy and contents. He suggested AC members may want to read the handouts as they provide an excellent and general guidance on the fiduciary and legal duties of a director serving on a profit or not-for-profit board or a committee like the AC. Lastly, the Chair explained that he stumbled onto the Guide purely by accident at a

PTA/PTSA Miami-Dade PTA Board leadership conference and discovered that his old firm apparently now serves as general council to the National PTA/PTSA organization.

The Chair also presented the resignation letters submitted by Mr. Nick Tootle and Mr. Robert Schomber. Mr. Thornburg recognized the outstanding service provided by both members and made special note of the fact that Mr. Schomber had devoted his myriad of talents to M-DCPS and the AC for over 33 years. During his extraordinary AC tenure Mr. Schomber had served multiple times as the AC Chair and Vice Chair. Consequently, Mr. Thornburg suggested that Mr. Schomber be formally recognized at the AC's December meeting and that the School Board may also want to consider formally taking public recognition for Mr. Schomber's unprecedented tenure and service. He further proposed that Mr. Schomber be made an "Emeritus" member of the AC, such a post service stature would enable the School Board to continue benefiting from his knowledge, experience and expertise by keeping the emeritus member copied on AC communications and inviting the emeritus member to attend AC meetings on a non-voting basis. The Chair noted that emeritus status has precedence in the School District and has been instituted by the Ethics Advisory Committee for former Committee members who have served with distinction for a long period of time. WLRN also has emeritus status for the Community Advisory Board (CAB) members who have served two three-year-terms on the CAB. The AC members enthusiastically endorsed the proposals.

Predicated on a motion made by Mr. McGhee and seconded by Ms. Hantman, the resignations were formally and unanimously accepted.

## **1. Introductions**

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Mr. Thornburg asked everyone to introduce themselves. The following persons were present:

|                                                         |                                                      |
|---------------------------------------------------------|------------------------------------------------------|
| Dr. Lawrence Feldman, School Board Member               | Ms. Marta Montaner, Administrative Director          |
| Mr. Alberto M. Carvalho, Superintendent of Schools      | Mr. Julio C. Miranda, District Director, OM&CA       |
| Mr. Walter J. Harvey, Esq., School Board Attorney       | Mr. Eugene Baker, Executive Director                 |
| Mr. Luis M. Garcia, Deputy Asst. SB Attorney            | Mr. Michael Levine, Executive Director               |
| Mr. Freddie Woodson, Deputy Superintendent              | Mr. Eric Ojeda, Executive Director                   |
| Ms. Millie Fornell, Associate Superintendent            | Ms. Tiffanie Pauline, Executive Director             |
| Mr. Joseph A. Gomez, Assistant Superintendent           | Mr. Jorge Fernandez, Director                        |
| Ms. Connie Pou, Controller                              | Ms. Patricia Freeman, Director                       |
| Ms. Daisy Naya, Assistant Controller                    | Ms. Tamara Wain, Director, OM&CA                     |
| Mr. Jaime G. Torrens, Chief Facilities Officer          | Ms. Terri Chester, Investigator                      |
| Mr. John Schuster, Chief Communications Officer         | Ms. Ana Sanchez, Investigator                        |
| Ms. Deborah Karcher, Chief Information Officer          | Mr. Luis Baluja, Audit Supervisor, OM&CA             |
| Ms. Maria T. Gonzalez, Asst. Chief, School Audits       | Ms. Teresita Rodriguez, Audit Supervisor, OM&CA      |
| Mr. Trevor L. Williams, Asst. Chief, Operational Audits | Ms. Germa Plaza, Sr. Audit Coord., OM&CA             |
| Ms. Silvia Rojas, Treasurer                             | Mr. Michael Hernandez, Sr. Audit Coord., OM&CA       |
| Ms. Ana Rijo-Conde, Eco-Sustainability Officer          | Mr. Darrlyn Choate, Coordinator                      |
| Ms. Mindy McNichols, Asst. School Board Attorney        | Mr. Jerold Blumstein, Administrative Assistant       |
| Mr. John LaBonia, General Manager, WLRN                 | Ms. Ana Lara, Administrative Assistant               |
| Mr. John Doyle, Administrative Director                 | Ms. Marisol E. Perez-Picon, Administrative Assistant |
| Ms. Janice Cruse-Sanchez, Administrative Director       | Ms. Dalia Rosales, Administrative Assistant          |

## Attendance Continued

Ms. Bertha Valcarcel, Administrative Assistant  
Mr. Carl Haun, Sr. Property Auditor  
Ms. Lourdes Amaya, Administrative Assistant  
Ms. Elsa Berrios-Montijo, Administrative Secretary  
Ms. Sheryl Ragoo, Administrative Secretary  
Mr. Jay Patel, Sr. Manager, KPMG  
Dr. David Berley, Legal Advisor, WLRN  
Mr. Artie Leichner, VP, UTD  
Ms. Cynthia Borders-Byrd, CPA LLC  
Mr. Dan Ricker, Watchdog Report

## **2. Approval of the Minutes of the Audit Committee meeting of June 29, 2010**

Mr. Thornburg introduced the minutes for the AC meeting of June and asked whether any members had questions regarding the content of the minutes. There being no questions, a motion was duly made by Mr. McGhee and seconded by Ms. Hantman to approve the minutes of the June 29, 2010 Committee meeting as presented. The motion carried unanimously. Chair Thornburg commended Chief Auditor Jose Montes de Oca and his staff on a superb job on the AC minutes.

## **OTHER REPORTS/PRESENTATIONS:**

### **3. Report from Audit Committee Ad Hoc Sub-Committee on Minority/Women Business Enterprises Participation**

The AC received a status report from the Chair of the Ad Hoc Sub-Committee, Mr. Rayfield McGhee, assigned to address certain issues and questions raised by AC members with respect to the *Minority/Women Business Enterprises Participation (M/WBEP)*. The Ad Hoc Committee Chair informed the AC members that the Ad Hoc Committee met on August 10, 2010 and explained the Ad Hoc Committee focused its attention on the issue of how to increase participation in the program without encroaching into the area of affirmative action.

According to information presented to the Ad Hoc Committee, impediments to increase participation have resulted in no small measure from the minority firms' inadequate capital footing and comparatively weak balance sheets. The Ad Hoc Committee Chair also reported that the Committee inquired for comparison purposes information regarding minority and female group participation in other large school districts.

At the conclusion of a lengthy discussion, the Ad Hoc Committee unanimously approved a motion to request that *Minority/Women Business Enterprises (M/WBE)* administration and the legal department review the contents of existing rules with the objective of revising and updating them. It was pointed out by Ms. Susan Kairalla during the discussion that the current rules governing M/WBEP, which were promulgated in May 21, 1986 and last amended nearly

twelve years ago on May 13, 1998, may be outdated when measured both from practical and legal viewpoints. As a result of this review, the Ad Hoc Committee may recommend that the controlling M/WBE rule and guidelines be revised and updated.

The Ad Hoc Committee also agreed to meet again to receive a report from the M/WBE administration on the requested comparison with other large school districts.

The Chair of the AC and the Chief Auditor expressed the AC's appreciation to Mr. McGhee and the other Ad Hoc Committee members for their very insightful analysis. The AC unanimously accepted the tendered report.

#### **4. KPMG – Miami-Dade County Public Schools-SAP Configurable Financial Controls Assessment**

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The firm KPMG LLP presented its report assessing M-DCPS controls configuration and portfolio on SAP, the newly established ERP system. The representative for KPMG, Mr. Jay Patel, explained that the importance of establishing whether these controls are functioning as intended resides in the fact that if they are, fraud is more likely to be detected. The purpose of the review was to compare actual production to best practices in the industry. The report concluded that out of 177 indicators tested, only nine merited recommendations for improvement. AC members posed several questions to the presenter and expressed satisfaction with the responses. In this regard, the Chair inquired of Mr. Patel on behalf of himself and other AC members who are not steeped in high-tech programs, whether there are any material concerns that the AC should focus on in respect to this report. Mr. Patel represented that there were no serious problems or issues which would merit the AC's concerns.

Mr. Kemp asked the administration about the status of the rest of the SAP implementation. Ms. Karcher responded that the financial module was implemented at the end of January 2010; and the Human Resource module was implemented in August 2010. SAP payroll is scheduled to be implemented in January 2011. Ms. Karcher observed that the date for switching over to the new system, however, will depend on how comfortable the administration feels with the operation of the new system.

This report was provided for informational purposes only, and accordingly, no transmittal to the School Board by the AC was required.

#### **5. KPMG – Miami-Dade County Public Schools-Payroll Parallel Testing Strategy Assessment**

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Another report presented by KPMG was a point-in-time assessment of M-DCPS parallel payroll testing strategy which compared the strategy to leading practices. The review did not reflect any significant findings. The AC members were very pleased with the results of this review. AC member Susan Kairalla commended ITS and Ms. Karcher for a job well done during the implementation of the SAP system.

The AC was reminded that both reports from KPMG were requested by the district administration with the overriding objective of having an independent assessment of how well the implementation of the ERP system is progressing technically and in terms of reaching the objectives and goals underpinning the School Board's decision to adopt the ERP system. In keeping with past practice, the reports were not formally transmitted to the School Board for its receipt and filing.

## **6. Annual (un-audited) Financial Report for 2009-10**

The Annual Financial Report (AFR) for the fiscal year ended June 30, 2010 was presented by CFO Dr. Richard Hinds and Controller Ms. Connie Pou. One particular highlight of the report was the dramatic increase in the General Fund balance. This increase during the past fiscal year amounted to \$50.5 million which represents a 62.2% improvement over the prior year. It was also noted that this was the first time the financial report was prepared under the SAP system.

There were several questions and comments proffered by members of the AC. Most notably three, which included: (i) the adequacy of the re-insurance coverage available in regard to the recently instituted health self-insurance program, in the event that the actual claims vastly exceeded the projected claims; (ii) whether any short-term liabilities were converted into long-term liabilities in view of the substantial increase in long-term liability and the significant reduction in short-term liabilities; and (iii) the decrease in Capital Outlay expenditures. Dr. Hinds, CFO responded to these inquiries by reassuring the AC that the re-insurance coverage is in place and adequate and claims trends are being closely monitored. He also explained that no short-term liability was converted to long-term debt and noted that the decrease in Capital Outlay expenditures was a direct result of the lack of available funds for capital improvements.

The Superintendent warned the Committee and others in attendance about the impending sunseting of the stimulus funds which will affect three major grant funds: Title I, IDEA, and the State stabilization fund, which replaced some of the FEFP funding.

The School Board had received and approved this report at its September 7, 2010 meeting, prior to this AC meeting, because the AFR has to be submitted to the State of Florida by September 11th each year. Consequently, presentation of this report was for informational purposes only, and formal transmittal to the School Board by the AC was not necessary.

### **INTERNAL AUDITS:**

## **7. Office of Management and Compliance Audits Activity Report**

Mr. Montes de Oca noted that the information contained in this report is summarized in the Annual Report; therefore, in order to save some time he would only address questions.

This report was for informational purposes only; therefore, no transmittal to the School Board by the AC was required.

## **8. OMCA's 2010 Annual Report and 2010-2011 Annual Audit Plan and Tentative Budget**

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The Office of Management and Compliance Audit's (OMCA) finalized Annual Report and Audit Plan for the 2010-2011 fiscal year were presented to the AC. Chief Auditor Montes de Oca noted that the report was printed in black and white and did not contain any glossy pictures or enhancements in order to save in reproduction costs. He apprised the AC that the Audit Plan was slightly adjusted from its original proposal which was presented to the AC in June. The comparatively minor revisions were based on feedback received by OMCA from the district administration.

Along with an Audit Plan, a Summary of Activities conducted by OMCA during fiscal year 2009-2010 was also reviewed by the AC. The AC members expressly indicated how very impressed they were with not only the quantity of work produced by the OMCA during the past year, but equally important with the outstanding quality of the reports published. Chair Thornburg asked the Chief Auditor to research whether the activities of the OMCA could be benchmarked against other major school districts throughout the country and gave accolades to all staff members for their hard work, long hours and dedication and to Mr. Montes de Oca for his leadership since his appointment as Chief Auditor in April, 2009.

There was no further discussion and upon a motion duly made by Ms. Kairalla, seconded by Mr. Lagonowicz, that carried unanimously, it was recommended and approved that the OMCA's 2010 Annual Report and 2010-2011 Annual Audit Plan and Tentative Budget be received and filed by the School Board.

## **9. Internal Audit Report – Selected Schools**

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An Internal Audit Report of Selected Schools containing the audit results of 37 schools was presented by Ms. Maria T. Gonzalez, Assistant Chief Auditor, School Audits who noted there were no audit exceptions or unlocated property at any of the schools. School Board member Dr. Feldman complimented the principals, especially those whose schools underwent a two-year audit, noting that something is being done right at those schools and should be recognized. Deputy Superintendent Mr. Woodson added that well-over 90% of the schools do things right and agreed that they should be recognized. The Committee members were extremely pleased to learn that there were no materially adverse findings or unlocated property at any of these schools and recommended that the school principals be formally recognized for their outstanding efforts.

The AC Chair also complimented Mr. Freddie Woodson and his team on the obviously outstanding job they have done in the selecting and appropriate placement of principals, vice principals and senior administrative staff in the schools as reflected by the superior and very favorable school audit reports.

There was no further discussion and upon a motion duly made by Ms. Hantman, seconded by Mr. McGhee, that carried unanimously, it was recommended and approved that the Internal Audit Report – Selected Schools be received and filed by the School Board.

## **10. Audit of Miami Parking Authority/M-DCPS Leasing Revenues**

Another internal audit report was presented to the AC by Mr. Trevor Williams, Assistant Chief Auditor, District Audits, who noted that the audit was conducted as the direct result of a request by the administration. The audit was designed to ascertain whether the District had received the appropriate amount of leasing revenue from the Miami Parking Authority (MPA), pursuant to an agreement dated September 25, 2006, between MPA and the School Board. The agreement was for MPA to operate parking facilities owned by the School Board during events at the Adrienne Arsht Center. According to Mr. Williams' report, the receipts recorded and submitted by MPA to the School Board were complete, and the District received the corresponding appropriate amounts of revenue. However, this assertion could only be made for an eight-month period towards the end of the agreement, since original parking ticket stubs were not available prior to this period.

In regard to this matter, a number of insightful and cogent questions were posed by School Board member Dr. Feldman. He inquired as to how the operation was conducted, the unavailability of ticket stubs, and how the District might benefit more by conducting this parking operation. Mr. Williams fielded Dr. Feldman's questions, noting that ticket stubs were only one of the many documents audited to arrive at the opinion and recommendations.

Superintendent Alberto Carvalho announced that his staff was conducting a feasibility study to decide whether to renew the agreement with MPA or to operate the parking facilities utilizing M-DCPS personnel.

There was no further discussion and upon a motion duly made by Ms. Hantman, seconded by Mr. Lagonowicz, which carried unanimously, it was recommended and approved that the Internal Audit Report – Audit of Miami Parking Authority/M-DCPS Leasing Revenues be received and filed by the School Board.

### **FOLLOW-UPS:**

## **11. WLRN/Friends – Update**

The AC requested School Board Attorney Mr. Harvey to provide the AC with an update on the long lasting WLRN/Friends issues. Mr. Harvey introduced the item by recalling that at its June 29, 2010 meeting the AC established a target date of August 26, 2010 for finalizing an operating agreement between WLRN and Friends as directed by the AC in January and

implementing the four-point written agreement previously adopted by both parties. The agreed upon four points are: 1) the need for a written operating agreement between the parties; 2) revision of the Friends' Bylaws and restoring the Superintendent's rights as provided for in Friends' 1995 Bylaws without School Board input; 3) no selection/appointment of the Friends' President/CEO without the required Superintendent's input; and 4) sufficiently timed notice when material policy changes are being considered to enable the Superintendent and the School Board to weigh in on the issues and changes.

Although the AC noted disappointment in the fact representatives of Friends could not attend the AC meeting, they verified via School Board Attorney that the Bylaws were amended and restated by Friends' Board of Directors, in concert with the 1995 Bylaws. They re-vest the Superintendent with the rights established by the 1995 Bylaws including the authority to nominate the President of Friends, its Chief Executive Officer, and the requirement that the Superintendent be notified of and endorse any future Bylaw changes.

The AC members expressed disappointment in that not all four points had been implemented but concurred with the administration that substantial progress has been made and went on record to urge WLRN and Friends to implement the remaining points of their agreement and finalize the recommended operating agreement. With the Superintendent's full endorsement and concurrence, the Committee established a deadline of a week before Thanksgiving to finalize the operating agreement.

School Board Vice-Chair Ms. Hantman presented a digest of additional Bylaw revisions entitled "*Suggested Language Changes and Additions to the Draft of Amended and Restated By-Laws of Friends of WLRN, Inc. Effective as of April 22, 2010*". The AC enthusiastically endorsed Ms. Hantman's proposed changes and additions and asked Mr. Harvey to transmit them to Friends. The Chair and the AC noted that it would be prudent to incorporate Ms. Hantman's changes into the Friends' Bylaws. It was opined by the AC that some of the changes may already appear in the Friends' Articles of Incorporation and others may be required by Florida's corporate laws and/or the Internal Revenue Code and its applicable Regulations.

Superintendent Carvalho said he shares a sense of frustration akin to the disappointment voiced by AC members, but indicated he also concurred with the AC that substantial progress has been made.

The AC complimented Mr. Harvey for his work and efforts in what has been difficult negotiations to achieve the necessary major changes and effect a better operating relationship amongst the parties.

## **12. Audit of the Division of Social Sciences – Additional Professional Services to be Provided by the Florida Grand Opera**

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Mr. John Doyle provided a follow-up to the Internal Audit Report - Division of Social Sciences requested by the AC, at its June 29, 2010 meeting. Mr. Doyle presented a letter from the Director of Development from the Florida Grand Opera committing to provide in-kind services



totaling \$30,000 that had not been delivered according to a contract with the School Board. The letter contained a breakdown of the services that will be provided and an apology for the shortfall in meeting the contractual obligations. Responding to a question by the Chair, members of the administration responded that they were satisfied with the services that will be provided. Mr. Kemp observed that going forward the administration must be more vigilant to ascertain that contracted services are delivered in accordance with the specifications in the contract.

This report was for informational purposes only, and hence, no transmittal to the School Board by the AC was required.

### **13. Audit of Fringe Benefits Administration – Process for Extension of Contracts without Request for Approval (RFP)**

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This item was tabled until the December AC meeting since Mr. Clark was not available to make the presentation.

### **14. Rise Academy Charter School – Update**

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Ms. Tiffanie Pauline, Administrative Director, made an oral presentation update on the closure of the Rise Academy Charter School. The contract with this school was terminated by the School Board at its June 16, 2010 meeting.

This report was for informational purposes only and therefore no transmittal to the School Board by the AC was required.

## **OTHER BUSINESS:**

### **15. Resumption of Audit Engagement with External Auditing Firm for Fiscal Year 2010-2011 M-DCPS' Financial and Federal Audit**

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As the School Board's designee to select and recommend the hiring of the independent external auditing firm to conduct the District's required annual audit, the AC considered a proposal by Ernst & Young, LLP to have the School Board exercise its option, as provided for in the existing contract, to renew the engagement for two additional years, or for one year with an option to extend to a second year for a total of two years.

After learning that the designated external auditing partner that would have been in charge of the engagement had limited experience in the governmental audit arena, the administration expressed serious concerns. After a lengthy discussion, the AC members unanimously agreed to reject the proposal and directed the Chief Auditor to prepare and publish a Request for Proposal to obtain independent external auditing services in accordance with governing School Board rules.

Since this report was for informational purposes only, no transmittal to the School Board by the AC was required.

#### **16. Truth In Government/Lobbying Reform Proposed Amendments To School Board Rules: Final Reading of 6Gx13- 8C-1.212, Cone of Silence and 6Gx13- 8C-1.21, Lobbyists**

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Superintendent Carvalho provided the AC with an update on the approval by the School Board on September 7, 2010 on amendments to two of its rules. The purpose of these amendments was to more clearly define the roles of lobbyists and District employees and the communications among persons involved in competitive solicitations.

The Superintendent noted the time expansion of the cone of silence and explained the reasons driving his recommendation. He also made reference to the penalties for violations and emphasized the unanimous approval by School Board members. The Superintendent also presented the reforms on the Lobbyist rule, which broadens the definition of “lobbyists”, imposes higher fees and requires disclosure of any gifts, meals and contacts between lobbyists and School Board Members. The AC congratulated Mr. Carvalho for his endeavors to bring more ethics to the business of M-DCPS and increase the transparency and accountability of the processes.

This report was for informational purposes only and consequently no transmittal to the School Board by the AC was required.

#### **17. Update on the Status of the Changes to the Proposed Draft – Audit and Budget Advisory Committee School Board Rule 6Gx13- 2C-1.142**

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The final update of the proposed rule referred to two minor changes to the Proposed Draft – Audit and Budget Advisory Committee School Board Rule 6Gx13- 2C-1.142, which the AC Chair, the Superintendent and the Chief Auditor had previously discussed and agreed upon. After a short discussion with AC members, the AC unanimously recommended that the Proposed Rule be transmitted to the School Board for its approval.

This report was for informational purposes only; accordingly no transmittal to the School Board by the AC was required.

#### **18. Election of Chair and Vice Chair**

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Pursuant to parliamentary procedures, Mr. Montes de Oca opened the floor for nominations of the Chair. School Board Vice Chair Ms. Hantman nominated Mr. Thornburg to serve as AC Chair. Mr. Montes de Oca asked if there were any other nominations. There being none, Mr. Montes de Oca asked for those voting in favor of the nomination to signify by saying “aye”. The voting was *unanimous* in favor of Mr. Thornburg serving another year as AC Chair.

Mr. Montes de Oca then opened the floor for nominations of the Vice-Chair. Mr. Lagonowicz nominated Mr. McGhee. Mr. Montes de Oca asked if there were any other nominations. There being none, Mr. Montes de Oca asked for those voting in favor of the nomination to signify so by saying "aye". The voting was unanimous in favor of Mr. McGhee serving for the next year as AC Vice Chair.

## **Adjournment**

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Upon motion duly made and seconded, and there being no further business to come before the Committee, Mr. Thornburg adjourned the meeting at 3:26 p.m. and thanked everyone for their attendance, interest and participation.

The agenda items were discussed in the following order:  
1,2,3,4,5,6,7,8,9,10,11,12,13(tabled),16,17,15,14,18