

**MINUTES OF THE SCHOOL BOARD AUDIT COMMITTEE  
OF MIAMI-DADE COUNTY PUBLIC SCHOOLS  
March 18, 2008**

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The School Board Audit Committee met on Tuesday, March 18, 2008 at 12:30 p.m. in the School Board Administration Building, Room 916, at 1450 N.E. Second Avenue, Miami, Florida.

**Members Present:**

Voting:

Ms. Betty Amos, Vice Chair  
Mr. Jeffrey B. Shapiro, Chair  
Ms. Perla Tabares Hantman, Board Member  
Mr. Frank Carollo  
Mr. Manuel A. Gonzalez  
Ms. Susan M. Kairalla  
Mr. Robert Schomber  
Mr. Robert Stein  
Mr. Nick Tootle  
Mr. Vidal Marino Velis

Non-Voting:

Mr. Allen M. Vann

**Members Absent:**

Mr. Willie Kemp

**Call to Order**

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Ms. Betty Amos, Chair called the meeting to order at 12:33 p.m.

**Introductions**

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

Dr. Marta Perez, School Board Member	Mr. Trevor Williams, Assistant Chief Auditor– OPA
Ms. Ofelia San Pedro, Deputy Supt.	Mr. Leslie Bowe, Adm. Asst. to Ms. Evelyn Langlieb Greer
Ms. Carolyn Spaht, Chief of Staff	Ms. Denise Izquierdo, Adm. Asst. to Dr. Martin Karp
Mr. Luis M. Garcia, Chief, Reg. Comp.	Ms. Ana Lara, Adm. Asst. to Ms. Perla Tabares Hantman
Mr. Alberto Carvalho, Assoc. Supt.	Ms. Vivian Lissabet, Adm. Asst. to Ms. Ana Rivas Logan
Dr. Magaly C. Abrahante, Asst. Supt.	Mr. Carlos Saladrigas, Adm. Asst. to Mr. Agustin J. Barrera
Mr. Michael Bell, Asst. Supt.	Mr. Tapia, Adm. Asst. to Mr. Renier Diaz de la Portilla
Ms. Vera Hirsh, Asst. Supt.	Mr. Paul Wilson, Adm. Asst. to Dr. Wilbert "Tee" Holloway
Ms. Maria Teresa Rojas, Asst. Supt.	Ms. Mindy McNichols, Senior Attorney for Academics
Mr. Freddie Woodson, Asst. Supt.	Mr. George A. Nunéz, Regional Supt, Reg. Ctr. III
Dr. Grace L. Ali, CFO	Ms. Janet Hupp, Regional Supt., Reg. Ctr. V
Ms. Connie Pou, Controller	Ms. Bertha Valcarcel, Staff Member - Ms. Hantman's Office
Ms. Daisy Naya, Asst. Controller	Ms. Consuelo V. Dominguez, Adm. Dir.
Ms. Maria T. Gonzalez, Assistant Chief Auditor-School Audits	Dr. Steve Gallon III, Adm. Dir.

Ms. Cynthia Gracia, Adm. Dir.  
Ms. Marie F. Harrison, Adm. Dir.  
Ms. Mary L. Snipes, Adm. Dir.  
Ms. Ellen Wright, Adm. Dir.  
Mr. Jorge L. Garcia, Adm. Dir.  
Mr. Julio C. Miranda, Dist. Direct.  
Ms. Tiffanie Pauline, Executive Director  
Mr. Jon Goodman, Director  
Ms. Magi Betancourt, Finance Director  
Ms. Tamara Wain, Director  
Mr. Dylan Hughes, Supervisory  
Mr. Luis Baluja, Audit Supervisor  
Mr. Tony Cotarelo, Specialist, Media Relations  
Ms. Mariela Jimenez, Staff Auditor II  
Ms. Lourdes Amaya, Admin. Aide  
Ms. Elsa Montijo, Adm. Secretary  
Mr. Dan Ricker, Watchdog Report

Mr. Paul Geib, Peer Review Team Member  
Mr. Ken Gentile, Peer Review Team Member  
Ms. Weatherman, Peer Review Team Leader  
Ms. Judith Nigaglioni, Academica  
Ms. Kelly Mallon, Academica  
Mr. Lester Kinnon, Excel Academy  
Ms. Valerie Kinnon, Excel Academy  
Ms. Dorsey Wilson-Picort, Excel Academy  
Mr. Joseph L. Raia, Mater Academy  
Mr. Antonio L. Roca, Mater Academy  
Ms. Ashley Aronowitz, Attorney, Bilzin Sumberg  
Ms. Lucy Canzonas Golden, Miami-Dade  
Ms. Regina Rodriguez, Granier & Assoc.  
Mr. Rod Harvey, CPA  
Mr. Ross Whitley, CPA

## **1. Approval of the Minutes of the Audit Committee meeting of January 29, 2008**

The motion was made by Mr. Carollo and seconded by Mr. Tootle to approve the minutes of the January 29, 2008 Audit Committee meeting. The motion was carried unanimously.

## **2. Introduction of Peer Review Team**

Mr. Vann introduced the peer review team:

- Ms. Terry Weatherman: Director of the Office of Internal Audits of Fairfax County Public Schools
- Mr. Paul Geib: Performance Audit Manager for Milwaukee Public Schools
- Mr. Ken Gentile: Senior Performance Auditor in Hillsboro County

Mr. Vann stated that the peer review team commenced their work on Monday, March 17, 2008. The team was there to perform a quality assurance review of the internal audit department, as required every three years in accordance to government audit standards. Mr. Vann asked Ms. Weatherman to introduce herself, at which time she gave a brief summary on the background of the team and herself.

Mr. Vann informed the Committee that the results of the peer review audit will be presented at the next audit committee.

There was no action required, since this item was transmitted for informational purposes.

### **3. Presentation of Charter School Operations Finance**

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Ms. Amos stated that the presentation on charter school operations finance best practices was requested by the Audit Committee to see how the district's charter schools stacked up against others around the country.

Mr. Bell introduced the presenters as:

- Ms. Mindy McNichols: School Board Attorney's Office
- Ms. Tiffanie Pauline: Office of Charter School Operations
- Mr. Jon Goodman: Office of Management and Compliance Audits

Ms. Pauline gave a detailed overview of charter schools. She talked about the legislation or statutes that reference the finance practices in financial emergencies, the current process, and she highlighted the best practices that they were able to gather across the state. Ms. Pauline briefly explained how charter schools are operated. Currently, Miami-Dade has the most charter schools in the state - 63 charter schools in operation. There is an anticipation of about 37 more charter schools in the next two years. However, the charter schools are facing the same issues as the public schools in the area, budget cuts and a decrease in enrollment. Twelve charter schools have been closed since the charter school law's inception.

Mr. Goodman explained that the Financial Emergency Statute was revised in 2006 to include charter schools and outlined the five criteria in determining a financial emergency:

1. The school's inability to pay short term or long term debts.
2. The school's failure to pay uncontested claims from creditors within 90 days.
3. The school's inability to pay its payroll taxes, retirement or benefit plan.
4. The school's inability to pay salaries to current employees or retirement benefits to former employees.
5. The school's annual audit reflecting an unreserved or total fund balance or retained earnings deficit, or unrestricted or total net assets deficit.

Mr. Goodman commented that the statute does not describe what an adequate financial emergency plan is. He briefly explained the current procedure of the submission of the school's financial statements to the District and also explained the procedure followed for a school in a state of financial emergency.

Ms. Pauline reviewed what had been done and what can be expected.

- In 2005-06, 17 percent of the charter schools were determined to be in a state of financial emergency.
- In 2006-07, 12 percent were in financial emergency.

- As of 2006-07 there were four schools that were in a state of financial emergency for two consecutive years.

With those results, an assumption was made that 8-10 schools, about 15 percent, would be in a state of financial emergency in the current year, 2007-08. The number would probably increase due to the budget cuts and the decreased number of students attending.

Ms. McNichols noted that the State statute is only about two years old and has a lot of gaps and there are some things that were prescribed to fix that.

1. What should be included in the new standard contract:

Good causes for a termination of a contract:

- A school's failure to submit to the sponsor an acceptable financial recovery plan within 30 days.
- The failure to successfully implement a successful financial recovery plan within the time specified.
- Failure to submit periodic progress reports that are prescribed in the financial recovery plan
- The school has been in a state of financial recovery for two consecutive years.

2. The things added to the financial accountability section of the contract:

(Some of this came from a technical assistance paper that came out of the state Department of Education.)

Incorporated financial emergency statute criteria, requirements and guidelines:

- The charter school must show that it will meet, and how it will meet, its future financial obligations and be a viable entity within the time period specified in the financial recovery plan.
- It must specify dollar amounts or cost cuts and cost avoidances, and/or realistic revenue projections that would allow the charter school to correct its conditions that caused the school to be found in a state of financial emergency. Supporting documentation would also have to be included.

3. A Financial Review Plan Committee:

Ms. McNichols proposed to create a financial review plan committee that would include one person from Audit, one from Charter School Operations, and one from the Budget Office, who would combine their expertise and submit their findings to the Audit Committee. The advantage would be that the District would have the various view points and skill sets in the initial analysis of that financial recovery plan.

4. Proposed legislation regarding financial emergencies:

It would require the District to identify financial weaknesses in charter schools and this is in advance of a financial emergency. So, if at the end of a school year, the District would see that the school had more expenses than revenue coming in, then the school would be identified as being in financial weakness. At that point the school could be required to come up with a corrective action plan.

The disadvantage of this would be if the District required the charter school to come up with a corrective action plan and the school disagreed, or couldn't agree on the terms of the plan, then the State Board of Education would have to intervene and could require the school to enter into a corrective action plan. The disadvantage for the District would be the extra resources required. It could also take the whole thing out of the hands of the District and put it into the hands of the State Board of Education.

The bill also totally removes the District's authority to require an approved financial emergency recovery plan from any charter school or charter technical center and gives the authority to the Commissioner of Education. This means that charter schools would have to present their financial recovery plans to the School Board of Education; however, the District would still have to monitor the financial recovery plans entered into with the board of education.

Ms. Amos inquired about the proposed date of the bill. Ms. McNichols said the bill is pending until this session.

Mr. Carvalho updated the Committee on several bills being considered by the Legislature on charter school accountability.

Ms. Amos thanked everyone for the presentation and commented that the presentation was helpful and informational.

There was no action required, since this item was transmitted for informational purposes.

**EXTERNAL AUDITS:**

**4. Review of Carryover Financial Statements from January 29, 2008 Meeting and the Current Charter School Financial Statements**

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Mr. Williams presented the three carryover schools that the Audit Committee requested additional information on:

- Coral Reef Montessori
- Excel Academy
- Liberty City Academy.

The Office of Management and Compliance Audits followed up with representatives of the schools and determined that all of the issues were resolved and provided an overview:

Coral Reef Montessori:

1. The compensation to the school's Directors was in fact legal under their charter agreement.
2. The charter school's governing board vote was in fact a valid action.
3. The fact that the bank approved the loan, on the basis of the co-directors guaranteeing it is in itself was evidence and acknowledgement that they did have the credit worthiness to guarantee the loan.

Excel Academy:

1. The Office of Management and Compliance received evidence that the payroll taxes were up to date and also received evidence that the February 15, 2008 and March 15, 2008 payments of \$5,500 each were made. Excel Academy submitted evidence of three checks that were paid in the amount of about \$16,000, which was the outstanding balance.

Mr. Williams recommended that we keep monitoring Excel Academy to make sure the school is fulfilling its obligations, especially when it comes to paying its payroll taxes.

Mr. Rod Harvey, CPA for Excel Academy, spoke briefly in regards to what they have been doing to resolve these issues.

Ms. Kinnon explained that the IRS, due to a mistake in the spelling of the school's name, accidentally issuing a second Employer Identification Number. But this has since been resolved

Liberty City Academy:

- At its meeting of March 12, 2008, the School Board voted to terminate the contract; however the school still has a thirty day period to request an appeal.

Mr. Vann added that the internal audit department received a request from the administration to perform an audit of the property, both the liquid assets and the tangible assets. He stated that they would be doing the audit soon, that all items in decent condition would be recovered, and that there would be an update of the findings in the upcoming audit committees.

Ms. Amos asked if the school was still operating with our personnel and Mr. Bell responded that the school was obligated to operate through the appeal process.

Other 22 charter schools:

Mr. Williams stated that there were no serious issues found. We questioned 20 of the 22 schools regarding whether their Boards had implemented agreed upon corrective actions, including developing and adopting comprehensive policies addressing the objectivity and reasonableness of transactions with affiliated entities. We were timely provided evidence demonstrating that such policies and procedures have been developed and adopted. Otherwise, these 22 charter schools were overall in a good financial state.

Ms. Amos asked for an explanation concerning the resolution that the Board passed for each school regarding vacant positions on the Board.

Mr. Antonio Roca, Chair of Mater Academy, stated that only one member of their Board was actually serving on another Board, and that they were actively seeking to replace him with a university level replacement. He stated that the difficulty came in finding an educator that is not employed by Miami-Dade County Public Schools and that is willing to give their time.

Ms. Amos expressed concern about one person having the responsibility for 16 schools.

Ms. Martinez explained the rotation policy of the Directors.

Mr. Williams asked to hear from the Doral and Pinecrest schools regarding their implementation of the rotation policy.

Ms. Mallon responded that they have adopted the policy and will be following it for the new fiscal year.

Mr. Schomber commented that the schools' academic performance should also be provided to the Audit Committee.

There was no further discussion and a motion was made by Mr. Shapiro, seconded by Mr. Tootle, which carried unanimously, to recommend that the Carryover Financial Statements from January 29, 2008 Audit Committee Meeting and the Current Charter School Financial Statements be received and filed by the School Board.

**5. Ombudsman Educational Services Ltd./ Educational Services of America, Inc.**

Mr. Luis Garcia stated that at the last Audit Committee meeting the Committee had requested the Board Attorneys Office to review the Educational Services of America (ESA), Inc. contract and provide the Committee a follow-up.

Mr. Shochet explained that ESA's ownership is limited to shareholder liability and does not go beyond stockholder liability for Ombudsman's responsibilities.

Mr. Shochet indicated that the relationship between ESA and Ombudsman is such that ESA may not be liable for all the debts of Ombudsman. He suggested a couple of ways to fix that situation and he agreed to work with M-DCPS staff and ESA's management and report back to the audit committee on action taken.

Mr. Shapiro suggested that ESA's Board might be requested to do a Board resolution addressing Ombudsman responsibilities.

## **Internal AUDITS:**

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

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Mr. Vann stated that the audit department had finished auditing 60 schools and all but one charter school.

Mr. Vann also acknowledged that resource issues were hampering the progress towards completing the annual audit plan. The department lost employees to the ERP project and will be unable to replace them due to budget cut. Also, one person had to take a long medical leave due to a serious medical condition. Mr. Vann stated that he was able to hire a current M-DCPS employee from a school location and introduced Ms. Mariela Jimenez and briefly described her background.

He projected that by the end of the year the department will complete 290 schools but will cover the remaining schools in the next fiscal year.

There was no action required, since this item was transmitted for informational purposes.

### **7. Internal Audit Report – School Audits- Selected Schools**

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Ms. Maria Gonzalez gave an overview of the audit results of the 60 schools audited, and the Dade County Athletic Equalization Fund. There were 39 schools from regional center I, 12 from regional center IV, and 6 from the School Improvement Zone. Three of the schools were audited due to the change of principal: Biscayne Elementary School, John A. Ferguson Senior High School, and Miami Northwestern Senior High School.

Ms. Gonzalez also mentioned that she had expanded the scope of the IT audits at the schools to include a verification of the school site IT security audit checklist.

Of the 60 school, ten had 23 audit exceptions in various areas including internal funds, payroll, property, Title I, and FTE. Most significant findings were at John A. Ferguson Senior High, Charles Drew Middle, and Miami Northwestern Senior:

- John A. Ferguson Senior High School had questionable retreat related expenditures, which were submitted to the Inspector General.



- Charles Drew Middle School had a serious issue relating to property donated to the school. The school police were asked to investigate this.
- Miami Northwestern Senior High School had issues relating to Title I, payroll, and disbursements from internal funds.

Ms. Hantman referred to page 29, and expressed distress on the audit of John A. Ferguson Senior High, where it states the existence of inappropriate spending for faculty retreats. Ms. Hantman inquired about whether the former principal from John A. Ferguson Senior High is still a Region Director.

Mr. Woodson responded that this individual has been removed and put into an alternate assignment while the investigation is ongoing.

Ms. Hantman referred to page 47, again expressed concern on the inadequacy of payroll distribution process at Miami Northwestern High School.

Mr. Nuñez communicated that to correct the issue the Business Director will be reviewing payroll records on a monthly basis.

Ms. Hantman referred to Pages 53, 55, and 57 expressed extreme concern on the issues noted in the report.

Mr. Nuñez explained that most of these issues happened in transition of the former principal leaving and new principal coming in. He explained that there will be monitoring taking place to avoid these problems from repeating.

Dr. Perez expressed concern on the Title I funding usage and noted that audits have found improper usage of Title I funds.

Mr. Carvalho explained the procedures on how the Title I funds expenditures are distributed. He spoke about his recommendation to conduct audits to track how the Title I funds are being utilized and noted that a position was funded for that purpose.

Mr. Schomber referred to page 9, and inquired about the discrepancies in the FTE funding.

Ms. Gonzalez gave a brief explanation of the types of losses a school and the District may incur.

Ms. Gonzalez thanked Ms. Tamara Wain for a great job in supervising the FTE auditors and Mr. Vann added that Ms. Wain was also the one that initiated our Title I audits. There was no further discussion and a motion was made by Mr. Gonzalez, seconded by Mr. Stein, which carried unanimously, to recommend that the Internal Audit Report of Selected Schools be received and filed by the School Board.

## **OTHER BUSINESS**

### **8. New Business:**

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#### **a. Auditor General Draft Report/ Auditor General's Preliminary Draft**

After a short discussion, a motion was made by Mr. Shapiro and seconded by Mr. Stein, which carried unanimously, to discuss the Auditor General's Report when the final report is released.

Mr. Vann mentioned to the committee that the Board will be conducting a workshop for the Auditor General Report.

#### **b. Federal Audit of E-rate Program**

Mr. Vann mentioned that KPMG is presently conducting an audit on behalf of the Federal Government of our federally funded E-rate Program. As soon as the report is completed, he will share the results with the committee.

## **OTHER BUSINESS CONTINUED**

Ms. Hantman told Mr. Vann, that there was a discussion that took place at the March 6th committee meeting, about the issue of Supplementary Educational Services (SES). During the discussion, it was mentioned by staff that we have 80 providers. She inquired if an audit will be conducted on the SES providers.

Mr. Vann responded that an audit is presently being conducted.

Mr. Carvalho briefed the committee about the SES program.

There was no action required, since these items were transmitted for discussion purposes.

## **Adjournment**

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Ms. Amos adjourned the meeting at 2:52 p.m.