

Office of Superintendent of Schools  
Board Meeting of October 20, 2004

October 6, 2004

Rudolph F. Crew, Superintendent of Schools

**SUBJECT: ANNUAL REPORT OF THE SCHOOL BOARD AUDIT COMMITTEE  
FOR THE 2003-04 FISCAL YEAR**

School Board rule 6Gx13- 2C-1.142 VI. Duties and Responsibilities paragraph 15, states that the Audit Committee shall: "Submit periodic reports, at least annually, on the work of the Audit Committee, to the School Board and the Superintendent." Accordingly, School Board Audit Committee Chairman, Dr. Hank Mack will make a presentation to the School Board.

**RECOMMENDED:** That The School Board of Miami-Dade County, Florida, receive the Annual Report of the School Board Audit Committee for the 2003-04 Fiscal Year.

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**Annual Audit Committee Report to the  
Miami-Dade County Public School Board  
for the 2003-2004 Fiscal Year**

**Distinguished Chair, Vice Chair, School Board Members, Mr. Superintendent, I am pleased to provide you with the annual report of the activities of your Audit Committee.**

**My name is Dr. Henry W. Mack, appointed to the Committee by Dr. Solomon Stinson and I am honored to be elected by my colleagues to serve as Chairman for another year.**

**The Audit Committee consists of eleven (11) voting members. One is a School Board member appointed by the Board Chair. Dr. Krop appointed Mr. Agustin Barrera to serve on the committee for the remainder of his term. We are honored to have Mr. Barrera serve with us and look forward to his contributions.**

**The remaining members are appointed by each School Board member, and one appointment is made by the Superintendent. They serve for two year terms. When their term expires, the current School Board members either reappoint them or appoint new persons to serve.**

I would like to introduce the current members of the Audit Committee and ask that those present to please stand and be recognized as I call your name:

- Mr. Jeffrey Shapiro, Esq. Vice-Chair of the Audit Committee appointed by Dr. Michael Krop
- Ms. Betty Amos appointed by Mr. Frank Cobo
- Mr. Robert Henderson appointed by Dr. Robert Ingram
- Mr. Jack Levine appointed by Ms. Perla Tabares Hantman
- Ms. Lidia Monzón Aguirre appointed by Dr. Marta Pérez
- Mr. Michael Moore appointed by Mr. Agustin Barrera
- Mr. Robert Schomber appointed by Ms. Betsy Kaplan
- Mr. Robert Stein appointed by Dr. Rudolph Crew
- Mr. Carlos M. Trueba appointed by Mr. Frank Bolaños
- I indicated earlier that I am appointed by Dr. Solomon Stinson.

The committee also has two non-voting members, the Chief Financial Officer, Dr. Richard Hinds who previously served on the district for over 30 years and the Chief Auditor, Mr. Allen Vann. Both serve indefinite terms.

**I, personally, along with my colleagues would like to commend and express our sincere thanks for the contribution made to the Audit Committee by Dr. Krop for over twenty years. Dr. Krop, thank you very much, it has been an honor and a privilege. Would you please come down and accept this token of our appreciation.**

**The Audit Committee would like to express its appreciation and profound thanks to retiring members:**

- Ms. Olga Bichachi,**
- Mr. Morris Hollander,**
- Mr. Joseph Yarzabal, and**
- Mr. Arlington Sands, Jr.**

**Also, thanks to Mr. Ed Marquez, the former Chief Financial Officer, and Mr. Jose Montes De Oca, who served as Interim Chief Auditor and who continues to serve as Assistant Chief Auditor.**

**I would now like to introduce the external auditing firm and ask them to stand for recognition: Ernst & Young LLP, represented by Mr. John Vodenicker and Ms. Cynthia Borders-Byrd, and their**

**engagement partner firms, S. Davis & Associates, P.A. represented by Mr. Shaun Davis and Sanson, Kline, Jacomino & Company, represented by Mr. Richie Tandoc.**

**“What a difference a day makes”, or so the saying goes. In the sphere occupied by Audit Committees throughout this country, perhaps the saying should be, “what a difference the last few years have made”! It is indeed a different world for Audit Committees compared with a few years ago considering the revelations of events at Enron and the resulting implosion of one of the largest accounting firms in the world, Arthur Anderson.**

**Can anyone here today not draw the clear comparison to the challenges faced by public officials here in South Florida - and particularly by this School Board?**

**Today, as never before, the role, responsibility, and accountability of Audit Committees, particularly for public companies continue to be the focus of lawmakers, regulators, and shareholders. The Audit Committee’s role in overseeing a company’s financial reporting process, including the audits and auditors, are more visible and demanding. The challenges for Audit Committees in this new environment are numerous and are highlighted in the recently enacted laws for public companies. One law in particular, Sarbanes-Oxley, requires major reforms in**

**many areas in response to the financial failures of recent years. It sets the right perspective and establishes an appropriate foundation upon which to improve financial reporting.**

**The drive to improve financial accountability and the need to strengthen School Board governance is why I joined the Audit Committee ... nearly twenty five years ago. Let's examine how we compare to what is now the standard in the private sector:**

- Audit Committee members must now be independent and may not accept, either directly or indirectly, any consulting, advisory, or other compensatory fees from the organization. The volunteer members of your Audit Committee certainly meet this standard.**
- Audit Committees now must be directly responsible for hiring, paying, and, if necessary, dismissing the independent auditor. The committee must oversee the auditor's work, and the auditors must report directly to the Audit Committee. While we already perform all of these functions, we recently requested that Ernst & Young review the current reporting relationships for the Audit Committee and the internal auditors and provide an opinion whether they constitute "Best Practices"**

consistent with the Sarbanes-Oxley law. We look forward to their opinion in the future.

- Each Audit Committee must establish a mechanism to receive, retain, and process complaints on auditing, accounting, and internal control issues. Our Audit Committee meetings are open to the public and are well attended. We have always made ourselves available to receive relevant information from all sources, internal and external.
- Companies must now provide adequate funding for the Audit Committee to fulfill its responsibilities. This includes money to pay for the independent auditor and to adequately fund the office of the internal auditor. We review the School Board's budget for these items, provide you with our recommendations and we are in total compliance.

In summary the Sarbanes-Oxley Act requires all audit committees to meet new standards that your Audit Committee has been substantially following for the past two decades.

Let me briefly update you on the activities of the Audit Committee this past fiscal year. But first I would like to thank the

**members of the Board who take time out from busy schedules to attend our meetings. I invite you to visit with us at our meetings and provide your valuable input.**

**During fiscal year 2004, we reviewed audit reports containing financial and other information about the School District from various sources ... external auditors, internal auditors and staff. We find that the overall audit coverage of Miami-Dade County Public Schools is sufficient and appropriate to:**

**ensure that an adequate system of internal control is implemented in Miami-Dade County Public Schools and is being effectively followed.**

**Does this mean that all is well? We know it isn't. Improvements are needed in the area of accounting for, and budgeting for, capital programs. We received reports on these areas from Ernst & Young and our Internal Auditors. Management is working on putting new systems in place to better account for construction work in progress and reducing the construction backlog.**

**The financial condition of the District is relatively strong. The current financial statements show a \$48.7 million dollar increase in the undesignated fund balance, up from 13.6 million to 62.4 million dollars. This will improve the District's credit rating and**



**reduce the cost of financing projects. In short we can build more schools and other facilities at less cost.**

**We will continue to monitor these areas.**

**During the year we reviewed the School District's financial statements, Single Audit, and Management Letter submitted by the outside accounting firm of Ernst & Young. We ran into delays in issuing the management letter but worked with the firm and staff to ensure that both the findings and management response were satisfactory. We reviewed Ernst & Young's contract performance with them, as well as, their work plan for the 2005 audit. We are satisfied that the firm has made necessary adjustments in staffing and improvements in coordination with District staff to ensure a smoother audit.**

- We reviewed the findings contained in reports prepared by the State Auditor General on Transportation, Food and Nutrition and Workforce Development issues with the Administration**
- We reviewed a report on Casualty Claim Administration prepared by Deloitte & Touche, LLP.**
- We reviewed financial reports on school impact fees.**

- **We reviewed the financial statements of twenty-five charter schools and eleven community-based organizations.**

**With regard to the work performed by the Internal Auditors, we reviewed internal fund audits on 254 schools and reviewed the steps needed to improve the management of the internal funds at thirty of those schools with the Administration.**

**We reviewed the findings in several internal audits of capital outlay and maintenance with the Administration that were contained in six audits conducted by the internal audit office.**

**The property and inventory auditors visited 494 District work locations and took physical inventories of \$443 million dollars of the District's controlled property and found that 99.88% of what they were looking for was there. This work is very physically demanding and we commend them for their outstanding efforts on this valuable activity. The internal auditors also observed physical inventories at Transportation, Stores, Food & Nutrition, Text Book Inventory Services and Maintenance Materials Management. These year-end inventories are worth more than \$20 million.**

**We reviewed the Annual Audit Plan and Budget for the Office of Management Audits with the new Chief Auditor, Mr. Allen Vann.**

**The Audit plan included a comprehensive risk assessment which is an innovative approach to planning undertaken by the department.**

**In fact two separate risk assessments were prepared this year: The first risk assessment considered the entire district by organization and fund. Because of the unique nature of the School Board's operations and State mandated audit requirements, a second risk assessment for the school access centers and other centers was also prepared. This risk assessment covers 291 schools, 26 adult/vocational education centers, 13 alternative education centers, and 5 specialized education centers.**

**These risk assessments will allow the internal auditors to make audit decision based on a quantitative approach. Instead of auditing every single school and district operation with the same intensity, medium and low risk operations will have commensurately less audit attention focused on them. This will enable audit resources to be redeployed to higher risk areas. Accordingly, we approved the audit plan that was presented to us and will work with the internal auditors to ensure its success.**

**Another responsibility of Audit Committee is to review the annual budget of the Office of Management and Compliance Audits and make recommendations to the School Board and Superintendent as to the sufficiency of the budget. The budget needs to be sufficient to staff the office, including salaries, benefits, equipment and supplies. Adequate provisions for staff development must always be provided to maintain the highest professional standards for the office and for the use of outside resources when such professional services are deemed necessary by the Chief Auditor and approved by the Audit Committee. We reviewed the audit budget enhancements proposed by Mr. Vann and endorsed them.**

**In fact, as part of the 2005 plan, the financial audits of WLRN, Magnet Education Choice Association, Inc. Miami-Dade Coalition Community Education Inc. and Dade Schools Athletic Foundation are being outsourced to Sanson, Kline Jacomino & Co., CPA's.**

**Finally, I would like to thank the staff of the Office of Management and Compliance Audits for the tremendous job they have done supporting the Audit Committee.**

**That concludes my remarks and once again, I would like to express the appreciation of the Audit Committee for your continued support. On a personal note, I would also once again like to thank the Board for the honor you bestowed upon me earlier this year by renaming West Little River Elementary School after me.**

**The Chief Auditor and I would be happy to address any questions you may have.**

**I thank you.**