

REVISED
MINUTES OF THE SCHOOL BOARD AUDIT AND BUDGET ADVISORY COMMITTEE
OF MIAMI-DADE COUNTY PUBLIC SCHOOLS
March 12, 2013

The School Board Audit and Budget Advisory Committee (ABAC) met on Tuesday, March 12, 2013, in the School Board Administration Building, Conference Room 916, at 1450 N.E. Second Avenue, Miami, Florida.

Members Present:

Voting:

Mr. Jeffrey B. Shapiro, Esq., Chair
Mr. Roland Sanchez-Medina, Jr., Esq., Vice Chair
Ms. Susan Marie Kairalla
Mr. Rayfield McGhee, Jr., Esq.
Mr. Benjamin Moscowicz, CFP
Mr. Isaac Salver, CPA
Mr. Frederick F. Thornburg, Esq.
Ms. Teri Weinstein (Trivizas)

Members Absent:

Dr. Lawrence S. Feldman, School Board Member
Mr. Mayowa Odusanya, Esq.
Mr. Jose I. Rasco, CPA

Non-Voting:

Dr. Richard H. Hinds, Associate Supt./CFO

Call to Order

The ABAC Chair Jeffrey Shapiro called the meeting to order at 12:36 p.m. and warmly welcomed everyone in attendance.

1. Welcome, Introductions and Moment of Reflection

Mr. Shapiro requested everyone in attendance to introduce themselves. The following persons were present:

Ms. Perla Tabares Hantman, School Board Chair	Mr. José F. Montes de Oca, Chief Auditor
Ms. Raquel Regalado, School Board Member	Ms. Connie Pou, Controller
Mr. Alberto M. Carvalho, Superintendent of Schools	Mr. Scott Clark, Risk/Benefits Officer
Dr. Daniel Tosado, Chief of Staff	Mr. Jaime G. Torrens, Chief Facilities Officer
Mr. Walter J. Harvey, Esq., School Board Attorney	Mr. John Schuster, Chief Communications Officer
Mr. Luis Garcia, Deputy Assistant Sch. Brd. Attorney	Ms. Maria T. Gonzalez, Asst. Chief, School Audits
Mrs. Valtena G. Brown, Chief Operating Officer	Mr. Julio C. Miranda, Asst. Chief, Investigative Affairs
Ms. Millie Fornell, Chief Academic Officer	Mr. Trevor L. Williams, Asst. Chief, District Audits
Ms. Judith Marte, Deputy Chief Financial Officer	Ms. Daisy Naya, Assistant Controller
Ms. Enid Weisman, Chief Human Capital Officer	Ms. Mindy McNichols, Asst. SB Attorney
Ms. Helen Blanch, Assistant Superintendent	Ms. Sylvia Diaz, Administrative Director
Ms. Tiffanie Pauline, Assistant Superintendent	Ms. Christine Master, Administrative Director
Dr. Marcos Moran, Assistant Superintendent	Mr. Arnold R. Montgomery, Administrative Director Accelerated Learning Schools (ALS)

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Dr. Ana M. Rasco, Administrative Director
Ms. Diane Kamentz, Assistant Principal
Mr. Jon Goodman, Executive Director
Ms. Nicki Brisson, Director
Mr. Chris Morgan, Director
Ms. Tamara Wain, Director
Mr. Aaron Hathaway, OIG, Special Agent
Mr. Evelio Rodriguez, Major
Mr. Luis Baluja, Supervisor
Ms. Raquel Alexander, Administrative Assistant
Mr. Jerold Blumstein, Administrative Assistant
Ms. Ana Lara, Administrative Assistant
Ms. Carmen Naumann, Administrative Assistant
Ms. Bertha Valcarcel, Administrative Assistant
Ms. Elsa Berrios-Montijo, Administrative Assistant
Ms. Lucila I. Gonzalez, Administrative Assistant
Ms. Lawandra Houston, Dist. Administrative Assistant

Mr. Jorge Alvarado, CPA, ALS
Mr. Daniel Fernandez, Principal, ALS
Ms. Jessica Schimborski, Controller, ALS
Ms. Maria E. Cedeno, Principal, Bridgepoint Academy
Mr. Juan Carlos Quintana, Smart Management
Mr. Alex Trujillo, Verdeja & DeArmas
Mr. Dan Ricker, Publisher and Editor
Mr. David Smiley, Reporter, Miami Herald

Mr. Montes de Oca was saddened to announce the passing of Dr. Feldman's mother, Mrs. Yetta Feldman. The chair asked that thoughts and prayers from those present be with the family.

2. Approval of the Minutes of the School Board Audit and Budget Advisory Committee Meeting of January 29, 2013

The Chair then drew the members' attention to the minutes for the ABAC meeting of January 29, 2013, and asked whether any members had any suggested revisions or questions relating to the contents of the proposed minutes. Mr. Thornburg gave accolades to Mr. Montes de Oca and his staff on very well-written minutes.

A motion was duly made by Mr. Thornburg and seconded by Mr. McGhee to approve the minutes, to serve as the memorialization of the January 29, 2013, meeting of the Audit and Budget Advisory Committee (ABAC or Committee). The motion carried unanimously.

EXTERNAL AUDITS:

3. Office of the State of Florida Auditor General

A) Virtual Instruction Programs Operational Audit February 2013

Mr. Montes de Oca presented the above-mentioned report and explained that this report ensued from an operational audit of Virtual Instruction Programs (VIP) that was conducted statewide and included as auditees the Florida Department of Education, two VIP providers and 12 of the 67 school districts in the State of Florida, including Miami-Dade County Public Schools (M-DCPS). He further explained that the report contained 27 findings and M-DCPS was cited in six of them. However, he observed none of the six findings contained questioned costs and the recommendations addressed improvement of controls. In addition, the Chief Auditor noted that M-DCPS was the only district that had written procedures in place addressing student eligibility, enrollment period and other procedures related to VIP's.

Mr. Montes de Oca recognized the Superintendent, Ms. Millie Fornell and Dr. Sylvia Diaz for a job well done.

There was no further discussion. A motion was made by Mr. McGhee, seconded by Mr. Thornburg, which carried unanimously, to recommend that the Virtual Instruction Programs Operational Audit February 2013 be received and filed by the School Board.

B) Operational Audit of the Miami-Dade County District School Board for the Fiscal Year Ended June 30, 2012

The Chief Auditor presented the report and pointed out that the scope of the audit included 20 topics which resulted in five findings and in his opinion, the finding in the background screening was the most serious one. However, he emphasized that when the auditors retested a portion of their sample, after the administration corrected the situation, they found every item to be in compliance. Mr. Montes de Oca opined that given the breadth of the audit, the report was good news.

Mr. Thornburg complimented the entire administration for what could have been an audit with much more difficult results.

Mr. Sanchez-Medina expressed some concern related to the re-screening finding. He said that re-screening employees every five years may be too long of a period to wait.

Mr. Carvalho expressed his sensitivity to the re-screening finding and noted that they will review and react to this issue. He also mentioned that lack of resources has been the reason for this situation. In addition, Mr. Carvalho asserted that considering the scope of the audit and the apparent depth of the examination (it took several months to complete the audit) the District is running a very good operation.

Ms. Hantman addressed finding no. 4, *Monitoring Fuel Efficiency*, and pointed out that in September 2006 the Audit Committee addressed this issue and there were similar findings and she believes that the findings have not been totally addressed.

Dr. Moran assured Ms. Hantman that the finding will be fully addressed this time.

Ms. Regalado commented that the recommendation noted on the Facilities Management finding that “the District should develop written policies and procedures requiring periodic evaluations of alternative facilities construction methods and significant maintenance-related job techniques, and document these evaluations” did not consider the bond referendum and she thinks that it is something that the District does not need to do at this point.

There was no further discussion. A motion was made by Mr. Sanchez-Medina, seconded by Mr. Thornburg, which carried unanimously, to recommend that the Operational Audit of the Miami-Dade County District School Board for the Fiscal Year Ended June 30, 2012 be received and filed by the School Board.

4. Presentation for 28 of 107 Charter Schools’ Audited Financial Statements FYE June 30, 2012

The Chief Auditor introduced the audited financial statements of 28 charter schools for the year ended June 30, 2012, and stated that according to the Office of Management and Compliance Audits’ (OMCA) review, 23 of these schools did not have any significant fiscal concerns, while five others had financial issues.

Mr. Montes de Oca explained that at the request of OMCA, the administration from charter schools identified as having issues provided corrective action plans and representatives were in attendance at the meeting to address any questions members of the Committee may have.

Mr. Juan Carlos Quintana, Managing Partner with Smart Management, noted that for the two charter schools in question (Bridgepoint Academy of Greater Miami and Bridgepoint Academy of Village Green) this is their first year in operation. Mr. Quintana emphasized that there are expenses involved in opening a charter school and pointed out that they received 1/12 of their initial annual Full Time Equivalent (FTE) funds only two weeks before the first day classes. He informed that the auditor who performed the audits was present and has submitted an unaudited report as of December 31, 2012, to the State and to the District that shows substantial improvements for both charter schools. Mr. Quintana introduced Mr. Alex Trujillo, Audit Partner at Verdeja & De Armas LLP, to present the comparison of the unaudited figures from Management as of December 31, 2012, to the audited financial figures.

The Chief Auditor welcomed Mr. Trujillo’s presentation, but cautioned the Committee that the figures that were being presented are unaudited and that the OMCA can only consider audited financial statements.

Mr. Trujillo thanked everyone and provided an overview of his company's experience in auditing schools. He presented a synopsis of the unaudited positive figures as of December 31, 2012, for Bridgepoint Academy of Greater Miami and Bridgepoint Academy of Village Green.

Mr. Sanchez-Medina commented that he is well aware of the credentials of the CPA providing these statements and recognized him as a member of a well-respected firm.

The Committee thanked Mr. Quintana and Mr. Trujillo for the positive update.

The next presentation was made by Mr. Jorge Alvarado, Klasfeld & Company, CPAs, regarding issues at three charter schools (Florida High Schools for Accelerated Learning – Miami Campus (Green Springs High School), Florida High Schools for Accelerated Learning – Greater Miami Campus (North Gardens High School), Florida High Schools for Accelerated Learning – Miami-Dade Campus (North Park High School), and noted that he assisted with the compilation of the financial statements report presented to the District.

As to the concern expressed by some Committee members that all three schools have large balances due on demand (\$2.3 million combined) from the Accelerated Learning Schools Management Company (ALSMC), and that the ALSMC could essentially close the schools at any time, Ms. Jessica Shimborski, Controller for ALSMC, which is the company that manages these schools, explained that they have no intentions of closing the schools. She pointed out that ALSMC successfully manages 18 schools in Florida which are going into their fifth and sixth year of operations and are using the same model for the three schools in question.

There was extensive discussion about the large on-demand loans from the ALSMC. The Chair was concerned and suggested as a cautionary note for ALSMC to include grace periods and no on demand notes in the future.

In response to a question regarding any interlocking between governing boards, Ms. Shimborski responded in the negative and stated that the schools have independent boards and accountants.

Ms. Weinstein asked if the contract of the independent Board allows termination of the ALSMC. Mr. Alvarado responded in the affirmative and explained that the Board is free to vote for a change or issue a request for proposal.

The Superintendent asked if from a common sense perspective (not from a legal basis), can an entity terminate a contract with a Management Company to which it owes a large amount of money. Mr. Alvarado responded in the affirmative and stated that the school does not expect to have a balance due to the ALSMC, with an exception of one month management fees that is due next month, by the end of the fiscal year which will change the ALSMC from being a creditor to being a vendor.

The Chair emphasized that depending the wording of the contract, ALSMC may possibly be terminated upon default. As a result of the Chair's statement, the Committee requested a copy of the contract for further review.

The Chief Auditor stated that on his letter he mentioned that the schools have been in operation for only one year and have substantial deficit balances in several categories and, after hearing Mr. Alvarado's presentation, he asked about where the funds were coming from. Mr. Alvarado responded that the funds are coming from an increase in the Florida Education Finance Program revenues as the results of the new FTE counts that occurred in October 2012 and February 2013. Mr. Alvarado pointed out that the schools are now operating in a cash positive position and trending in the right direction.

The Chair asked for clarification on the \$171,000 to be paid to ALSMC by 2016 and if ALSMC signed off on it. Mr. Alvarado responded that the amount was signed off by ALSMC (affirmed by Ms. Shimborski) and reflects cash left over for reserve purposes to pay for unforeseen expenses and management fees for approximately three or four months of the schools' 2012-13 fiscal year.

In response to another question regarding whether the Committee will be receiving the audited financial statements in connection with what was presented, the Chief Auditor responded in the affirmative and explained that the year-end will be June 30, 2013, and the schools have 60 days to submit their certified financial statements. He promised that he will then bring to the Committee the audited financial statements with a comparison to what was presented today.

After some more discussion. A motion was made by Mr. Thornburg, seconded by Mr. Salver, which carried unanimously, to recommend that the 28 Charter Schools' Audited Financial Statements FYE June 30, 2012 be received and filed by the School Board.

5. Monthly Financial Report Unaudited – For the Period Ending December 2012

Ms. Connie Pou, Controller, presented the report and noted that for the period ending December 2012, which is the end of the quarter, the report includes the balance sheet and statement of operations, in addition to the regular monthly statements.

Mr. Thornburg referred to page 8 of the report and inquired about the self-insurance health fund. He pointed out that last year the School Board subsidized this fund by approximately \$12 million and this year there seems to be problems again. He suggested that the actuarial statistics be revisited.

In response to Mr. Thornburg's inquiry, Mr. Scott Clark, Risk and Benefits Officer, explained that the School Board developed a Request For Proposals and took action to contract with a consulting firm for employee benefits inclusive of actuarial services. He further explained that this contract took effect in February 2013 (AON Hewitt) and will work in conjunction with CIGNA for purposes of looking into the actuarial calculations for calendar year 2014. In addition, he noted that since they have been booking the liability one year in advance, based upon actual number of people in the self-insurance plan and not changing the number, he believes this may be responsible for the increase. Mr. Clark pointed out that Hewitt will be testing these numbers throughout the year and they will look at these figures from the calendar year, as well as the fiscal year perspective.

Mr. Thornburg commented that he understands the challenging task because it involves large amounts of money and noted that he knows the firm well and believes Mr. Clark is headed in the right direction.

Mr. Carvalho assured the Committee that they have a strategy moving forward to look at a plan design again, which involves co-insurance, co-payments, etc. that he considers to be very complex. He emphasized that the biggest culprits for the escalation of healthcare costs are the facts that M-DCPS is a very large employer, South Florida has the largest Medicare fraud rate in the nation, external entities that refuse to negotiate better provisions with our claims management companies, and a labor force that must be incentivized to procure lower costs and better services.

Mr. Carvalho also pointed out that if the School Board had not decided to self-insure its medical plans the cost would have gone through the roof, to the tune of over \$100 million.

Mr. Thornburg expressed satisfaction with the manner in which his inquiry was addressed.

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

6. Internal Audit Report – Selected Schools

Ms. Maria T. Gonzalez, Assistant Chief Auditor, presented the Internal Audit Report - Selected Schools for the month of March 2013 containing the results of 42 school audits. She stated that 39 of the 42 schools had no significant findings and were satisfactorily administering their finances and only three schools from the Education Transformation Office Region had financial issues in the areas of field trips, receipts and disbursements. She congratulated principals and management for their efforts and welcomed any questions.

Mr. Salver observed that two of the schools in this report, Miami Edison Senior and Miami Norland Senior High schools had achieved remarkable improvement over their financial operations when compared to the previous audit (where each school had a substantial number of findings reported).

Committee members expressed concern relating to Barbara Hawkins Elementary School's findings and made several inquiries on the familiarity of the staff's knowledge of the internal funds procedures. Mr. Montgomery explained that the administration is also concerned and has a corrective action plan in place to address these issues. He further explained that the corrective action plan will consist of quarterly mini audits being conducted by the principal on the internal financial and operational functions, with the goal to eliminate the possibility of recurring findings in the future.

Ms. Kairalla recommended that an attempt should be made to better train treasurers when findings disclose errors at the schools, because she believes that it is their lack of training and adequate education that often results in these findings. } Revised

There was no further discussion. A motion was made by Mr. Salver, seconded by Mr. Moskowicz, which carried unanimously, to recommend that the Internal Audit Report – Selected Schools be received and filed by the School Board.

OTHER REPORTS:

7. Office of Management and Compliance Audits' Activity Report

The Chief Auditor presented the Office of Management and Compliance Audits' Activity Report, and pointed out that it outlines what has transpired since the last ABAC meeting.

He informed the Committee that several audits and investigations are in progress that include *Doral Academy High Charter School* which was discussed at length at the January 29, 2013 ABAC meeting; *SIA-Tech Charter School*, which is based on concerns expressed by district administration about the FTE student reporting process; and they are about to finalize the field work on the investigation of a former healthcare provider vendor in which the district may have been substantially overcharged.

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

NEW BUSINESS

Mr. Thornburg made the Committee aware that under the wisdom and foresight of the School Board Chair, the School Board is negotiating an extension of the Superintendent's employment contract. Mr. Thornburg endorsed the extension and noted that hopefully the Superintendent will receive a fair compensation for the superb job he has been doing.

The committee gave a round of applause to Ms. Hantman and Mr. Carvalho.

Mr. Salver asked for a response about a media article related to Mr. Carvalho's salary where Mr. Carvalho stated that the salary cited was inaccurate. Mr. Salver stated that he was not questioning the proposed increase because he is of the opinion that whatever amount the Superintendent receives, his performance is worth more. However, he wanted to make sure that the Superintendent's salary is correctly reflected on District's records.

Mr. Carvalho gave an explanation stating that the reference to the inaccuracy resulted from a timing difference on the reporting of his salary and there were no intentions to misrepresent the facts.

OLD BUSINESS

None.

Adjournment

There being no further business to come before the Committee and upon motion duly made and seconded, the meeting was adjourned by Mr. Shapiro at 1:52 p.m.

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