

**MINUTES OF THE SCHOOL BOARD AUDIT COMMITTEE  
OF MIAMI-DADE COUNTY PUBLIC SCHOOLS  
February 1, 2011**

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The School Board Audit Committee (AC) met on Tuesday, February 1, 2011 at 12:30 p.m. in the School Board Administration Building, Conference Room 916, at 1450 N.E. Second Avenue, Miami, Florida.

**Members Present:**

Voting:

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

**Members Absent:**

Mr. Peter A. Lagonowicz, Esq.  
Ms. Wendy Lobos  
Mr. Mayowa Odusanya, Esq.  
Mr. Jeffrey B. Shapiro, Esq.

Non-Voting:

**Ms. Connie Pou on behalf of** 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 12:45 p.m. and warmly welcomed everyone in attendance.

**1. Introductions**

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

Ms. Perla Tabares Hantman, School Board Chair	Mr. John Schuster, Chief Communications Officer
Dr. Dorothy Bendross-Mindingall, School Board Member	Ms. Daisy Naya, Assistant Controller
Ms. Raquel Regalado, School Board Member	Ms. Maria T. Gonzalez, Asst. Chief, School Audits
Mr. Alberto M. Carvalho, Superintendent of Schools	Mr. Julio C. Miranda, Asst. Chief, Investigative
Mr. Walter J. Harvey, Esq., School Board Attorney	Mr. Trevor L. Williams, Asst. Chief, Operational Audits
Mr. Luis Garcia, Deputy Asst. School Board Attorney	Ms. Deborah Karcher, Chief Information Officer
Mr. Freddie Woodson, Deputy Superintendent	Mr. John LaBonia, General Manager
Dr. Helen Blanch, Assistant Superintendent	Ms. Janice Cruse-Sanchez, Administrative Director
Mr. Joseph A. Gomez, Assistant Superintendent	Ms. Melanie Fox, Administrative Director
Mr. Carl Nicoleau, Assistant Superintendent	Ms. Cynthia Gracia, Administrative Director
Ms. Enid Weisman, Assistant Superintendent	Ms. Marta Montaner, Administrative Director
Ms. Judith Marte, Chief Budget Officer	Ms. Tiffanie Pauline, Administrative Director
Dr. Alex Martinez, Region Superintendent	Dr. Ana M. Rasco, Administrative Director
Ms. Valtena Brown, Region Superintendent	

### **Attendance Continued**

Ms. Karen Spigler, Executive Director  
Ms. Beatriz Pereira, Executive Director  
Ms. Patricia Freeman, Director  
Mr. Jon Goodman, Director  
Ms. Chris Morgan, Director  
Ms. Tamara Wain, Director  
Mr. Luis Baluja, Supervisor  
Ms. Ori Lacayo, Auditor  
Mr. James O'Donnell, ITS  
Ms. Bertha Valcarcel, Administrative Assistant  
Mr. Jerold Blumstein, Administrative Assistant  
Ms. Mary Carabeo, Administrative Assistant  
Mr. Greg King, Administrative Assistant  
Ms. Marisol Perez, Administrative Assistant  
Ms. Ana Pereira, Administrative Assistant  
Ms. Dalia Rosales, Administrative Assistant  
Ms. Lourdes Amaya, Administrative Aide  
Ms. Elsie Berrios-Montijo, Administrative Secretary  
Ms. Sheryl Ragoo, Administrative Secretary  
Mr. Michael Costello, KPMG  
Mr. Jody Paterson, KPMG  
Mr. Charles Tatelbaum, Chair, Friends of WLRN  
Ms. Helen Williams, Citizen  
Ms. Elsie Hamler, Chair, MWBE Advisory Committee  
Ms. Cynthia Perez, Contractor Resource Center  
Mr. Dan Ricker, Publisher and Editor

After the introductions, Mr. Thornburg asked the members of the Audit Committee (Committee) to approve a request to move up agenda Item #6 to be addressed immediately after Item #2, and also to consider agenda Item #5 after Item #6. The Committee unanimously approved the revisions to the noted Agenda items. Thereafter, the Chair asked for a moment of silent meditation for what is happening in North Africa and the Middle East and also for those suffering from the scourges of the monster winter storms plaguing the country.

### **2. Approval of the Minutes of the Audit Committee meeting of December 7, 2010**

The Chair drew the Audit Committee members' attention to the minutes for the Audit Committee meeting of December and asked whether any members had questions relating to or proposed revision to the content of the proposed minutes. There being no questions, a motion was duly made by Mr. Sanchez-Medina and seconded by Mr. Salver to approve the proffered minutes to serve as the official memorialization of the December 7, 2010 Audit Committee meeting. The motion carried unanimously.

The Chair complimented Chief Auditor Montes de Oca and his team on their typically superb job in drafting the minutes.

### **3. Report on the Selection of Outside Auditors and Approval of the Minutes of the Special Audit Committee of January 13, 2011**

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Mr. Thornburg inquired whether the selection process is still under the cone of silence. School Board Attorney Harvey responded affirmatively, noting that although the process is still under the cone of silence, the Committee can discuss the outcome of the selection process.

Mr. Montes de Oca explained that the Committee had to convene two special meetings to select and recommend to the School Board the hiring of the external independent auditors. The selection was made, following the proper procedures and in accordance with the governing Florida Statutes. The Committee unanimously ranked as number one the firm of McGladrey & Pullen, LLP and recommended that the School Board hire this firm at a substantial savings of approximately 26% to the school system over the costs of the previously engaged firm, namely \$115,000, for the 2010-2011 fiscal year. He further noted that the McGladrey firm proposal did not contain the annual cost of living adjustments, which translate to additional significant savings

Mr. Thornburg observed that the savings convert into saving teacher jobs. Chair Thornburg also expressed his deep appreciation to the Committee for their time, energy and professionalism in conducting the selection process.

A motion was duly made by Mr. Salver and seconded by Ms. Kairalla to approve the minutes as the official memorialization of the January 13, 2011 Special Audit Committee Meeting - Selection of Outside Auditors. The motion carried unanimously.

Please note that this report is for informational purposes only since the recommendation to hire the McGladrey firm had already been made to the School Board.

### **4. Report on Audit Committee Ad Hoc Committee Minority/Women Business Enterprise Program (M/WBE) Meeting of January 7, 2011 and Approval of the Minutes of the Audit Committee Ad Hoc Committee (M/WBE) Meeting of January 7, 2011)**

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After previously expressing interest serving in the position, the Audit Committee Chair appointed Ms. Susan Kairalla, Chair of the Minority and Women-owned Business Ad Hoc Committee, who provided a status report on the results of this meeting. She explained in detail that the Ad Hoc Committee had publicly met with members of the administration and the community in an endeavor to engage in a frank and open dialogue regarding the issue of whether there are possibly unnecessary obstacles and impediments to increasing participation of minority and women-owned business enterprises interested in doing business with M-DCPS. Ms. Kairalla requested a copy of a report that was put together by members of the community in attendance at the meeting. According to these community members' contention, this report was provided to the Superintendent and served to communicate their harbored concerns but noted to date they have not received a response. Ad Hoc Chair Kairalla asked that copies of this report be provided to the Audit Committee members.

Ms. Kairalla also focused on the fact that the main concern expressed by representatives of the minority and women-owned business enterprises was their perception that the District is only interested in conducting business with well-established vendors vis-à-vis smaller minority and female business concerns. They also felt that the District does not have a local program to accommodate smaller vendors; it was opined that this fact translates into a lesser number of minority and women-owned firms doing businesses with the School District. Additionally, Ms. Kairalla reported to the Committee that representatives from the administration explained during the Ad Hoc session that there have been some changes in the laws which, subject to narrow exceptions, may prohibit School Board policies from maintaining set-asides.

On the plus side, it was also noted that the District has moved to an “on-line” procurement system to facilitate participation by small and minority-owned businesses.

Ms. Elsie Hamler, the Acting Chair of the M-DCPS-M/WBE Advisory Committee, offered her assistance and explained that since an M/WBE Committee is already established, she would like to be involved to help shed light on the issues.

Dr. Feldman pointed out that in April 2011 a Disparity Study is scheduled to be published. School Board Vice Chair Feldman observed it would be beneficial if all entities involved meet to review and to discuss this study and recommend to the Audit Committee and the School Board any lawful additions or changes in policies to help assuage the concerns over the disparate awarding of contracts to female and minority enterprises.

The Ad Hoc Committee Chair requested from the Audit Committee the opportunity to conduct additional Ad Hoc committee meetings related to this vendor issue. Such meetings should be held after the much anticipated Disparity Report scheduled to be issued in April 2011 by Metro-Dade is published.

The Committee also agreed to conduct another Ad Hoc Committee meeting after the publication of the study and unanimously recommended to request the Committee Chair and the Chief Auditor to contact School Board member Renier Diaz de la Portilla with a request to delay pursuit of his pending proposal concerning the preferred status for local-owned vendors until the Ad Hoc Committee has an opportunity to complete its mission. This further extension of time would allow the Ad Hoc Committee to complete its review of the minority and women-owned enterprises issue and formulate its findings and recommendations to submit to the Committee for consideration and thereafter to the School Board.

There being no further discussion and after a thorough and lengthy meeting, a motion was duly made by Mr. Salver and seconded by Ms. Kairalla to approve the minutes as the official digest summary of the January 7, 2011 Audit Committee Ad Hoc Committee (M/WBE) meeting. The motion carried unanimously.

## **5. Status Report of the WLRN Operating Agreement**

The Superintendent noted that fruitful conversations with Friends have resulted in positive negotiations regarding several of the concerns that have been lingering for over a year. They include: (1) restoration of critical provisions in the 1995 Friends’ by-laws to reflect the Superintendent’s rights to appoint the Friends’ CEO with the endorsement of Friends and to approve any proposed Friends’ by-laws changes; (2) unequivocal clarification of the sole

purpose of Friends' existence; and (3) having a School Board member appointed to Friends' Board of Directors. Mr. Carvalho also indicated other issues remained to be addressed and resolved including the finalization of the Audit Committee recommended Operating Agreement between WLRN and Friends. Superintendent Carvalho reasoned that it is best to look positively towards the future and enjoy a beneficial relationship.

School Board Chair, Ms. Perla Tabares Hantman inquired about the status of her suggested changes to the by-laws that were endorsed by the Committee at a previous meeting.

Mr. Harvey said that Ms. Hantman's request has been received by Friends, that Mr. Tatelbaum considered them a priority and is addressing them with his board.

School Board member, Ms. Raquel Regalado also raised and addressed several issues: (1) the School Board representative that attends Friends' Board meetings should brief the School Board; (2) the Audit Committee recommended Operating Agreement needs to be finalized as soon as possible; (3) funds from Friends; be clear of the School Board's intention; and (4) in regards to the endowment, although there seems to be some opposition to it on the part of the administration, it should be addressed in the agreement with Friends.

Ms. Hantman reminded the Committee that she had proposed a School Board Rule in August 2001, which was unanimously approved and thereafter amended the last time in 2006, that addresses the editorial integrity of WLRN. She considers this rule to be very important because it relates specifically to the issues that were being discussed and noted that Friends' Board members and staff may not even be aware of this rule. Ms. Hantman concluded that any decisions by Friends' that do not go hand-in-hand with this rule would not be acceptable.

Mr. Chuck Tatelbaum indicated as the new Chair of Friends' Board, he agreed with the Superintendent's comments that the purpose of Friends is solely to benefit and support WLRN. He further explained that the restoration of the by-laws will be submitted to the Friends' Governance Committee at its March, 2011 meeting for formal approval and emphasized the importance of transparency. Further, he welcomed School Board Member Renier Diaz de la Portilla's participation at Friends' last meeting and said that he anticipated and hoped for a more harmonious relationship amongst the parties.

Pursuant to the Superintendent's request of January, 2010 to the Committee, the Audit Committee Chair noted that the Committee will continue to periodically have on the agenda the WLRN operating agreement until an agreement has been successfully reached amongst the parties.

Mr. Harvey said that he would continue working with the Superintendent and the Board and report back on developments.

Chair Thornburg invited the Superintendent to apprise the Committee as to the recent School Board Budget Workshop and the District's plans to address the upcoming budget year. Mr. Carvalho outlined in detail for the Committee the current status of the state budget developments and made frank remarks about its dire condition. After the Superintendent explained that M-DCPS has already done all it could to cut administrative costs under its control, he pointed out how the state has been supplementing funds that it distributes to the school systems. He warned and cautioned the audience that as things now stand further

significant cuts would have to take place and that this time they would significantly impact educational programs if the state does not comply with its constitutional responsibilities and release more monies to the constitutional task of educating our children.

This report is submitted solely for informational purposes.

## **EXTERNAL AUDITS:**

### **6. M-DCPS – SAP Security and User Access Assessment**

Mr. Mike Costello, Managing Director, KPMG, presented the M-DCPS administration with SAP Security and User assessment and explained that the report provides observations related to the current SAP security environment and processes; as well as recommendations on security strategies. Mr. Costello noted that overall the SAP authorization concept and supporting processes in place incorporate many of the industry's leading practices, and many of the IT controls are well-thought out and appear to be designed effectively.

Dr. Feldman inquired about the ERP system and asked as to the payroll process whether there will be any challenges when it comes to paying the employees, etc.

Superintendent Carvalho explained that because of the challenges school systems in Los Angeles, Orlando, and Broward County are experiencing with the payroll module; he is running simulations before the payroll system goes live. Mr. Carvalho said that he will not go live until he is certain that the payroll module is working successfully.

Audit Committee Chair Thornburg inquired for those on the Committee like himself who did not possess high tech expertise whether there was anything of concern regarding the report. Mr. Costello responded unequivocally that the Audit Committee can feel very comfortable with the results of the assessment and there is no basis for concern.

Mr. Kemp referred to page 20 of the report and requested a list of the "potential" risk areas.

After discussion, it was noted that for security reasons this information could not be disseminated since it becomes a matter of public record. For that reason, Mr. Kemp's inquiry was not fully responded to at this time.

Mr. Thornburg thanked Mr. Costello and noted that the Committee does have a sense of comfort because of Mr. Costello's clear statements that there are no material concerns or problems.

This report was for informational purposes only.

## **7. Review of Audited Financial Statements FYE June 30, 2010 for 68 Charter Schools**

Mr. Julio Miranda, Assistant Chief Auditor, Investigative Audits, presented the audited financial statements of 68 charter schools, noting that none of these schools had significant fiscal or operational issues. He observed that at its December meeting the Committee discussed and transmitted to the School Board the financial statements of ten charter schools that were considered to be in financial distress or had other material issues which are being followed up administratively by the District. Mr. Miranda expressed concern about the last four schools that remain to be presented to the Audit Committee and explained that these concerns surround the issue of the independence of these schools from their respective management companies. Mr. Miranda mentioned that he has been working with the School Board Attorney's office and other experts in these matters to determine how to proceed. These schools will be brought to the Audit Committee for discussion once the issues have been addressed, hopefully at the March 2011 meeting.

School Board Vice Chair Dr. Feldman inquired as to what degree could a charter school utilize funds for education versus operation and whether this information is reported and available.

The administration responded that charter schools report contains certain information; however, this information needs to be examined more closely to determine whether it is germane to Dr. Feldman's inquiry. Ms. Pou noted that there is some general information in the *Comprehensive Annual Financial Report*, but it is very general in nature. Mr. Montes de Oca offered to look into this issue and report back at the next Audit Committee meeting if the need still exists.

There was further substantial discussion amongst the Committee, including a caution by Ms. Regalado as to what information related to charter schools operations M-DCPS can and can not legally publish under apposite Florida Statutes.

Accordingly and upon a motion duly made by Mr. Salver, seconded by Mr. Kemp, which carried unanimously, it was recommended that the Audited Financial Statements, FYE 6/30/10 for the reviewed 68 Charter Schools be received and filed by the School Board.

### **INTERNAL AUDITS:**

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

Mr. Montes de Oca noted that the activity report is self-explanatory and that he will entertain questions.

Ms. Hantman inquired about the Investigation and Forensic Accounting Review of a Billing Scheme to Defraud the School Board of Miami-Dade County Report and asked if the Office of the Inspector General was involved in the investigation noted in this report. Mr. Montes de Oca answered that it was not.

Ms. Hantman also referenced a letter dated August 26, 2010, in the same report mentioned above and inquired what is meant by the term "like-kind" which is utilized in the letter.

Mr. Montes de Oca responded that it means reviewing the procedures of other trades that procure goods and services in manner similar in nature to those procured by the trade which was the subject of the investigation.

This report was submitted for informational purposes only.

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

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Ms. Maria T. Gonzalez, Assistant Chief Auditor, School Audits Division, presented the Selected Schools Audit and pointed out to the Committee that it includes the audit results of 38 schools, four of which had audit exceptions.

Dr. Feldman commended the report but at the same time, voiced his concern about the procedures for administering disciplinary action regarding audit exceptions to clerical personnel. He commented that disciplinary actions should apply to both the administrator in charge as well as the clerical personnel responsible for the exception.

Ms. Kairalla spoke about collection of monies at the schools and noted that if the system is changed to cashless collections it would eliminate a number of these audit exceptions.

Ms. Pou explained that there is a Request for Proposal for banking services which will explore different avenues to bring more efficiency to the schools when conducting financial transactions and make for a safer and more secure financial environment.

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

## **10. Internal Audit Report – Investigation and Forensic Accounting Review of a Billing Scheme to Defraud The School Board of Miami-Dade County**

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Mr. Julio Miranda, CPA, CFE, Assistant Chief Auditor, Investigative Division, presented the Internal Audit Report, Investigation and Forensic Accounting Review of a Billing Scheme to Defraud The School Board of Miami-Dade County. Mr. Miranda noted that this audit resulted from a referral from the Superintendent's Office, as a result of the Federal Bureau of Investigations (FBI) reporting a possible billing scheme between an employee of a vendor and an employee of M-DCPS to defraud the District and the vendor.

Mr. Miranda further noted that within 24 hours of being cleared by the FBI to proceed with this case, he interviewed the employee and obtained a written confession. Mr. Miranda explained that the investigation revealed that M-DCPS had been defrauded to the tune of \$198,307,

and based on the forensic audit and confession obtained by his office, the FBI secured a guilty plea and the employee was sentenced in the United States District Court for the Southern District of Florida to 21 months in federal prison to be followed by three years of probation. As part of the sentence, the employee was also ordered to make full restitution to M-DCPS.

Mr. Miranda was highly commended by the Chair and several members of the Committee for his outstanding job in steering this case to a successful conclusion.

Ms. Hantman asked whether there were any plans to look further into possible internal control deficiencies taking place.

Mr. Montes de Oca answered that as a result of this investigation, his office is taking a closer look into the sufficiency of the controls so that a similar situation could be averted in the future.

There was no further discussion and upon a motion duly made by Mr. Salver, seconded by Dr. Feldman, that carried unanimously, it was recommended that the Internal Audit Report, Investigation and Forensic Accounting Review of a Billing Scheme to Defraud The School Board of Miami-Dade County be received and filed by the School Board.

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

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Chair Thornburg shared with the Committee that he had an opportunity to speak with the Superintendent and the Chief Auditor regarding this item and noted that the Superintendent is in favor of going forward with the proposed rule and submitting it to the School Board. It was pointed out that the proposed rule as revised and finalized by the Superintendent, the Audit Committee Chair and the Chief Auditor had been approved and endorsed by the Committee at a previous Audit Committee meeting. Mr. Thornburg noted that the proposal to add budget involvement to the Audit Committee duties was originally proposed by the Chief Financial Officer Dr. Richard Hinds in 2009. Dr. Hinds reasoned that the adoption of such a rule that includes the independent Audit Committee in the budget process would provide another "set of eyes" in the budgetary process. The proposal may be deemed a good idea by the public, especially in these difficult and challenging economic times. Mr. Thornburg also said that if the administration had second thoughts about the proposed rule the Committee would understand and that the Audit Committee was not attempting to expand its duties. The Committee is only a volunteer organization which want to help the administration and the School Board wherever possible.

#### **12. Election of Audit Committee Vice Chair**

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This item was postponed to the next scheduled meeting, since only five eligible members for this position were present at the time.

**OTHER BUSINESS:**

Under Other Business, School Board Member Ms. Raquel Regalado, suggested investigating the possibility of transferring the duties and responsibilities of the Office of the Inspector General (OIG) to the Chief Auditor and the Office of Management and Compliance Audits. Ms. Regalado explained that given the economic shortfalls facing M-DCPS every type of expenditure should be scrutinized to ascertain if savings could be achieved.

Ms. Regalado requested a report that would show what the OIG is costing the District and the number of investigations completed.

Ms. Connie Pou kindly offered to provide a record of the expenditures incurred by the OIG during the 2009-10 fiscal year. The Chair thanked Ms. Pou for her thoughtful offer to assist the Committee in respect of School Board Member Regalado's suggestion

**Adjournment**

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There being no further business to come before the Committee and upon motion duly made and seconded, the two and half hour meeting was adjourned by Mr. Thornburg at 3:16 p.m.