

**REVISED MINUTES OF THE SCHOOL BOARD AUDIT COMMITTEE
OF MIAMI-DADE COUNTY PUBLIC SCHOOLS
January 27, 2009**

The School Board Audit Committee met on Tuesday, January 27, 2009 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, Chair
Mr. Robert Schomber, Vice Chair
Ms. Perla Tabares Hantman, Board Member
Mr. Manuel A. Gonzalez
Ms. Susan Marie Kairalla
Mr. Willie Kemp
Mr. Peter A. Lagonowicz
Mr. Jose F. Montes de Oca
Mr. Frederick F. Thornburg, Esq.
Mr. Nick Tootle

Non-Voting:

Mr. Allen M. Vann

Member Absent:

Mr. Jeffrey B. Shapiro

Call to Order

Ms. Amos called the meeting to order at 12:37 p.m.

Introductions

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

Dr. Lawrence Feldman, School Board Member	Ms. Maria T. Gonzalez, Asst. Chief, School Audits
Mr. Alberto Carvalho, Superintendent of Schools	Mr. Trevor L. Williams, Asst. Chief, Operational Audits
Mr. Luis M. Garcia, Acting School Board Attorney	Dr. Helen Blanch, Administrative Director
Dr. Richard H. Hinds, Chief Financial Officer	Mr. Jorge L. Garcia, Administrative Director
Mr. Jaime Torrens, Chief Facilities Officer	Ms. Cynthia Gracia, Administrative Director
Mr. John Schuster, Chief Comm. Officer	Ms. Marie Harrison, Administrative Director
Dr. Magaly C. Abrahante, Asst. Supt.	Ms. Marta Montaner, Administrative Director
Mr. Joseph A. Gomez, Asst. Supt.	Ms. Ana M. Rasco, Administrative Director
Ms. Vera Hirsh, Asst. Supt.	Mr. Jerold Blumstein, Administrative Assistant
Ms. Enid Weisman, Asst. Supt.	Ms. Jackeline Fals-Chew, Administrative Assistant
Dr. Carmen B. Marinelli, Regional Ctr. Supt.	Ms. Viviana Jordan, Administrative Assistant
Dr. Marcos M. Moran, Regional Supt.	Ms. Ana Lara, Administrative Assistant
Mr. George A. Nuñez, Regional Supt.	Ms. Vivian Lissabet, Administrative Assistant
Dr. Essie S. Pace, Regional Supt.	Ms. Libby Perez, Administrative Assistant
Mr. Victor Alonso, Construction Officer	Mr. Carlos Saladrigas, Administrative Assistant
Mr. Nicolas Betancourt, Sr. Dsgn & Constr. Ofcr.	Ms. Bertha Valcarcel, Staff Member to Ms. Hantman

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Mr. James Dillard, Inspections Officer
Ms. Connie Pou, Controller
Ms. Daisy Naya, Asst. Controller
Ms. Mindy McNichols, Senior Attorney
Mr. John Labonia, WLRN, General Manager
Mr. Antonio Martinez, District Director
Mr. Barry Meltz, District Director
Mr. Julio C. Miranda, District Director
Ms. Odalis J. Garces, Executive Director
Mr. Jon Goodman, Director
Mr. Charles D. McMillon, Director
Ms. Tamara Wain, Director
Ms. Mary A. Paz, Instructional Supervisor
Mr. Dylan Hughes, Supervisory Agent
Ms. Eileen Reilly, Fin. Supervisor
Mr. Luis Baluja, Audit Supervisor
Ms. Vivian Ferradaz, Auditor
Ms. Nelly Fuentes-Lacayo, Auditor
Ms. Latosha Styles, Auditor

Ms. Millie Sanchez, Academica
Ms. Ana Martinez, Academica
Dr. George Kafkoulis, Archimedean Middle Conserv.
Mr. Ross Whitley, Berman Hopkins CPA
Mr. Regino Rodriguez, G&A CPA
Mr. Nelson Pastor, G&A CPA
Mr. Michael Roegge, Dade Marine Institute
Mr. Lance Williams, Richmond Perrine Opt.
Mr. Woolan Anderson, Richmond Perrine Opt.
Mr. Tony Brunson, Sharpton, Brunson & Co., P.A.
Mr. Rudolph Larrimore, Sharpton, Brunson & Co., P.A.

1. Approval of the Minutes of the Audit Committee meeting of December 2, 2008

A motion was made by Mr. Thornburg and seconded by Mr. Schomber, to amend, modify and adopt the minutes of the December 2, 2008 Audit Committee meeting. The motion was carried unanimously.

Ms. Amos asked Superintendent Carvalho to update the Committee on the District's financial condition.

Superintendent Carvalho explained to the committee that an additional \$15 million reduction was expected as a result of the special session by the Legislature that would affect the fourth quarter. An item was prepared for the February School Board meeting. That reduction is in addition to the \$123 million reduction earlier in the year, and the subsequent discovery of a \$158 million shortfall in the budget. Those conditions had been reported in the press and the District had taken appropriate actions to reduce the impact. He recommended that the State correct how local revenues are calculated because the District suffered a \$25 million retroactive impact when the method used in the past was changed. A law was passed that limits the District's exposure, and the negotiations continue. Mr. Carvalho noted that although the District faced these massive reductions, there were no reductions at the classroom level. He also mentioned his initiative to try to include legislative action to assist education as part of the Economic Stimulus package.

Mr. Thornburg commented that the community should be thankful to the Superintendent for being creative and innovative and noted that the Audit Committee is grateful for his endeavors.

Ms. Hantman commented that she is proud of the efforts of the administration.

EXTERNAL AUDITS:

2. Audit of the WLRN Television and Radio Station for Fiscal Year Ended June 30, 2008

Mr. Thornburg recused himself from this item because of his relationship with WLRN.

Mr. Brunson made a powerpoint presentation and provided the audit results and financial overview of the stations. He disclosed that the financial statements present fairly in all material respects the financial position of the Television and Radio stations.

Mr. Montes de Oca requested that the Audit Committee be informed when the CPB report is filed with the FCC.

After some discussion, a motion was made by Mr. Schomber, seconded by Mr. Tootle, and carried unanimously, to recommend that the Audit of WLRN Television and Radio Station for Fiscal Year Ended June 30, 2008 be received and filed by the School Board.

3. (a) Review of Twenty-eight Charter Schools' Financial Statements

Mr. Williams provided background information on the charter schools being presented. He explained that 22 of the 28 charter schools presented were in good financial strength and six schools were mixed but not alarming enough to raise a concern. He expressed concern with one school, Academy of Arts and Minds Charter High School and noted that this school had a weak current position at year end, with a current ratio of 0.42 and a cash balance of \$67.

A representative from Academica's management company addressed the committee's concerns about the nature and severity of repeat management letter findings of the numerous schools under their management. Representative from the two audit firms that audited the Academica-managed schools also answered numerous questions from the Audit Committee members. The Academica representative agreed to forward to the Office of Management and Compliance Audits (OMCA) the detail of how all the repeat findings have been resolved/corrected.

There was discussion about whether the management letter findings should be graded to show the magnitude of each finding to the Audit Committee and other users of the reports. There was also discussion about whether there is equitable financial oversight treatment for charter schools compared to that of the traditional public schools, and the ability of the District to discipline those charter schools with repeat findings. OMCA staff pointed out several

cases where the District has terminated charter schools and other actions for those schools with financial mismanagement, including repeat adverse findings.

The committee had concerns about the current and overall financial condition of Academy of Arts and Minds charter school. Although the school was asked to send a representative to the meeting to answer questions, one was not in attendance. It was agreed to defer the discussion of that school's finances to the March 17 meeting, so that staff from that school would be in attendance.

There was no further discussion. A motion was made by Mr. Schomber, seconded by Mr. Thornburg, and carried unanimously, to recommend that the Review of Twenty-eight Charter Schools' Financial Statement be received and filed by the School Board.

(b) Financial Recovery Plans Update

Mr. Williams explained the results of the following three schools in financial emergency: *Miami Community Charter Middle*, *Eugenio Maria de Hostos Leadership Charter* and *Oxford Academy of Miami*. The Committee was presented with these schools at its meeting of December 2, 2008 and requested a follow-up. Mr. Williams noted that the Financial Recovery Plan Staff Group (FRSG) had met with School Board staff attorney to review additional information and determined the following: 1) The letter provided from the President of Aspira of Florida Inc. concerning Eugenio Maria de Hostos has legal sufficiency; consequently, the matter has been resolved; 2) Oxford Academy made some changes to their board of directors that were deemed satisfactory, and the School Board voted to reinstitute that charter; and 3) Miami Community Charter Middle recovery plan was unacceptable and a follow-up will be conducted.

(c) Community Based Organizations

Mr. Williams presented *Richmond-Perrine Optimist Club, Inc.* a Community Based Organization that provides alternative education to "At-Risk" students who need to continue their education. Richmond-Perrine served, on average, 60 students and reported \$352,000 in revenues. Mr. Williams explained that the statements were reviewed and found to be in order. In addition, he informed the committee of a follow up requested at its last meeting of December 2, 2008 on *Dade Marine Institute, Inc.* The Committee requested additional information from the agency's representatives regarding how the organization's management and general expenses were allocated. Mr. Williams stated that the agency responded to our inquiry that all expenses presented in its audited financial statements in the management and general expenses category were direct charges, not allocated amounts.

There was no further discussion. A motion was made by Mr. Schomber, seconded by Mr. Thornburg, and carried unanimously, to recommend that the Richmond-Perrine Optimist Club, Inc. Community Based Organization be received and filed by the School Board.

INTERNAL AUDITS:

4. Office of Management and Compliance Audits' Activity Report

Mr. Vann summarized the activity report and noted the audit projects that are currently in progress. He mentioned in "Other Activities" that the Audit department is acting as liaison to the State of Florida Auditor General's team of examiners. Mr. Vann explained that this team is reviewing the District's reported number of full-time equivalent (FTE) students under the Florida Education Finance Program (FEFP) and number of students transported for the fiscal year ended June 30, 2008. The Audit department has facilitated communication between district staff and Auditor General's audit staff, and at the present time over 30 percent of the school sites selected for the audit visits have been completed by the Auditor General.

In addition, Mr. Vann explained that an independent CPA firm is performing specific project closeout audits, and is in the process of completing its audits of three recently completed construction projects. Upon their completion, the results will be presented to the Committee.

Mr. Vann explained that the District-wide reduction-in-force and strict hiring freeze have resulted in a severe staff shortage in the Controller's office. In addition, the Accounting Department must also shift resources to support the development of the ERP Financial reporting module. Consequently, Mr. Vann has agreed to transfer Mr. Lander Carn, Audit Director, to the Accounting Department. Mr. Vann explained that Mr. Carn has specific prior accounting department expertise that will enable him to cover the work previously performed by two staff positions in that department. Although this will result in diminished internal audit coverage, the transfer will be vital in supporting the District's ongoing financial reporting and recording system needs.

Superintendent Carvalho explained how the District budget for ESE and ESOL is under funded, as much as \$22 million this coming year, as a result of an anomaly that has existed for the last 2 or 3 years. The money is not coming to Miami-Dade for its high quality programs because that has not been recognized by Tallahassee. The District is working with the Department of Education to resolve the issue.

Dr. Hinds explained the issue relates to caps that are negotiated with the Department of Education, that limit the amounts that can be recovered. The State now allows FTE for ESOL students enrolled in regular classes. These caps are changed by the State on a period by period basis and the communication may be delayed, but there is no indication of negligence.

Ms. Hantman inquired as to when was the underreporting discovered and asked: Was it 3 or 4 months ago?

Mr. Carvalho responded yes, about 3 or 4 months ago.

Ms. Amos stated that she believes the reporting issue will be corrected and once corrected we will see the monetary effects.

This report is for informational purposes and no action is required.

5. Internal Audit Report – School Audit Selected Schools

Ms. Gonzalez summarized the Selected report which consisted of the audit of 38 schools from various regional centers. She explained that the audits included a review of internal funds and payroll records at all schools. She noted that on a selected basis, credit card purchases, FTE reporting and student records, Title I Program procedures, and school site IT controls reviews were conducted. She also noted that property results for most of these schools and for schools previously reported are incorporated as well.

Ms. Gonzalez explained that at eight schools the fiscal management and oversight over certain programs/functions need improvement.

Mr. Vann pointed out that at the last Audit Committee meeting Dr. Feldman suggested that the report should identify the principal that is responsible for the audit period. He referred to page 19 and 20, and noted where the change was made.

Dr. Feldman commended Mr. Vann for adding the piece to the report and for the record commented that he has always worked well with the audit department in the 20 years of service and found that prior audit administration were helpful and accessible to the regions.

Mr. Schomber referred to page 7, and inquired about the funding disallowances and potential losses \$13,340 and \$13,022 noted.

Ms. Gonzalez explained that the \$13,340 funding disallowances were bookkeeping errors that need to be corrected and the \$13,022 were potential losses that could have occurred.

Ms. Hantman asked what department is responsible for this error that was not detected.

Dr. Marinelli responded that there is a group that is responsible for reviewing these records including the FTE Office.

Superintendent Carvalho explained that the FTE Office has been reorganized. He is confident that the new administration ~~will be~~ is capable of correcting these deficiencies and increasing capacity to capture more FTE beyond ESE and ESOL.

Dr. Marinelli pointed out that they have accelerated the training as well.

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

6. Audit of Hospitality Services

Ms. Gonzalez summarized the report and noted that the report presents the audit results for a three-year period. She stated that apart from the exceptions noted, the internal funds' financial statements present fairly, in all material respects. Ms. Gonzalez explained the four findings noted in the report.

Mr. Montes de Oca referred to page 14, and inquired about the Certificate of Insurance for one vendor that was incomplete.

Mr. McMillon responded that it has been resolved.

Mr. Montes de Oca referred to page 18, and noted that he agrees with the recommendation to reduce the current \$40,000 complimentary hospitality threshold. He also noted that he anticipates that administrators will follow guidelines when ordering hospitality services.

Ms. Hantman expressed concern that administrators will not follow the guidelines.

Ms. Kairalla suggested that, instead of waiting for next year to evaluate the pricing and cost structure of the operation, can it be done right away.

Superintendent Carvalho explained how the District is at the point where all recommendations are being considered to achieve reductions that are necessary. He also recognized we have to pay full value for services we receive, and noted that expanding the cafeteria services provided at the 7th floor to include the annex building was recommended by the previous auditor. That view recognizes productivity benefits from keeping employees in the buildings during lunch time.

Mr. Vann commented how hospitality services funding in prior years probably was not a major concern, given the conditions that existed in the past. However, this year, under the present financial conditions, it is appropriate for the administration to look at the cost of subsidized operations, and the information provided by this audit does that.

Dr. Feldman suggested that, given the current condition of employment, to consider raising the cost of the items rather than outsourcing and maybe ~~losing~~ losing the efficiency and camaraderie the cafeteria provides to the District.

Mr. Schomber expressed concern that management did not give a detailed response to satisfy finding number 1.

Ms. Gonzalez offered a follow up to Mr. Schomber's concern.

Superintendent Carvalho commented that, notwithstanding the recommendations and findings in this report, at the February school board meeting a budget resolution will be presented that will address this issue. He wishes not to discuss further for the reason that there are collective bargaining matters.

There was no further discussion. A motion was made by Mr. Schomber, seconded by Mr. Montes de Oca, and carried unanimously, to recommend that the Internal Audit Report – Hospitality Services be received and filed by the School Board.

7. Audit of Construction Claims, Contingencies and Allowances

Mr. Williams introduced the report and made a power point presentation highlighting the findings and recommendations. He noted that the responses were not incorporated herein for the reason that the responses were not ready at the time of reproduction of the report.

Mr. Williams explained that the audit found that the Office of School Facilities (OSF) policies and procedures that govern the approval and management of change orders, contingency adjustments and allowances need improvement. In addition, during the course of a project, OSF staff does not reconcile the construction manager's (CM) use of allowances to ensure that any unused amounts are refunded to the District, and does not always competitively price allowances at the time they were used.

Furthermore, he stated that although specifically disallowed by contract and/or procedures, the District paid \$320,000 in change orders and contingency adjustments, which directly resulted from conflicts between project drawings and existing conditions. Moreover, change orders totaling \$542,382, resulting from architect and engineer (A/E) errors and omissions were paid, contrary to OSF's procedures. The District was overcharged \$36,650 for project bonding cost included in change order calculations.

Mr. Torrens explained that there were many unusual circumstances, such as the class size reduction amendment, hurricanes and the building boom during the period of construction lasting several years. The cause of many of the findings in the report was that projects were commenced prior to 100% design in an effort to fast track the building of new student stations. Since the beginning of his tenure as Chief Facilities Officer, he has virtually eliminated the practice of establishing a guaranteed maximum price (GMP) prior to 100% drawings. Mr. Torrens continued that the administration generally agrees with the audit findings and recommendations. But in some cases, such as the A/E errors and omissions threshold of 1½ %, there is simply a philosophical difference of opinion between the auditors and staff.

Ms. Amos made a comment to Mr. Torrens that the responses are antagonistic and she has made this comment before. She explained that she would like to see a different tone in the future responses.

Mr. Lagonowicz asked if the change order requests and contracts are reviewed by the School Board Attorney's office.

Mr. Torrens explained that there are several layers of reviewers to approve or disapprove a change order request.

Ms. Amos expressed concern about the contracts signed by contractors with the mentioned conditions and not be held liable.

Mr. Williams agreed with Ms. Amos' concern and noted that training should be implemented to remove some of the anomalies.

Mr. Lagonowicz suggested that such training should take place from the School Board Attorney.

Mr. Garcia noted that they are available to conduct training.

Mr. Lagonowicz inquired about the delivery method used for change orders.

Mr. Torrens noted that the change orders have drastically changed from the past and explained that the allowance of change orders is less than 1%.

Ms. Amos commended Mr. Torrens for a phenomenal job in getting the schools up and going with all the renovations and construction jobs.

Mr. Thornburg questioned whether the District could recoup the unnecessary charges identified in the report and suggested that the audit report should reflect where charges may be recouped.

The Committee members discussed the need for consistency among the construction contracts and departmental policies and procedures.

There was no further discussion. A motion was made by Mr. Montes de Oca, seconded by Mr. Gonzalez, and carried unanimously, to recommend that the Internal Audit Report – Construction Claims, Contingencies and Allowances be received and filed by the School Board.

8. Follow-up Review of Audit of Payroll and Timekeeping Practices at Maintenance Operations and Facilities Construction

Mr. Torrens asked the Committee to defer discussing this report until the next Audit Committee meeting. He explained that he has ten ongoing audits and did not have the opportunity to respond to this report.

A motion was made by Mr. Thornburg, seconded by Mr. Schomber, and carried unanimously, to defer discussing this report until the next Audit Committee meeting.

OTHER BUSINESS:

9. (a) Review of Proposed Changes to Board Rule 6Gx13- 2C-1.14 Office of Management and Compliance Audits (b) Review of Proposed Changes to Board Rule 6G13- 2C-1.142 Audit Committee

Ms. Amos expressed the satisfaction of the Committee that the Board had approved Board member Ms. Perla Tabares Hantman's Board Item H-7, which changes the reporting line of the Chief Auditor.

Mr. Garcia explained to the Committee the proposed amendment to the rules.

The Committee offered changes, which Mr. Garcia agreed to include in his agenda item G-1 for the Board Meeting of February 11, 2009.

After further discussion a motion was made by Mr. Thornburg and seconded by Mr. Schomber and carried unanimously to change the cited paragraphs in the Audit Committee and the Office of Management and Compliance Audits Rules to reflect that the reporting line for the Chief Auditor, for all purposes, will be directly to the Audit Committee and that recommendations for the selection of the Chief Auditor should be from the Audit Committee to the Board.

10. Finance Committee/Financial Oversight Options

Mr. Vann presented materials to demonstrate that many institutions have stand-alone finance committees, while others have combined audit and finance committees. In general, a finance committee would serve as an independent and objective party to monitor the integrity of the organization's budgeting and financial management process.

Dr. Hinds indicated that there was a definite need for independent financial oversight at the School District.

Superintendent Carvalho expressed his desire for the Audit Committee to take on these additional responsibilities. He cited the financial expertise of the current audit committee members and stated that the School District could ill afford the start-up time or administrative burden associated with a new committee.

After considerable discussion among the audit committee members, they voted unanimously to take on the combined role of an audit and finance committee.

The Committee directed the Chief Financial Officer and the Chief Auditor to bring back to the Committee on March 17, 2009, a proposed mission statement and to work on drafting appropriate changes to School Board Rule 6Gx13- 2C-1.142, *Audit Committee*.

11. Review of Outside Auditor Fees

Mr. Vann briefly explained to the Committee the fees charged by the different firms for audit services. Consequently, due to the deteriorating financial condition of the District, vendors and consultants are being requested to reduce their fees. Mr. Vann expressed his concern and stated that he spoke to E&Y about reducing their fees. Mr. Vann asked the Committee for any suggestions.

After some discussion, the Committee agreed to request that E&Y reduce the fees for next year's audit engagement by 20%. This ~~is~~ in no way should be taken as a reflection on the performance of the firm, which the Committee holds in the highest regard.

There was no further discussion. A motion was made by Mr. Thornburg and seconded by Mr. Schomber and carried unanimously to write a letter to E&Y that the Audit Committee ~~considered~~ endorsed the suggestion of reducing the fees by 20%.

12. Other Business

Mr. Montes de Oca inquired as to when the Single Audit report will be presented.

Mr. Vann explained that the Single Audit is prepared by the firm Shaun Davis & Associates, P.A. He pointed out that, historically, that firm has been problematic with timely preparing the audits. Mr. Vann stated that there was staff illness at that firm, and the audit report would be delayed until the next Audit Committee meeting in March. He expressed concern that he has not seen a draft of the findings and noted that sufficient time is needed to respond and address the comments.

Ms. Pou stated that she received a rough draft of the report and the two comments noted have been addressed by the appropriate departments.

Adjournment

Ms. Amos adjourned the meeting at 4:16 p.m.