

**MINUTES OF THE SPECIAL AUDIT COMMITTEE**  
**ORAL PRESENTATIONS/SELECTION OF EXTERNAL AUDITING FIRM**  
**January 13, 2011**

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The Audit Committee (AC) met on Thursday, January 13, 2011 at 12:30 p.m. in the School Board Administration Building, Conference Room 916, at 1450 N.E. Second Avenue, Miami, Florida.

**Voting AC Members Present:**

Mr. Frederick F. Thornburg, Esq., Chair  
Dr. Lawrence Feldman, School Board Vice Chair  
Ms. Susan Marie Kairalla  
Mr. Willie Kemp  
Mr. Isaac Salver  
Mr. Roland Sanchez-Medina, Esq.  
Mr. Jeffrey Shapiro, Esq.

**Voting AC Members Absent:**

Mr. Peter Lagonowicz  
Mr. Mayowa Odusanya, Esq.

**Non-Voting AC Members:**

Mr. Jose F. Montes de Oca, Chief Auditor

Dr. Richard H. Hinds, CFO was unable to attend the special AC meeting and in his stead, Ms. Connie Pou, Controller, participated in the meeting.

**Call to Order**

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The Chair called the meeting to order at 12:35 p.m. and welcomed everyone in attendance.

**Introductions**

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After a moment of reflection, Mr. Thornburg asked everyone to introduce themselves. The following persons were present:

Ms. Perla Tabares Hantman, School Board Chair	Mr. Luis Baluja, Supervisor
Mr. Alberto M. Carvalho, Superintendent of Schools	Ms. Ana Lara, Administrative Assistant
Ms. Connie Pou, Controller	Ms. Ana Pereira, Administrative Assistant
Ms. Daisy Naya, Asst. Controller	Ms. Marisol E. Perez-Picon, Administrative Assistant
Ms. Maria T. Gonzalez, Asst. Chief, School Audits	Ms. Lourdes Amaya, Administrative Aide
Mr. Julio C. Miranda, Asst. Chief, Investigative	Ms. Elsie Berrios-Montijo, Administrative Secretary
Mr. Trevor Williams, Asst. Chief, Operational Audits	Ms. Sheryl Ragoo, Administrative Secretary
Ms. Silvia Rojas, Treasurer	Ms. Barbara Jones, Consultant
Mr. Barry Meltz, District Director	
Mr. Eugene P. Baker, Executive Director	
Mr. Jon Goodman, Director	

**Attendance Continued:**

**Cherry, Bekaert & Holland, LLP**

Mr. John Gilberto, Partner  
Mr. Scott Davis, Senior Manager  
Mr. Ron Conrad, Technical Resource  
Ms. Kathy Newman, Director  
Ms. Karen Alvarez, Audit Senior

**KPMG, LLP**

Ms. Karen Mitchell, Partner  
Mr. Jay Patel, Senior Manager  
Mr. Stanley Beckley, Audit Manager  
Mr. Perry Joslin, Director

**SKJ & Co., LLP**

Mr. Richie Tandoc, Partner

**McGladrey & Pullen, LLP**

Mr. Joe Evans, Partner  
Mr. Bob Feldmann, Partner  
Ms. Jennifer Murtha, Director  
Ms. Kathy Beck, Partner  
Mr. Carlos M. Trueba, JV Partner  
Mr. Brett Friedman, Director  
Mr. Dave Pierce, Manager  
Mr. Anthony Brunson, Partner  
Mr. Donovan Maginley, Engagement Partner

**Moore Stephens Lovelace, P.A.**

Mr. Dan O'keefe, Shareholder  
Ms. Julie Baird, Shareholder  
Mr. Carl Hofmann, Manager  
Mr. Chris Ghosio, IT Specialist  
Mr. Manuel Garcia, GLSC, Partner  
Mr. Pablo Llerena, GLSC, Partner  
Mr. Wilbert Santos, GLSC, Manager

## **1. Discussion on Procedures for Selection of the Firms**

At the opening of the meeting, Chair Thornburg warmly welcomed everyone in attendance and explained that four proposers were deemed to be qualified candidates to the Request for Proposal (RFP) for external auditing services. The procedures for selecting a firm were also reviewed and everyone was reminded of the cone of silence requirement imposed on these deliberations and the selection process. Furthermore, the attendees were informed that reference checks on all bidding firms as conducted by the Procurement Department were satisfactory and that all firms had met the requirement of the lobbyist registration. Therefore, all four bidders were eligible to present and pursue appointment as the new external auditor. Information regarding the results of the reference checks was distributed to the Committee members at the meeting.

Chair Thornburg complimented Ms. Jones for the very professional and outstanding work she had done in overseeing the RFP process and providing superb guidance to the AC on its duties and responsibilities with respect to the selection process. He also extended kudos to the bidders on their very professional and thorough responses to the RFP. Lastly, he also proffered gratitude on behalf of the AC to the Chief Auditor, Ms. Maria T. Gonzalez, Assistant Chief Auditor and the entire Office of Management and Compliance Audits team for the terrific job they had done in connection with the selection process.

## **2. Focus and Role of the Committee**

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To set a baseline, Chair Thornburg noted that the amount paid to Ernst & Young during the last year of their engagement would have been approximately \$450,000. As may be recalled, the school district is relying on the State audit for the fiscal year ended June 30, 2010. He also pointed out that although District funds were scarce, statutorily, money could not be the sole, controlling factor in the selection process.

Nonetheless, pricing would be a strong consideration in the selection process and the Committee should strive to select the best qualified firm at the lowest price. In effect, Chair Thornburg stated that the selection process would be predicated on the traditional touchtone of "lowest and best". The Committee was reminded to obtain from the presenters their fees so these could be considered in the selection process. All proposers were asked to remain in the building until the conclusion of the deliberations.

Dr. Feldman inquired about the role of the AC in regards to the negotiations of the fee and Chief Auditor Montes de Oca responded that pursuant to the governing School Board Rule, the AC is charged with negotiating the fee to be paid and recommending to the School Board the selection of the firm and the School Board is responsible for approving or disapproving the recommendation. In the final analysis, Chair Thornburg focused on the fact that the final determination of the selection of the new independent auditor rests with the School Board.

## **3. Oral Presentations by Accounting Firms as follows:**

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**Note: All firms were informed by Chair Thornburg at the onset that each oral presentation's duration was approximately 15 minutes to be followed by a question and answer session not to exceed 30 minutes in duration. Also, the Committee posed similar questions to each presenting firm.**

**During the course of each presentation, Mr. Thornburg offered each proposer the opportunity to submit a "best and final" compensation package before the end of the day.**

**1:07 – 1:19 pm      Cherry, Bekaert & Holland, LLP**

Mr. John Gilberto commenced his firm's oral presentation followed by other members of the presenting team.

Following the oral presentation, Chair Thornburg opened the floor for the question and answer session. The following are representative of questions posed to the bidders:

What support will the firm offer for the ERP and SAP System? The firm has partners and staff that work in the area of IT and two key people with years of experience with enterprise systems dedicated to this audit.

What percent of 125 staffers certified accountants in Florida? Well over 50% are certified as it is their number one goal for their staff to become CPAs.

How much time they project for the audit and who will be the team? The firm's spokesperson indicated that 2,400 hours total for the Single Audit and the financial statement audit. The audit team members consisted of all the presenters involved in the presentation.

What is their experience with school boards that use SAP? According to the firm, they have audited more than three school boards that use SAP.

Other questions: 1) What is the firm's protocol for discussing proposed findings with the client; 2) how does the firm ascertain and measure whether the audit team is meeting their audit reporting deadline to the client; 3) how would the firm resolve differences of opinion with the administration as to the findings; 4) have you had any situation where you had to recuse yourself from an engagement or were terminated by a client; and 5) how do you intend to use the work of the Internal Audit department, if at all, in your audit process?

According to the firm, weekly communications is how they plan to discuss proposed findings and attend meetings as needed; meet with staff and discuss documents needed and timelines for expecting such documents.

If disagreements between the client and the audit team ensue, documentation needs to be provided to discern the facts.

They had no recollection of having to recuse themselves or being terminated from an engagement.

The use of the internal audit reports will assist with planning and developing the audit procedures.

Chair Thornburg inquired about their employment breakdown report (EEO Report) which shows very low diversity in the membership of the Tampa office. The firm agreed it was low and indicated the EEO Report was not reflective of the firm's true diversity. It offered to provide the data from the South Florida office, and the AC accepted the offer for the record. Further, Mr. Thornburg asked if they had been engaged utilizing innovative compensation plans such as a cost plus award fee arrangement. He imposed the caveat that any such fee arrangement could not encroach on the firm's independence.

The firm was familiar and not opposed to the idea so long as its independence was not thrown into question. Pursuant to Mr. Thornburg's inquiries, the firm noted no opposition to providing monthly reports and responded that they have substantial experience in health insurance, in auditing entities with self insurance and they have a specialist who exclusively sets up captive insurance programs.

The proposed fee structure was \$315,000 and the Single Audit fee was \$64,000 for a total of \$379,000 per year; however, the proposer indicated that there was latitude for negotiations.

There was discussion regarding the fees decreasing by 10 to 15% at the end of the contract, and the matter that the School Board's Single Audit is typically performed by the Auditor General every third year. Dr. Feldman asked how important M-DCPS was to the firm. The

firm's staff indicated that securing M-DCPS would be extremely important since M-DCPS is one of the largest school systems in the nation.

**1:51 – 2:40 pm      KPMG, LLP**

KPMG Partner Karen Mitchell started the oral presentation followed by other members of the team.

Noting that the firm had been M-DCPS' auditor in the past, representatives were asked whether there has been any difference of opinion between the firm and the District. According to the spokesperson, they were not aware of any documented differences. As to whether the firm has any non-negotiable items, they explained that there are some items in the contract that would require for legal counsel to be involved in the final contract. As far as the stability of the audit team during the term of contract, the firm explained that it would be stable, aside from normal attrition. They also said that M-DCPS is one of the largest school districts in the country and important to them. As to the request for their opinion on the financial affairs that this district has gone through, they proffered that the public sector continues to struggle to find ways to cut costs and still provide programs for the schools and increase attendance.

The firm's representatives answered that to their recollection no audits of municipalities had been terminated in that last five years. They also answered that there was no conflict of interest in auditing M-DCPS and Miami-Dade County for the same fiscal year.

The ERP question was answered by Mr. Patel from KPMG who indicated that they are in a better position than other firms since they worked as an advisory team and are intimately familiar with the processes at M-DCPS.

Regarding the composition of the audit team, Ms. Mitchell answered that it would be comprised of five staff members out in the field not including the manager. The minority firm will be composed of two staff and they will be working on the Single Audit. The relationship between KPMG and the minority firm is that staff from the minority firm will be assisting the senior and manager with the fieldwork; however, everyone follows KPMG policies regardless of who does the work and KPMG takes full responsibility for that audit work.

Regarding attendance at meetings, Ms. Mitchell said that KPMG will meet with management as needed. Both Ms. Pou and Chair Thornburg voiced their concerns regarding whether a conflict of interest existed since KPMG recently conducted ERP consulting services for M-DCPS. Mr. Patel from KPMG responded that at the time of the assessments, the firm addressed this matter in anticipation of the bid process and planned the assessments to mitigate any independence issues and allow M-DCPS to be both an advisory and audit client. According to him, their current engagement with M-DCPS is merely an assessment and management decides whether or not to implement the consultant's recommendations.

Regarding the question of innovative compensation arrangements, the fee was negotiable and they have latitude on what has been submitted. The firm indicated that they have had direct experience with health self-insurance while auditing the School District of Palm Beach County and they use their own actuary in the audit process.

Regarding the questions as to the firm's protocol for discussing proposed findings with the client and how to use the work of the Internal Audit department, Ms. Mitchell answered that when a deficiency is found, it will be validated with the department where it was found and then at the weekly status meetings with management they will discuss any deficiencies found. Their fees did not anticipate utilizing the work of the Internal Audit department; however, she offered that their fees could be reviewed if the Internal Audit department could allocate some hours on areas that KPMG deems important. The Committee discussed this proposal; however, deemed it not feasible since the Internal Audit department's staff time has been planned for the audit year and resources are scarce. Regarding the submittal of periodic reports, KPMG was agreeable to submitting monthly status reports.

**2:50 – 3:30 pm McGladrey & Pullen, LLP**

Mr. Robert Feldmann started the oral presentation followed by Mr. Donovan Maginley and the other members of the team. They answered that they were open to negotiate the terms of compensation. Dr. Feldman asked if they could offer an opinion on the financial status of M-DCPS over the last three years; and Mr. Maginley stated that he was not in a position to render formal opinions about the financial status of M-DCPS; however, noted that M-DCPS had some material findings in the prior years and this would determine how they would plan the audit.

The Committee wanted to know what would distinguish this firm from all the others. Mr. Feldmann immediately answered: client service, qualifications, and experience. On this question, several of the presenters described various experiences with past clients, how they viewed their role as auditors to assist management, the fact that the team is composed of a group of professionals that have lived in Miami for over 20 years and who are very much aware of the challenges that M-DCPS is currently facing. According to them, this is an essential part of what sets them apart from the rest.

Regarding the firm's protocol for discussing findings, one of the presenters explained that a finding is discussed with the department involved immediately when discovered and then with senior management. To prevent surprises and keep everyone abreast of audit developments, once a finding is well established, properly documented and supported with pertinent facts, it will be promptly discussed to obtain responses and corrective action from management.

With respect to utilizing the work of Office of Management and Compliance Audits, one of the presenters explained that the work of the Internal Audit department will be used as a tool to plan their audit. There was a question regarding the reason for choosing the minority firms headed by Mr. Trueba and Mr. Brunson. According to Mr. Maginley, he has known them for over 20 years, has worked closely with Mr. Brunson in other audit engagements; and the firm is interested in promoting small business partners.

Anent the ERP question, they were positive about the system and the paperless processes and stated their experience with ERP systems. They were agreeable to the idea of innovative approaches to compensation and to submit monthly reports to management.

**3:40 – 4:00 pm Moore Stephens Lovelace, P.A.**

Mr. Dan O'Keefe made the initial oral presentation for the external auditing firm of Moore Stephens Lovelace, P.A. (MSL) followed by other members of his bidding team.

Dr. Feldman inquired as to how he would characterize the District's financial operations over the past three years, and Mr. O'Keefe responded that M-DCPS is in the same footing as every other district in the state; challenged economically and relying on ARRA funds. He observed that the good news is that the state is constitutionally obligated to fund public education. Dr. Feldman also inquired as to which staff would be on the engagement. The firm committed to consistency in staffing of the audit team over the term of the contract.

Mr. Sanchez-Medina asked whether there were any differences in the audits of the Broward School system compared to M-DCPS. The firm's partner indicated that there are some differences between them, one of them being the political climate. He said it would be the auditor's job to focus on the finances, controls and compliance, as opposed to which District is best managed or the politics.

In response to questions from the Chief Auditor the firm's representatives conveyed that 1) their protocol for discussing potential findings is to address potential issues early with management as opposed to surprising the auditee at the last minute; 2) assess the work of the Internal Auditor and if up to standards, rely on it as much as possible. The partner suggested that he is expecting to be able to rely on a good portion of the Internal Auditor's work and that allows the fees to be lower, and 3) in terms of how they resolve a difference of opinion between the firm and management, in the event of a compliance issue, it is incumbent on the firm to prove the finding to management. Internal control findings are more subjective, so they look for mitigating or compensating controls if they find potential control deficiencies.

Regarding the ERP question, the firm's staff indicated they look at both applications and the systems they run on. Regarding the IT staff for the audit engagement, M-DCPS' internal audit staff inquired about the firm's partnership with Maxis and to explain the arrangement and their involvement in the audit process. According to the presenter, this is a firm that is also involved in other IT ventures such as installations. The firm serves as a partner on the IT portion of the audit by providing the staff that will conduct that portion of the audit.

Chair Thornburg, Committee member Mr. Kemp, and Controller Ms. Pou each questioned and expressed concern whether the MSL firm would be overtaxed in performing the audits of both Broward Schools and M-DCPS. Mr. O'Keefe indicated that it would not be a problem at all because of how they would time the audit work.

Treasurer Ms. Rojas asked if the firm has ever run into delays in clients providing necessary information; and they answered that it has happened, especially during natural disasters such as hurricanes; however, they assured the Committee that they have always been able to work through these challenges with the client and issue the audits timely. Mr. Thornburg inquired as to the firm's experience with auditing self-insured clients and as to whether the firm had its own actuary on staff, the presenter indicated that they have had experience auditing self insured clients but they do not have their own actuary on staff. If they feel they need input from an actuary, they would retain a competent consultant and that cost would be covered in the contracted audit fee.

Concerning price negotiations and after much clarification regarding innovative compensation arrangements and discounts, Mr. O'Keefe said his firm was willing to have dialogue about reaching an agreement on an innovative fee arrangement.

## **Deliberation**

Mr. Salver expressed disagreement with the notion of a performance pay audit fee structure such as cost plus award fee. Mr. Shapiro suggested that it would not be the best way to start a long-term relationship with the external auditor. Chair Thornburg was familiar with and exposed to this concept during his experience in the private sector with a public company which did substantial government contracting work but acknowledged he had presented the cost plus award fee concept late in the process, had not devised an award fee formula for external auditing and hence the District may not be ready for it. The Chair noted such a fee arrangement has been successfully used by the federal government in some of its contracts and is a vehicle for not only saving money for the government, but equally important, for enhancing better communications and more timely performance by the entity contracting with the government. He suggested that in the future the school district may wish to consider introducing an innovative contract approach for the foregoing reasons and become a leader in introducing novel money-saving and performance-enhancing concepts into the educational system.

To save money and improve contractor performance, AC member Willie Kemp enthusiastically supported the idea of using an innovative approach to compensation.

After additional discussion, Dr. Feldman also noted he saw significant advantages to the cost plus award fee idea and eventually moved that the Superintendent and Chief Auditor be asked to look into the feasibility of a performance pay audit fee structure to be considered in years four and five of a contract extension. That motion passed unanimously.

There was discussion about the economics of hiring a firm and McGladrey had proffered the lowest fee. Mr. Montes de Oca asked the Committee to indulge the opinion of the Controller since she would be most involved with the external audit. Ms. Pou stated that all the presenters were very good; however, she was of the opinion that McGladrey was the best and most qualified firm, and further stated that it was her opinion, even prior to obtaining their fee.

After considerable deliberation, the Committee unanimously voted to recommend McGladrey to the School Board as the firm to be engaged and to negotiate a contract with M-DCPS for the external independent auditing services. At the request of Ms. Barbara Jones from Procurement, the Committee ranked the second firm as Moore Stephens Lovelace, P.A. and the third firm as Cherry, Bekaert & Holland, LLP.

Prior to adjournment, Chair Thornburg requested Ms. Jones to send "thank you" letters to each of the bidders expressing the school district's gratitude for their superior bids and for having taken the time to submit proposals and to be interviewed. The Chair also extended his special gratitude to the AC members for their time, superlative effort and professional cooperation in reaching a recommendation to submit to the School Board for its consideration. He noted that the new proposed contract fee arrangement, if

adopted by the School Board, should result in very substantial savings to the school district when measured against the fees that would have been paid for fiscal year ended 2010.

### **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 5:15 p.m. and thanked everyone for their attendance, interest and participation.