

**MINUTES OF THE SCHOOL BOARD AUDIT COMMITTEE
OF MIAMI-DADE COUNTY PUBLIC SCHOOLS
June 29, 2010**

The School Board Audit Committee met on Tuesday, June 29, 2010 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
Mr. Manuel A. Gonzalez, CPA, Vice Chair
Ms. Susan Marie Kairalla
Mr. Willie Kemp
Ms. Wendy Lobos
Mr. Rayfield McGhee, Esq.

Non-Voting:

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

Members Absent:

Ms. Perla Tabares Hantman, School Board Vice Chair
Mr. Peter A. Lagonowicz, Esq.
Mr. Robert Schomber
Mr. Nick Tootle, CPA

Call to Order

Audit Committee Vice Chair Mr. Manuel A. Gonzalez called the meeting to order at 12:30 p.m. and warmly welcomed everyone in attendance.

1. Introductions

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

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| Dr. Lawrence Feldman, School Board Member | Dr. Alexis Martinez, Region Director |
| Dr. Marta Pérez, School Board Member | Dr. Essie S. Pace, Region Superintendent |
| Mr. Alberto M. Carvalho, Superintendent of Schools | Mr. Jose L. Dotres, Region Superintendent |
| Mr. Walter J. Harvey, Esq., School Board Attorney | Dr. Helen Blanch, Administrative Director |
| Mr. Freddie Woodson, Deputy Superintendent | Ms. Charlene Burks, Administrative Director |
| Dr. Maria de Armas, Assistant Superintendent | Dr. Rose Barefield-Cox, Administrative Director |
| Mr. Joseph A. Gomez, Assistant Superintendent | Mr. Bobby Gornto, Administrative Director |
| Ms. Vera Hirsh, Assistant Superintendent | Mr. Reginald Johnson, Administrative Director |
| Mr. Charles Hurley, Chief of Police | Ms. Marta Montaner, Administrative Director |
| Mr. Scott Clark, Risk/Benefits Officer | Ms. Penny Parham, Administrative Director |
| Ms. Deborah Karcher, Chief Information Officer | Dr. Ana Rasco, Administrative Director |
| Ms. Connie Pou, Controller | Mr. Julio C. Miranda, District Director, OM&CA |
| Ms. Daisy Naya, Assistant Controller | Ms. Tiffanie Pauline, Executive Director |
| Ms. Maria T. Gonzalez, Asst. Chief, School Audits | Mr. Jon Goodman, Director, OM&CA |
| Mr. Trevor L. Williams, Asst. Chief, Operational Audits | Mr. Christopher Morgan, Director |
| Ms. Valtena G. Brown, Region Superintendent | Mr. Rudy Rodriguez, Director |
| Ms. Carmen B. Marinelli, Region Superintendent | Ms. Tamara Wain, Director, OM&CA |

Attendance Continued

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| Ms. Mindy McNichols, Asst. School Board Attorney | Ms. Sheryl Ragoo, Administrative Secretary |
| Mr. John LaBonia, General Manager, WLRN | Ms. Sonia Lopez, CNC, Exec. Vice Pres. |
| Mr. David Berley, Legal Advisor, WLRN | Mr. Andres Pazos, CNC, Comptroller |
| Mr. Bob Brazofsky, Supervisor | Mr. Jorge Carreras, CNC |
| Ms. Mary A. Paz, Supervisor | Mr. Carlos M. Trueba, CPA, CNC |
| Mr. Luis Baluja, Audit Supervisor, OM&CA | Mr. Greg Centers, Auditor General, Manager |
| Mr. Darrlyn Choate, Coordinator | Mr. Ramon Gonzalez, Auditor General, Supervisor |
| Mr. Michael Hernandez, Sr. Audit Coord., OM&CA | Mr. Gus Silva, Auditor General, Coordinator |
| Ms. Ori Lacayo, Auditor, OM&CA | Ms. Janet Altman, Chair, Friends of WLRN |
| Ms. Jackie Fals, Administrative Assistant | Mr. Ben Reid, Vice Chair, Friends of WLRN |
| Ms. Ana Lara, Administrative Assistant | Ms. Lorraine Strickland, FBMC, CEO |
| Ms. Vivian Lissabet, Administrative Assistant | Ms. Monica Digon, FBMC, Sr. Acct. Mgr. |
| Ms. Bertha Valcarcel, Administrative Assistant | Mr. Dan Ricker, Watchdog Report |
| Ms. Lourdes Amaya, Administrative Assistant | Mrs. Patricia J. Thornburg, Visitor and Parent |
| Ms. Elsa Berrios-Montijo, Administrative Secretary | |

The Chief Auditor Mr. Jose Montes de Oca explained that Mr. Thornburg would join the Audit Committee meeting after its start since he was attending the luncheon ceremony for the United Way's Volunteer of the Year where the recipient of the award was being announced, and for which Mr. Thornburg was one of the finalists.

2. Approval of the Minutes of the Audit Committee meeting of May 11, 2010

There being no questions, a motion was made by Ms. Lobos and seconded by Mr. Gonzalez to approve the minutes of the May 11, 2010 Committee meeting, as presented. The motion carried unanimously. Chair Thornburg commended the Chief Auditor Jose Montes de Oca and his staff on a superb job on the Audit Committee minutes.

3. Proposed Audit Committee Dates for Fiscal Year 2010-2011

Mr. Montes de Oca presented the Audit Committee meeting dates for the 2010-11 fiscal year and encouraged the Committee members to review them and provide feedback after the summer.

Since they represent only proposed dates, no transmittal to the School Board by the Audit Committee was required.

OTHER REPORTS/PRESENTATIONS:

4. Evaluation of External Auditors for the Audit of the Fiscal Year Ended June 30, 2009 and Evaluation of the Internal Audit Team Fiscal Year Ending June 30, 2010

Mr. Montes de Oca provided and reviewed with the Committee the results of the surveys. The Committee discussed the survey results in detail.

The Committee addressed the evaluation of the external auditors, which was compiled by the Office of Management and Compliance Audits (OMCA). The outside auditor's evaluation was predicated on input by the Committee members and senior administration. The evaluations also included an evaluation of the Chief Auditor and OMCA's staff. While the Committee expressly commended OMCA for its efficiency and for the high quality of its audit reports, the committee members also noted how extremely pleased they were with the performance and the leadership provided by the Chief Auditor and senior management. Several Committee members expressed some degree of dissatisfaction regarding the services provided by the external auditors; their critiques included failure of timelines in regard to the completion of certain aspects of their engagement.

Since this report was provided for informational purposes only, no transmittal of the evaluation digest to the School Board by the Audit Committee was required.

5. Audit Plan for Annual Financial Statements, Operational, and Federal Awards (Single Audit) Audits Fiscal Year 2009-10

Mr. Montes de Oca explained that Miami-Dade County Public Schools is audited by the State of Florida's Auditor General (AG) on a tri-annual basis and the 2009-10 fiscal year represents such an AG audit year. The Audit Manager in charge of the District School Boards for the entire State of Florida, Mr. Greg Centers, made a comprehensive presentation regarding the audits that his office will be conducting during the year. For the 2009-10, it was explained, the Florida AG will be conducting a financial audit, which will be for the purpose of opining on the sanctity and accuracy School Board's financial statements. Further, the AG audit engagement would encompass a Federal audit (Single Audit), an operational audit component, and an audit follow-up of prior audit findings. The Committee posed a number of questions and concluded in expressing satisfaction with the thorough presentation.

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

6. Termination of Rise Academy Charter School

Mr. Montes de Oca explained that RISE Academy Charter School was terminated at the recent School Board meeting and this information, along with the corresponding School Board agenda item, was provided to the Committee. Audit Committee members commented that the agenda item's content appear to illustrate a very exhaustive examination, and the Committee registered concerns with the charter school administration's tactic of having children appear in front of the School Board requesting that the school not be closed. A member of the Committee suggested that the School Board incorporate in the contract language or a provision to prevent charter school administration from utilizing this practice.

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

OTHER REPORTS/PRESENTATIONS:
7. M-DCPS Monthly Financial Report

Ms. Pou introduced the captioned report, and she also noted that this quarterly report includes the balance sheet and statement of operations for the District's General Fund as well as food service and capital projects.

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

INTERNAL AUDITS:

8. Office of Management and Compliance Audits (OMCA) Activity Report

Chief Auditor Mr. Montes de Oca presented the OMCA's activity report in an endeavor to provide the Audit Committee with an up-to-date status of school and district audits and a brief summary of those internal audit reports included in the Agenda for discussion. Highlights of the report included investigations that his office conducted recently and actions taken related to employees that have been terminated or arrested as a result of those investigations. The Committee proffered very positive comments of OMCA's investigative work, which included the forensic work encompassed in these audit investigations and the collaborative efforts between OMCA and the School Police during these investigations.

Mr. Carvalho noted that in addition to those audits scheduled to be performed for the school year, he will continue to add to Mr. Montes de Oca's plate at no cost to the District.

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

9. Review of Proposed 2011 Audit Plan and Tentative Budget

The Chief Auditor presented the Proposed Audit Plan for the coming fiscal year. This is a proposed plan of upcoming audits developed by the office based on risk assessment, history of what transpired during the fiscal year, any audits carried over from the past year plan, and recommendations from the stakeholders of this plan. This year, all audits carried over from the prior fiscal year are in progress or were completed. During the summer, OMCA administration obtains feedback from all plan stakeholders, which include the Audit Committee, School Board members and District administration. Thereafter, OMCA compiles this feedback, formulates and finalizes the fiscal year audit plan. The finalized plan and summary of activities for the year are then brought back to the Committee in September for final approval. The Chief Auditor fielded and answered several questions related to the plan. The Committee tendered favorable comments to the ambitious plan and gave accolades to the Chief Auditor and the OMCA for their endeavors and the massive amount of work it undertakes and completes each year.

Because this plan is only proposed, no transmittal to the School Board by the Audit Committee is required.

10. Internal Audit Report – Selected Schools

Ms. Maria T. Gonzalez, Assistant Chief Auditor, presented the Selected Schools Audit and noted that it includes the results of 61 audits, ten of which had audit exceptions. Two significant observations were made during the course of the report discussion.

First, a Committee member noted that some of the responses provided by the school administration appeared to be “textbook” and “canned”, if not unrealistic responses since they appear to depict corrective actions which may be expected from the principal but not necessarily representative of what is actually taking place at the school. In many cases, the responses regarding similar findings appear to be quasi artificial and repetitive. Further, they serve to suggest and even demonstrate that the action initially proposed in respect to each audit finding was not properly executed and followed up.

Secondly, an attending School Board member commented that principals are still required to participate in the Money Matters Support Program (which unfortunately and mistakenly is typically viewed as punitive) as part of the corrective action, even in those instances when a principal has requested an investigation because of issues identified by the Principal. Concern was expressed that the findings are still incorporated in the audit report not with standing that the principal was the catalyst for the finding.

The Superintendent stated that he expects principals to do what is reasonably expected of them. Namely, they are to carry out their responsibilities as leaders of the schools. Superintendent Carvalho concluded that he fully supported the recommendations espoused by the reports. The Chair clarified that auditors are responsible for reporting the findings uncovered during the audits regardless of the source that brought forth the issue.

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

11. Audit of the Division of Social Science and Life Skills

Ms. Lobos noted a response that contradicted the auditor’s finding, and observed that such an approach is a defense ploy that never works.

Ms. Kairalla expressed concern with Physical Education being part of this division, since there is no connection with Social Sciences and Life Skills.

Ms. Montaner made a note of Ms. Kairalla’s concern and said that she will make Mr. Woodson aware of the comment and observation.

The Committee was concerned and inquired as to whether monies could be recovered in respect to the opera company services. According to management, overpayment to the opera company will be reimbursed with in-kind services. The Committee requested a follow up in September addressing whether in-kind services were received.

There was no further discussion and upon a motion duly made by Mr. McGhee, seconded by Ms. Kairalla, which carried unanimously, it was recommended and approved that the Internal Audit Report – Division of Social Science and Life Skills be received and filed by the School Board with the caveat that the Division of Social Science and Life Skills report back, as requested, in September on the status of the repayment via in-kind services issue.

12. Audit of Fringe Benefits Administration

Chief Auditor Mr. Montes de Oca explained that the administration will be going through an RFP process in the near future to obtain these services, and this audit should be of valuable assistance to the administration in regard to its recommendations.

Comments from Committee members were directed over concerns with the bidding process and how the number of vendors decreased from eight to one. However, the Committee was satisfied with the responses provided by management as to actions that are taking place on an ongoing basis.

Management explained that the ERP system will perform most of the functions that vendors performed in the past, and will change the breath and scope of the new contract. It was also observed that according to the current ERP schedule for completion, the benefits module is scheduled to be implemented in early 2011.

Mr. Thornburg inquired about the process and rules governing the extension contracts vis-à-vis the length of the contract and the requirements for rebidding contracts. Mr. Montes de Oca said that according to his recollection, it had been proposed that whenever a contract was to be extended without going through the competitive process, the administration would present the reasons and/or merits for the extension to the Audit Committee for its recommendation, and such recommendation would be forwarded to the School Board for its consideration. After further discussion on this topic, the Chair inquired of Mr. Clark as the status of his research on the issue. Mr. Clark agreed to present a proposal on the matter at September Audit Committee meeting.

The Chair observed and reminded everyone that one of the tenets and missions of the Audit Committee is to afford protection to the internal auditor in regard to allowing him to report findings without concerns about reprisal. The Chair added that the auditor has the latitude to modify an audit report's language, but he/she cannot compromise his/her fiduciary and legal duties to accurately report audit findings. Mr. Thornburg also noted it is often a challenging and tough job to be a good and independent internal auditor and observed that frequently the results of an adverse audit finding are not well-received by the management impacted by the audit findings. At times, impacted administrators are understandably upset by and contest audit findings because of the pride they take in endeavoring to perform their duties in

admirable and commendable fashion. Nonetheless, it is a cardinal principle that internal auditors must be insulated from any intimidation or badgering to ensure the sanctity and meaningfulness of the audit process.

Both the Audit Committee members and the Chief Auditor endorsed the reasoning and the importance of the Chair's observations.

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

13. Minority and Women Business Enterprises (M/WBE) Annual Reports (Fiscal Years 06-07, 07-08, 08-09)

Mr. McGhee inquired as to whether there will be additional audits in this area because this report is very limited in scope. The Chief Auditor explained that this was a review performed at the request of management, and the office simply reviewed the numbers in the report for proper support, but in his opinion there are no sufficient activity and resources involved in this area to merit an audit. Mr. Montes de Oca also noted that the minority and female participation level has dropped considerably during the last few years.

Mr. McGhee commented on the downward trend of female and minority participation in the program and asked whether something could be done to look at this trend since this review does not address the matter and to find out why there is a decrease in participation. Mr. McGhee also pointed out some large disparities in participation by the different minority groups. Management explained that the decline in participation may be the result of minority companies not possessing the levels of capital/resources to procure the required bonding and necessary working capital.

After further discussion, the Committee accepted the report, but unanimously concurred with the Chair's recommendation that an Ad-Hoc Committee be established to ascertain whether there are sufficient and justifiable reasons for the disparity in the participation amongst female and minority entities. Chair Thornburg appointed Audit Committee members Mr. Rayfield McGhee, Ms. Susan Kairalla and Ms. Wendy Lobos, and Chief Auditor Mr. Montes de Oca to serve on this special committee and requested that a member of M-DCPS management (to be designated by the Superintendent) and a representative from the Attorney's office (to be designated by Mr. Harvey) to also serve as Ad-Hoc Committee members. He asked Mr. McGhee to serve as the Ad-Hoc Committee Chair and requested that a meeting be convened before the September 2010 Audit Committee meeting.

Mr. Thornburg also requested the Legal Department to provide guidance to the Committee to assure it did not run afoul of the Supreme Court rulings of Affirmative Action Plans. He explained the purpose of the Ad-Hoc Committee is not to establish an affirmative action plan, but rather to determine if there are unnecessary impediments, which have a "chilling effect" on or preclude female and minority groups from being awarded M-DCPS prime and first-tier contracts.

There being no further discussion and upon a motion duly made by Mr. McGhee, and seconded by Ms. Lobos, which carried unanimously, it was recommended and approved that the Minority and Women Business Enterprises (M/WBE) Annual Reports for the Fiscal Years Ended June 30, 2007, June 30, 2008, and June 30, 2009, be received and filed by the School Board.

FOLLOW-UPS

14. Cuban American National Council, Inc.

Mr. Montes de Oca explained that in addition to the requisite financial statements being presented, which are required to be submitted to the School Board pursuant to the contract between this entity and the School Board, this is one in a series of follow-ups which have been requested by the Audit Committee because of the entity's admittedly weak financial situation. At the request of the Vice Chair of the Audit Committee, Mr. Julio Miranda, District Director, who is responsible for the review of the entity's financial reports, responded that all questions posed to the entity had been satisfactorily answered. The Committee acknowledged that the report details the actions of this entity to further reduce expenditures and improve its financial posture.

Representatives from the Cuban American National Council (CNC) thanked the Committee for acknowledging CNC's efforts to curtail expenditures and improve its financial situation, and proffered that as a social services organization, the entity is committed to provide the best possible service to the community.

With the concurrence of Committee members, the Chair requested that CNC provide a follow up report of their financial activities and status at the Audit Committee meeting scheduled for December 7th and thanked the CNC officials for their cooperation and their endeavors on behalf of the community. He complimented CNC and its representatives on the strides made to date, but stated that there remain obvious economic challenges to overcome before CNC is "out of the woods".

A motion was made by Mr. Gonzalez, seconded by Ms. Kairalla, which carried unanimously, to recommend and approve that the Financial Statements and Single Audit of the Cuban American National Council, Inc. for the Fiscal Year Ended December 31, 2009 and December 2008 be received and filed by the School Board.

15. WLRN/Friends' Operating Agreement - Update

The Chair acknowledged and complimented the School Board Attorney's Office for the significant breakthrough made during the past 24-48 hours in the mission of developing an operating agreement. Superintendent Carvalho concurred with Chair Thornburg, that significant progress concerning the issues between the School Board and Friends of WLRN (Friends) had been made at this time. However, the Superintendent pointed out that he

expects further dialogue and deliberations between the parties, which he believes will result in a good solution for both. According to the Superintendent, his concerns centered around four specific issues: 1) the lack of an operating agreement between the School Board of Miami-Dade and Friends. The Superintendent noted this matter has been pending since January, when the Audit Committee first recommended amendments to Friends' By-Laws and the adoption of an operating agreement; 2) the fact that the 1995 By-Laws were subsequently and dramatically changed without School Board input; 3) the selection/appointment of the President of Friends without School Board input; and 4) any time that Friends' policy is being considered for a change requires that ample notification be provided to the Superintendent and the School Board to properly weigh in on the issues.

It was urged per the agreement reached by the parties that the restoration of the Superintendent's rights, as provided in the 1995 Friends By-Laws, should be immediately undertaken by Friends. With the endorsement of the Superintendent and the Audit Committee members, Mr. Thornburg noted that the timing to finalize the operating agreement is now set for August 16, 2010. He stated that if progress is being made on the formulation of an operating agreement the timeline could possibly be extended to the September Audit Committee meeting.

The Committee was pleased with the status of the deliberations and expects prompt and satisfactory resolution of the issues between both parties.

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

OTHER BUSINESS:

16. School Board Rule 6Gx13- 8C-1.071, Anti-Fraud, School Board meeting of June 16, 2010

The Superintendent presented the new Anti-Fraud policy to the Committee, which went to first reading two months ago, and became current policy of the School Board after it was approved on final reading at the June 16, 2010 meeting. According to Mr. Carvalho, it is a comprehensive rule, which consolidates and compiles fraud regulation unto one rule. The Superintendent observed that this rule provides employees with definitions of what constitutes fraudulent activities, how to report these activities if encountered, and protection to those who report them. The Superintendent mentioned that he is currently working with the School Board Attorney in another piece of legislation related to lobbying that will soon be shared with the Audit Committee and presented to the School Board for approval.

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

17. Request Regarding Paper Packages versus Electronic Transmittals

Mr. Montes de Oca noted that it has been a long journey for Committee member Ms. Susan Kairalla to look into savings by not sending paper audit reports and instead having the reports transmitted electronically. She explained that today's package consisted of 421 pieces of paper, which at 3 cents per page represents a total cost of \$12.63 per package. Ms. Kairalla concluded that if these packages did not have to be sent, it would result in corresponding savings to the District during a period of much needed cost reductions. The Chief Auditor offered that before the September Audit Committee meeting, he will call every member and ask whether they would like to receive paper reports.

The Chair complemented Committee member Karialla for her persistence and efforts in making M-DCPS a "paperless", "greener" and more economically prudent organization.

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

18. Savings to the District

The Chief Auditor explained that as a follow-up to an audit report addressing change orders issued about two years ago, the administration requested the audit staff's assistance in reviewing certain additional change orders to possibly identify errors/overpayments. As a result of a review conducted by OMCA, the administration was able to recoup \$130,000. Also, as a result of Mr. Julio Miranda's vigilance over charter schools' financial statements and Mr. Jon Goodman's diligence, they identified a charter school which had claimed a tax exemption for an entire building, even though a portion of that building was being utilized for the charter school, which made the tax exemption considerably less. Audit staff visited with the property appraiser's office who determined that the charter school had over claimed its tax exemption status, and had underpaid over \$30,000. The Committee was unanimous in extending accolades to OMCA for the additional savings that these actions generated for the District.

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

Adjournment

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

The agenda items were discussed in the following order:

3,4,6,5,7,8,9,16,2,10,15,11,12,13,14,17,18