

THE SCHOOL BOARD OF
ESCAMBIA COUNTY, FLORIDA

MINUTES, OCTOBER 7, 2013

The School Board of Escambia County, Florida, convened in Special Workshop at 4:00 p.m., in the Superintendent's Conference Room (Room 413), at the Dr. Vernon McDaniel Building, 75 North Pace Boulevard, Pensacola, Florida, with the following present:

Chair: Mr. Jeff Bergosh Vice Chair: Mrs. Linda Moultrie

Board Members: Mr. Gerald W. Boone
Mrs. Patricia Hightower
Mr. Bill Slayton

School Board General Counsel: Mrs. Donna Sessions Waters

Superintendent of Schools: Mr. Malcolm Thomas

Meeting was advertised in the *Pensacola News Journal* on September 27, 2013 – Legal No. 1609516

I. CALL TO ORDER

Mr. Bergosh called the Special Workshop to order at 4:00 p.m. Mr. Bergosh advised that the School Board would begin with discussion on the Food Service Audit that was prepared by the Internal Auditing Department, followed by discussion on the Superintendent's responses. Mr. Bergosh noted that an employee had violated a lot of policies and did a lot of damage in the process but he was hopeful that better procedures and/or policies would come out of this situation. Mr. David Bryant, Director of Internal Auditing, gave a brief overview of the following information (as outlined in the executive summary of the audit report):

- In February 2012, the previous Food Services Director retired and in July 2012, a new Food Services Director, Ms. Gail Szoboszlay, was hired.

-A formal investigation into allegations of misconduct by Ms. Szoboszlay was initiated by the District Investigator in January 2013.

-In February 2013, Ms. Szoboszlay began a period of extended personal absences, which ended with her resignation.

-In April 2013, the District Investigator accepted another position and left the District prior to the completion of the formal investigation.

-In an effort to complete the investigation and determine any opportunities for strengthening the District's processes, the Superintendent asked the Internal Auditing

Department to expand the scope of their yearly Food Service Procurement Review to include procurement-related matters noted in the investigation.

-In reviewing the investigative files and conducting fieldwork, the Internal Auditing Department noted numerous allegations/matters, both procurement and non-procurement related, which they felt professionally obligated to help resolve.

Mr. Bryant noted that Internal Auditing's goal was always to work collaboratively with the various departments and to ultimately provide recommendations that will help strengthen systems, improve processes, and hopefully prevent similar problems from occurring in the future. Mr. Bryant briefly reviewed the standard process that was followed with regard to audit reports. [NOTE: School Board Rule 1.07(2) Audit Committee: *Review Audit Reports - Prior to presentation to the Board, the Committee shall review all findings, audit reports, or reviews issued by the Internal Auditing Department and make recommendations, where appropriate, for clarity, tone and technical matters. In addition, the Committee shall review the status of action taken on prior recommendations. Such work/reports are not final until presented to the Committee.*]

There was some concern expressed by Mr. Bryant and School Board Members that the Superintendent had not hyperlinked the report to the agenda for either this session (which was the session in which the document would be discussed thoroughly) or the October 15, 2013 Regular Meeting (which was the session where the School Board would consider formal acceptance of the report). The Superintendent said the report would be hyperlinked to the agenda once the management response, which would occur after this session

II. DISCUSSION: SCHOOL FOOD SERVICES INTERNAL AUDIT

School Food Services Procurement Audit – Office of Internal Auditing (August 2013)

Pages 21-22: On August 24, 2012, after being made aware of additional orders being made from KESCO, Purchasing personnel held a meeting with Ms. Szoboszlay, the Assistant Superintendent of Operations, and the Assistant Superintendent of Finance to discuss the ongoing violations of District policy. As of that date, 10 additional orders had been placed with KESCO. Once again, Ms. Szoboszlay offered justifications for the orders, but committed to adhering to District policy from that point forward. It appears, Ms. Szoboszlay was not committed to following District policy with regards to these purchases. We noted 40 orders for smallwares were placed with KESCO after the August 24, 2012 meeting date.

Mr. Bergosh referred to the meeting that top-level staff had with Ms. Szoboszlay on August 24, 2012 to discuss her ongoing violations of District policy. It was his belief that staff had an ideal opportunity at that time, to “nip it in the bud” and yet after that meeting, Ms. Szoboszlay continued to violate District policy with forty (40) additional orders for smallwares from KESCO. He did not understand how that had been allowed to happen. Mr. Bryant gave a brief review of what had transpired prior to that meeting. He explained that the School Board (in June 2012) had awarded a request for proposal (RFP)

to only one vendor, Calico Industries, for various smallwares items; KESCO did not submit a bid for that RFP. Mr. Bryant noted that Ms. Szoboszlay obviously found KESCO to be a convenient vendor so she decided to order items from KESCO that were included on the bid that was solely awarded to Calico Industries. Mr. Bryant said at that point, Ms. Szoboszlay had already violated District policy with several orders before staff from the Purchasing Department was able to warn her that she was in violation of School District policy and prohibited from placing any additional orders from KESCO. However, after being warned by the Purchasing Department, Ms. Szoboszlay continued to violate District policy with additional orders from KESCO; at that point, staff from the Purchasing Department requested the August 24, 2012 meeting, for the purpose of discussing Ms. Szoboszlay's ongoing violations of District policy. Upon inquiry by Mr. Bergosh, Mr. Bryant confirmed that between the time of the meeting in August and the beginning of the formal investigation in December, Ms. Szoboszlay continued to violate policy with an additional forty (40) orders from KESCO. The Superintendent said staff had initially attributed Ms. Szoboszlay's violations to the fact that she was a new employee who perhaps was not familiarized enough with School District policy; however by August it became obvious that she was essentially a "rogue" employee doing what she wanted to do regardless of policy. Mr. Bergosh wanted to know if Ms. Szoboszlay was ever officially reprimanded during her tenure with the School District. The Superintendent advised that Ms. Szoboszlay was under investigation but resigned prior to completion of that investigation. After further discussion, Mr. Bryant commented that the situation with Food Services was essentially a "perfect storm," in that Ms. Szoboszlay was making numerous and questionable purchasing card transactions, there was a new card manager in Food Services who had not been properly trained in purchasing card management, and the Accounting Operations staff was so far behind in reviewing purchasing card transactions due to the Skyward software conversion that those transactions were not identified in a timely manner.

Mr. Bergosh referred to a letter dated September 21, 2012 from Mrs. Waters to KESCO warning that any future instances of unauthorized work would result in debarment [for a period two (2) years from the date of that letter]. In light of the numerous issues surrounding KESCO's involvement with Ms. Szoboszlay's improprieties, Mr. Bergosh wanted to know why the debarment had not occurred as he strongly believed it should have. Mr. Shawn Dennis, Assistant Superintendent for Operations, recalled that a discussion regarding the basis for KESCO's debarment had occurred among him, Mr. Norm Ross, Deputy Superintendent, Mr. Terry St. Cyr, Assistant Superintendent for Finance and Business Services, and Mr. John Dombroskie, Director of Purchasing. However, once they began to analyze the information available, they collectively determined that the majority of the issues with KESCO were a direct result of Ms. Szoboszlay's violations of School District policy and therefore, they did not believe there was sufficient compelling information to justify the debarment of KESCO at that time. Mr. Bergosh inquired as to whether there was now sufficient compelling information to justify the debarment of KESCO. It was his belief that although the majority of the issues with KESCO were a result of Ms. Szoboszlay's violations of

School District policy, that in itself did not dissolve KESCO's guilt. Mrs. Waters advised that she was not asked to participate in the meeting mentioned by Mr. Dennis, nor had she been consulted in the decision that had occurred at that meeting. Mrs. Waters noted that she had written the September 21, 2012 letter to KESCO warning them of possible debarment at the request of School District staff; therefore, she could not understand why she, as legal counsel, had not been included in the meeting where the decision not to pursue debarment was made. Mr. Slayton believed that the School District first needed to resolve issues internal to the School District's Food Service Department before moving forward with the possible debarment of KESCO.

Management Response to the School Food Services Procurement Audit

RECOMMENDATION #1 – *A standard interview checklist should be developed for use throughout the District. The checklist should include a step requiring intensive review of the application package and resolution of any discrepancies noted.*

Action: *See HR Checklist Attachment #1*

Finding: *Ms. Szoboszlay's application package contained numerous discrepancies and ambiguities. These issues were not resolved prior to her interview or hire. The current Administrative, Professional and Instructional Personnel Interview Checklist includes a step to "review job description/develop questions," but is silent as to reconciling discrepancies in application documents. The interview checklist included in the Operation Division's standard operating procedures is extensive, but it is also silent as to this duty.*

Mrs. Hightower noted that as recommended, Human Resource Services had developed a standard interview checklist; she wanted to know if and when School District personnel would be trained on how to use the checklist. The Superintendent said Human Resource Services would conduct training beginning in the spring of 2014. Dr. Alan Scott, Assistant Superintendent for Human Resource Services said that issue would initially be addressed at the next principal's meeting in that they would be advised that the form had been changed. Mrs. Hightower said she was more concerned about individuals who were hiring employees at the director level; she believed that school principals were very much aware of the requirements for hiring instructional personnel. Dr. Scott advised that the Human Resource Services department always conducted a thorough screening of all instructional and educational support applicants. Mr. Bergosh believed that the situation regarding Ms. Szoboszlay's hiring pointed to the possibility that perhaps the hiring process needed to be centralized to ensure consistency. If Ms. Szoboszlay's credentials had in fact been verified, he wanted to know the discrepancies in her education and employment claims went undetected. He also wanted to know why Ms. Szoboszlay was selected for the position when she did not possess the master's degree that was required as per the job description. Dr. Scott clarified that the job description also contained the following "catchall" phrase: "Qualifications may vary from the above requirements to such a degree as the Superintendent and Board determine is necessary and appropriate to ensure properly qualified personnel in each specialized assignment." He noted that often the best employee for the position may not necessarily meet the specifications but may possess other qualifications and/or experiences that would make them the ideal candidate for the position; administrators were therefore

allowed to make that determination to open the interview to even those individuals. Upon inquiry by Mr. Bergosh, Dr. Scott clarified that the hiring checklist now included an item regarding verification of resume. It was noted that the Human Resource Service checklist was not used during the hiring process in which Ms. Szoboszlay was selected.

RECOMMENDATION #3 – *The use of telephone interview be discouraged for all administrative positions. In extreme situations virtual conferencing should be considered.*

Action: *No action. Telephone interview are only used when appropriate.*

Finding: *Ms. Szoboszlay was interviewed via telephone. Although she was the number one choice of six of the seven interview committee members, one member ranked her sixth out of seven candidates. We discussed the interview with this committee member, who is a 19 year District employee, with 40 years of experience in procurement and supply chain management, including food and smallwares. He indicated it is difficult to assess a candidate from a phone interview and he had a general unease about Ms. Szoboszlay. Phone interviews can be impersonal and interviewers do not get the benefit of reading body language and other non-verbal cues. Positions of leadership merit personal interaction and face-to-face contact with interview committees.*

Mr. Slayton wanted assurance that telephone interviews would only be used when appropriate and absolutely necessary. He believed that if the applicant was really interested in the position, they should be willing to come in for a face-to-face interview. Mr. Bergosh wanted to know why a telephone interview would ever be considered when there were so many virtual conferencing options available. Mrs. Waters noted that video conferencing would be preferable to a telephone interview as interviewers would have then benefit of reading body language and other non-verbal cues. Mrs. Hightower said she did not mind if the initial interview was conducted via telephone in order to determine whether further interview was even necessary; but she agreed with Mrs. Waters that video conferencing would be preferable so that interviewers would be able to observe the applicant. The Superintendent clarified that while Ms. Szoboszlay was initially interviewed by an interview committee via telephone, he and Mr. Norm. Ross, Deputy Superintendent, had actually interviewed her and the other top candidates face-to-face prior to her being selected for the position. He noted that sometimes it was not reasonable to think that an applicant would travel to Escambia County for that initial interview. He noted that video conferencing was used when practical but there were some occasions when at least for the initial screening, a telephone interview was appropriate; yet final interviews were typically conducted face-to-face. In answer to questions posed by Mrs. Hightower as to whether the School Board could add verbiage to its policy outlining the hiring process, Mrs. Waters advised that Florida Statute 1012.23(1) read as follows: “Except as otherwise provided by law or the State Constitution, district school boards may adopt rules governing personnel matters, including the assignment of duties and responsibilities for all district employees.” The Superintendent cautioned the School Board about setting a “blanket rule” to prohibit any telephone interviews as there may be an occasion at some point in the future where that “blanket rule” would backfire.

RECOMMENDATION #4 – A School Board Policy be developed that requires all candidates filling administrative or professional positions where they would exercise significant control over District resources be subject to credit checks, financial reviews, and/or bonding review. The District should work towards adopting this policy for current employees in those positions as well. The potential benefits of these checks/reviews far outweigh the costs.

Action: Will work to develop policy to be included in SBR Chapter 2.

Finding: The current District background screening process is limited to questions related to criminal matters. In addition, the District conducts a FBI criminal history check. No form of credit check or financial review is performed. In her application documents, Ms. Szoboszlay disclosed a previous conviction related to theft. The offense did not rise to the level sufficient to exclude her from employment; what is commonly called a “Level 2 Offense.” Publically available records on Ms. Szoboszlay, which were secured during the investigation and our audit, revealed several financial matters which suggest a pattern of financial instability. This information was unknown when Ms. Szoboszlay was hired. Had the District been aware of these matters, it may have affected the decision to hire Ms. Szoboszlay, or affected the amount of control over financial decisions she was given, and/or how much oversight was necessary. Although some may argue credit history has nothing to do with job performance, the District has an obligation to taxpayers to ensure that proper due diligence has been performed to ensure employees are responsible and ethical. Many positions throughout the District oversee material amounts of funding, make substantial financial decisions, and/or exercise a significant amount of control over District resources.

Mr. Bergosh expressed his support of the recommendation that all candidates filling administrative or professional positions where they would exercise significant control over District resources be subject to credit checks, financial reviews, and/or bonding review. He noted that many school districts throughout the state of Florida were already doing this. Dr. Alan Scott, Assistant Superintendent for Human Resource Services, said that staff was in the process of reviewing the possibility of credit checks, financial reviews and bonding reviews. He noted that there were varying attorney opinions with regard to the latitude that school boards had as far as the financial disclosures and whether those disclosures would be submitted to the Commission on Ethics (State) or the Supervisor of Elections (County). Mrs. Waters said at the request of Mrs. Hightower, she had researched the matter of bonding; she cited Florida Statute 1010.07: *Bonds or insurance required*, (1) *Each district school board, Florida College System institution board of trustees, and university board of trustees shall ensure that each official and employee responsible for handling, expending, or authorizing the expenditure of funds shall be appropriately bonded or insured to protect the board and the funds involved.* Mrs. Waters said that except for a few employees working in Purchasing or Risk Management, the School District typically did not require employees to be bonded. Mrs. Hightower found it concerning that the School District only required a few employees in Purchasing and Risk Management to be bonded, yet Ms. Szoboszlay as the Director of Food Service and in charge of a \$20 million dollar budget was not required to be bonded. Upon inquiry by Mr. Bergosh, Mrs. Waters said she believed that School Board might be able to require bonding as a condition for employment in certain positions but it was an issue that she would need research. The Superintendent noted that he had agreed to the recommendation to exploring the possibility of requiring bonding reviews. Mr. Bryant felt it important to clarify that the few employees in Purchasing or Risk Management that were bonded were only “blanket” bonded by position as were certain secretary and

bookkeeper positions. He noted that a “blanket” bond covered an individual simply because the individual held that particular position title; he said the recommendation was that the bonding of an employee should have “some individual aspects to it.” He said the Superintendent had offered a compromise in that he would consider making it a condition of employment that for positions (such as the Food Service Director) the employee would have to be bonded individually. The Superintendent again noted that he had agreed with the recommendation but there were many details that would have to be worked out in order to determine the best way forward. He said he and his staff would work to develop an appropriate policy related to those issues.

RECOMMENDATION # 5 – *Initial steps only be awarded to those candidates that exceed the stated job qualifications. If necessary, step increases could be awarded after a probationary period and effectiveness has been proven.*

Action: *Current School Board Rule 2.04(4) is sufficient.*

Finding: *Ms. Szoboszlay was placed on the salary schedule at the highest step possible without School Board notification. This decision was based on “extensive experience.” While we understand the desire to recruit the highest level talent and that often comes at a premium, when individuals are recruited from outside the District there is often little information to support that the person is a high performer worthy of an increased beginning salary. Ms. Szoboszlay did not meet the stated qualifications of the job description; however, her experience was presumably used to supplement her lack of other qualifications. It would not seem appropriate for this same experience to also serve as justification for a salary premium. This incentive should only be offered to individuals who meet the stated qualifications and who have documented performance, or when there is reliable knowledge of a candidate’s experience/qualifications. Inconsistently implemented, awarding of steps upon hire can breed resentment. Generally, employees should be required to “prove” themselves before being given a salary increase.*

Mrs. Hightower said she would like for School Board Rule 2.04 to be revised to include an additional item that reads, “The Board will be noticed of the paygrade placement of any new administrative or professional employee.” Mr. Bergosh agreed with that suggestion as he believed it would add an additional level of transparency. Mr. Boone also agreed with Mrs. Hightower’s suggestion. Mr. Slayton noted that a similar statement had been included in School Board policy in the past but it was removed by a previous school board for a previous superintendent. Mrs. Hightower said the reason for her suggestion was not just because of the situation with Ms. Szoboszlay but also because there were many times when other individual were hired and the School Board was not aware where they ultimately ended up on the pay scale. Mrs. Hightower said she would forward her suggested language change to Mrs. Waters.

RECOMMENDATION #6 – *We recommend the District develop a procedure whereby all new administrators are assigned a successful District leader as a mentor.*

Action: *Concur with recommendation.*

Finding: *The Assistant Superintendent of Operations has a preexisting standard operating practice of assigning new administrators a mentor. He considers the nature, size, complexity, and number of employees in an area when considering a suitable mentor. Although this practice is only successful if the new administrator utilizes the relationship, it can be a valuable tool for new leaders, especially those new to the District. Although Ms. Szoboszlay failed to fully engage her mentor, it remains a best practice.*

Upon inquiry by Mrs. Hightower, the Superintendent said it was his intent that the Operations division's practice of assigning new administrators a mentor would be expanded to include new administrators in all divisions within the School District.

RECOMMENDATION #10 – *We recommend an SOP be developed regarding vendor access to District facilities and staff when the vendor is potentially bidding on upcoming RFP's. As such, we recommend a SOP be developed regarding vendor access to District facilities and staff when the vendor is potentially bidding on upcoming RFP's. At a minimum, administrators should be trained on allowable/disallowable communication during solicitation.*

Action: *The District currently addresses the subject on Finance Attachment 1 – However, additional communication methods will be considered.*

Finding: *KESCO was given free access to kitchens to determine equipment needs and provide recommendations. In addition, KESCO provided specifications that were directly inserted into the RFP. These actions gave KESCO an unfair advantage throughout the bidding process. RFP/Bid solicitations prohibit communication once the RFP is issued; however, there is no guidance for communication during the planning/specifications development phase of the RFP. Although we recognize that District departments cannot cease communication with vendors, especially those that provide other goods or services outside of the potential RFP, communication that could give one vendor an unfair competitive advantage in any phase of the procurement process should not occur.*

Mr. Bergosh wanted to know exactly what was meant by the statement that “additional communication methods” would be considered. Mr. Terry St. Cyr, Assistant Superintendent for Finance and Business Services, referred to the standard “cone of silence” ordinance which prohibited certain communication among District staff and potential bidders. Mr. St. Cyr said his staff would be sending a communication to the various departments reinforcing the “cone of silence” standard. Dr. Alan Scott, Assistant Superintendent for Human Resource Services, pointed out that this standard was also outlined in the School District's employee Code of Ethics. Mr. Bryant noted that the “cone of silence” obviously pertained to communication once an RFP had been issued; but he noted that it should address pre-RFP communication as well. Upon inquiry by Mr. Bergosh, Mr. St. Cyr said that his staff would be developing language to be inserted in the standard RFP document that would address pre-RFP communication as well.

RECOMMENDATION #11 – *Purchasing reject any RFP/bid specifications that do not contain at least 2 approved brands/models. Exceptions can be made for previously unused items, items based on student preference (e.g. food), or if the District is attempting to standardize; however, any exceptions should be approved by both the Director of Purchasing and Assistant Superintendent over the area submitting the specifications.*

Action: *The Florida Department of Agriculture specifically allows one brand bids as long as more than one vendor can provide product. Also, the District's standard language specifies that “an approved equal” is allowable for bid. Exceptions will be determined prior to bid.*

Finding: *Food Services submitted specifications for 39 items to be included in the cafeteria equipment RFP. Only 1 approved brand/model was indicated as acceptable for 22 of the items. One vendor, KESCO, was awarded 16 of the 22 items (73%). This appears to be the result of KESCO providing specifications to be included in the RFP, and the approved brand/model being limited, thus limiting the bidding process to one vendor.*

Upon inquiry by Mrs. Hightower, Mrs. Waters clarified that the School District could require more but not less than what was required by the Florida Department of Agriculture. NOTE: The Auditor recommended that Purchasing reject any RFP/bid specifications that do not contain at least two (2) approved brands/models. Mr. Bryant advised that an exception would be made for items based on student preference (e.g. food) or if the District is attempting to standardize; however, to address the matter of “perception” he believed that any exceptions should be approved by both the Director of Purchasing and Assistant Superintendent over the area submitting the specification. Upon inquiry by Mrs. Hightower, Mrs. Waters advised that this matter could be addressed as a standard operating procedure (SOP) rather than a change to School Board policy.

RECOMMENDATION #12 – *The decision to accept or reject alternatives be made separate and prior to evaluation committee members being provided bid prices.*

Action: *Concur with the auditor’s recommendation.*

Finding: *Vendors often offer alternatives to the approved brands/models listed in a RFP. During the cafeteria equipment RFP, all alternatives were unilaterally rejected. While alternatives can be rejected for a variety of legitimate reasons, this process can also be manipulated to ensure an item is awarded to a preferred vendor. This process can be further complicated and/or manipulated when bid amounts are known prior to making the decision to accept or reject alternatives. Bid prices were provided to evaluation committee members prior to the determination of whether to accept or reject alternatives.*

Upon inquiry by Mr. Bergosh, Mr. John Dombroskie, Director of Purchasing, confirmed that staff concurred with the auditor’s recommendation that the decision to accept or reject alternatives be made separate and prior to evaluation committee members being provided bid prices. He noted that this had already been occurring for most bid evaluations.

RECOMMENDATION #15 – *Operations work with Purchasing and General Counsel to develop a waiver to be signed by KESCO and the District that would allow the District to utilize other warranty service vendor for equipment purchased under the RFP.*

Action: *The District will research the implications of the proposed waiver.*

Finding: *Warranty service is a lucrative business. There are several other warranty service vendors, including factory-trained vendors. At some time in the future if the District’s relationship with KESCO deteriorates, or if we wish to utilize another vendor, we may be bound by our acceptance of the contingent offer discussed above.*

Mrs. Moultrie wanted to know how the proposed waiver would affect the warranty. Mrs. Waters said the proposed waiver was a potential problem in that when the School District accepted the warranty from KESCO, it also accepted that KESCO would perform the warranty work. Mr. Bryant did not believe that the warranty would be impacted by obtaining a waiver from KESCO as the School District would still be able to utilize the services of some other warranty service vendor. Mrs. Waters said one “bargaining chip” that may related to the debarment issue, was that KESCO still wanted to do business with the School District; so, it might be possible to negotiate this matter with KESCO. She warned that if the School District chose not to negotiate on this matter and decided

instead to simply debar KESCO, it was possible that KESCO would sue the School District for loss of income related to the value of warranty work that they would have received from the factory for performing work on the School District's equipment. Mr. Bryant said the reason for the recommendation was because the relationship between the two entities could deteriorate to the point that the School District no longer wants KESCO working on its equipment; unless KESCO signed a waiver, the School District was bound by its acceptance of KESCO's warranty service offer. Upon inquiry by Mrs. Hightower, Mrs. Waters advised that she did not know whether KESCO would agree to sign a waiver.

RECOMMENDATION #16 – *Finance provide the Board a list of the unauthorized purchases.*

Action: *Concur with the auditor's recommendation.*

Finding – *Both prior to award and after, KESCO installed equipment throughout the District, at Ms. Szoboszlay's direction, without the issuance of an authorized purchase order. Her actions obligated the District outside the protections offered by the normal procurement process. Ms. Szoboszlay justified her action as responses to emergency needs; however, no emergency was declared, nor were subsequent emergency procurement procedures followed. At the direction of the Assistant Superintendent of Finance, the District later issued purchase orders after the fact to KESCO to allow for payment of these "unauthorized purchases." School Board Rules states, "No person, unless authorized to do so under Board policy, may make any purchase or enter into any contract involving the use of school funds; per 6A1.012, F.A.C. no expenditures for any such unauthorized purchase or contract shall be approved by the Board. Unauthorized purchases will be reported to the Board for informational purposes only." The unauthorized purchases were not reported to the School Board.*

Mr. Bergosh wanted to know when the School Board would be receiving a list of the unauthorized purchases referred to in this audit finding. Mr. Terry St. Cyr, Assistant Superintendent for Finance and Business Services, believed that most of the unauthorized purchases had now been identified so it was possible that the School Board would receive the list in November.

RECOMMENDATION #17 – *We recommend General Counsel research the issue and issue a legal opinion on the matter.*

Finding: *In addition, District leadership has chosen to interpret the section of the F.A.C. that states, "no expenditures for any such unauthorized purchase or contract shall be approved by the Board" to mean that unauthorized purchases do not need to be presented to the Board for approval. It is unclear if the intent of the F.A.C. is that the Board should simply be notified, or if these purchases shall not be allowed.*

Mrs. Waters said she was unclear as to whether the intent of the Florida Administrative Code was that the Board should simply be notified of unauthorized purchases, or if such purchases should not be allowed. She advised that per 6A-1.012 of the Florida Administrative Code, "No expenditures for any such unauthorized purchase or contract shall be approved by the district school board." Mr. Bryant recalled that current School Board policy also addressed the matter of unauthorized purchases. (NOTE: Section 5.02 of current School Board policy included the following verbiage: No person, unless authorized to do so under Board policy, may make any purchase or enter into any contract involving the use of school funds; per 6A-1.012, F.A.C. no expenditures for any

such unauthorized purchase or contract shall be approved by the Board. Unauthorized purchases will be reported to the Board for informational purposes only.) The Superintendent said he needed a clear definition of an unauthorized purchase as well as clarification as to whether unauthorized purchases should be presented to the School Board for informational purposes only or for their approval; until the definition and clarification were provided, he said it might be that the School Board would not receive the list of unauthorized purchases in November as mentioned earlier in this session under Number 16. Mrs. Hightower noted that in the past, unauthorized purchases had been presented to the School Board for their approval. Mrs. Waters said she would need to research this issue thoroughly before issuing her legal opinion on the matter.

RECOMMENDATION #19 – *The effected equipment and their installations be certified by the manufacturer representatives.*

Action: *Concur with attempting to secure certification of equipment by manufacturer.*

Finding: *Although KESCO eventually agreed to perform the necessary repairs, Maintenance personnel actually made the necessary repairs, with KESCO supplying the necessary material. The decision was made by Maintenance to ensure repairs were made in accordance with District standards/preferences. After KESCO installations, the factory-certified manufacturer representatives refused to certify the initial startup of the equipment, and complete/submit the necessary paperwork to the manufacturer. At the time of our fieldwork, the representatives had not returned to certify the equipment.*

Mr. Bergosh inquired as to the status of securing certification of equipment by the manufacturer. Mr. Shawn Dennis, Assistant Superintendent for Operations, said that to his knowledge, staff had yet to make any concerted effort to secure certification of equipment by the manufacturer, but it was their intent to do so.

RECOMMENDATION #20 – *The School Board, in consultation with the Superintendent and District leadership discuss this audit, and determine the necessity of invoking the District's right to inspect and/or audit KESCO's records. At a minimum, a SOP should be developed to document a procedure for when to invoke this right, and a general guide on how it would be performed.*

Action: *Language in existing RFP protocol enables the District to invoke records inspection provisions. An additional SOP is unnecessary. Provisions are situationally dependent and can be readily invoked.*

Finding: *There were a significant number of issues involving KESCO, including its relationship with Ms. Szoboszlay both before and after the cafeteria equipment RFP. According to the current Food Services Director, KESCO, at the direction of Ms. Szoboszlay, would invoice the District for certain items, but provide other items. The extent of all the issue is unknown. The RFP General Terms and Conditions include an Audit and Inspection clause which permit the District or its representatives to inspect and/or audit a bidder's documents and records as they pertain to products and services delivered under the RFP. To the best of the Director of Purchasing's knowledge, this right has never been exercised by the District, or any District of which is aware.*

Mr. Bergosh wanted to know if the School District had yet determined whether or not to invoke the right to inspect and/or audit KESCO's records. He commented that he could not understand why the District had not immediately done so once it was determined that there issues; he wondered how the District would ever know "where the bottom line was if they didn't even ask for the missing pieces." Mrs. Waters asked that the School Board allow her, Mr. Dombroskie, and Mr. Bryant an opportunity to further

discuss this matter. She cautioned that invoking the District's right to inspect and/or audit KESCO's records would most likely be seen by KESCO as an aggressive or accusatorial action which could hinder any negotiations between the School District and KESCO. She also noted that if the State Attorney's Office decided to pursue this matter, they would of course serve a subpoena or even a search warrant for those records. Mr. Bryant clarified that the point of the audit recommendation was that at a minimum, a standard operating procedure (SOP) should be developed to document a procedure for "when" to invoke the right to inspect and/or audit, and a general guide on "how" that audit would be performed.

RECOMMENDATION #23 – *School Board Policy be amended to include a requirement that all invoices be reviewed for accuracy and completeness, and that the review be documented via signatures/initials and date. This verification must be done by an individual directly involved with the purchase and goods/services received.*

Action: *Accounting Operations reviews invoices for completeness prior to payment. Recommendation will be added into the accounts payable checklist.*

Finding: *We noted 70 instances of discrepancies between invoices and equipment when we conducted our verification of equipment provided by KESCO. These discrepancies should have been recognized when the invoice was received and reviewed. There is not a School Board Policy requiring that invoices be reviewed and the review be documented. The DOE Procurement Policy Statement requires, "Purchases shall be checked and verified by designated staff to assure that all goods are received and prices are verified. All invoices and receipts shall be signed, dated, and maintained in the documentation file."*

Mr. Bryant said this recommendation referred to requiring that all invoices be reviewed for accuracy and completeness, and that the review be documented via signatures/initials and date. He referred to the DOE Procurement Policy Statement which requires, "Purchases shall be checked and verified by designated staff to assure that all goods are received and prices are verified. All invoices and receipts shall be signed, dated, and maintained in the documentation file." His concern with the proposed action was that Accounting Operations was so far down in the chain that they are not the ones who could say they have checked and verified the purchases to assure that all goods were received; in other words, they could not act as the receiver, rather the person doing the verification of the goods related to the invoice needed to be the receiver. Mr. John Dombroskie, Director of Purchasing, said that by doing a receiver in Skyward, the receiving staff was assuring that the good were received and Accounting Operations staff was verifying the price and approving payment of the invoice. Mr. Bryant was not sure that process actually met the requirement outlined in the DOE Procurement Policy but suggested that perhaps staff may want to insert in School Board policy that they were meeting the DOE requirement of signing and initialing invoice and maintaining a file via the Skyward program. Mr. Bergosh seemed to think that the issue of electronic signatures might pertain to this situation; he asked that Mrs. Waters to review the state's electronic data policy to determine if and how it applied to this situation.

RECOMMENDATION #27 – *We recommend that once the decision has been made that an item cannot be re-used leadership should defer to the opinion of the Surplus Operations Manager.*

Action: *Re-issuable surplus and scrap determinations are governed by Standard Operating Procedures. The surplus operations manager is intimately involved with all final disposal property disposition determinations. This practice will be enhanced through awareness training and improved dispute resolution language in the relevant SOP.*

Finding – *When the Surplus Operations Manager spoke to the Assistant Superintendent of Operations, the Assistant Superintendent deferred Ms. Szoboszlai’s judgment, presumably due to her position and perceived experience as “cognizant expert.” Consequently, the fryers were scrapped, costing the District a significant amount of lost revenue, and diminishing the morale of the Surplus Operations Manager. When considering re-use, we agree that the opinion of cognizant experts should be heavily relied upon. However, we assert that the Surplus Operations Manager, with 13 years of experience in that position, is the cognizant expert of rules/regulations relating to disposal, scrapping, and auctioning.*

Mr. Bergosh wanted to know if the Surplus Operations Manager would now have the final say regarding disposal, scrapping, and auctioning. The Superintendent said the Surplus Operations Manager would certainly be intimately involved. Upon inquiry by Mr. Bergosh, Mr. Shawn Dennis, Assistant Superintendent for Operations, noted that the proposed action would include an improved dispute resolution process whereby, in the event that the cognizant expert was in dispute with the Surplus Operations Manager, the ability to remediate that a dispute situation would progress logically to the Director of Maintenance, and ultimately to the Assistant Superintendent for Operations if necessary.

RECOMMENDATION #29 – *All cardholders attend remedial training at regular intervals of 3-5 years, or as a matter of course, training could be attended as cards expire and reissued.*

Action: *Purchasing card training is held at least on a monthly basis of new employees or those current cardholder who elect to attend a refresher course. It is currently being determined, for internal control purposes, whether mandatory training should be held for cardholders upon P-card expiration and prior to issuance of replacement cards. In addition, a video training module could be implemented for those cardholders who are unable to attend live training.*

Finding – *We noted the purchasing card manager in Food Services had attended training in 2007, when she was school-based. Cardholders and card managers are only required to attend purchasing card training when they first receive their card or when they are first assigned as a purchasing card manager at any location. Remedial training is not required when an individual changes positions/departments, even if the functions of the department differ greatly. Departments throughout the District utilize purchasing in different ways for many different purposes. In addition, the further a cardholder is away from initial training, the less is remembered about the policies and procedures, and the more reliant he/she is on the knowledge of others.*

Mrs. Hightower noted that the recommendation referred to having all cardholders attend remedial training at regular intervals of 3-5 years. She suggested that in light of the auditing finding, the recommendation should also state that anytime a cardholder changed positions/departments they should also receive remedial training. The Superintendent agreed to at least consider the suggestion; he noted that he was already committed to offering refresher courses for cardholders prior to issuance of replacement cards. Mr. John Dombroskie, Director of Purchasing, advised that the guidelines for cardholders (as outlined in the Purchasing Card Handbook) would not change regardless

of the cardholder's position/department. Mr. Bryant acknowledged that the rules would not change but noted that there was a slight difference in that for certain positions/departments, the majority of the guidelines may never apply but in other positions/departments, they may.

RECOMMENDATION #31 – *We recommend the District's Travel & Purchasing Card Manual be revised to require more detailed narrative descriptions, and that this requirement be communicated to all purchasing card managers.*

Action: *The issue is addressed in the Purchasing Card Handbook. This handbook will be incorporated into the Travel and Pcard Manual for consistency.*

Finding – *In reviewing the narrative description entered into the Resolve system for purchasing card transactions by Food Services personnel, we noted many of the descriptions simply stated "goods" or "goods for cafeterias." These general descriptions are insufficient to understand and/or audit what was purchased, especially when receipts are not detailed or items on receipts are abbreviated or listed as product codes. The District's Travel & Purchasing Card Manual requires a description to be entered, but does not provide examples, or encourage purchasing card managers to provide detailed explanations.*

Mr. Bergosh noted that the proposed action indicates that the issue was addressed in the Purchasing Card Handbook; she wanted to know if the Handbook would be revised to address the Auditor's recommendation which is that the travel and purchasing card manual be revised. The Superintendent said it would be incorporated. Mr. Bryant said the concern was that the handbook only required a description to be entered and many of the descriptions defaulted to simply "goods" so while a description was there, his concern was that the description provided needed to be a little more detailed narrative description – his concern was how could someone effectively audit something as generic as "goods" or "goods for cafeterias" so yes it does require a description but it needs to be more detailed than "goods".

RECOMMENDATION #33 – *Finance make a definitive determination regarding this scenario, incorporate the guidance into the Manual, and communicate it to cardholders and purchasing card managers.*

Action: *The issue is addressed in the Purchasing Card Handbook. This handbook will be incorporated into the Travel and Pcard Manual. Clarification of what constitutes a split purchase will be addressed and communicated.*

Finding – *Several purchasing card transactions by Food Services personnel were made to the same vendor for the same type of items, but were shipped to different locations. The items are invoiced separately and charged separately, but appear to be part of the same order. The District's Travel & Purchasing Card Manual prohibits the splitting of charges to avoid transaction limits. It is unclear if ordering the same type of items from the same vendor, but having those items shipped to different locations is considered splitting charges. The Director of Purchasing acknowledged the ambiguity, but felt this scenario would be an example of splitting charges, and thus be a violation of policy. It is unclear if this has been effectively communicated to cardholders or purchasing card managers.*

Upon inquiry by Mrs. Hightower, Mr. Terry St. Cyr, Assistant Superintendent for Finance and Business Services, said that once determined, clarification of what actually constitutes a split purchase order would be addressed and communicated to purchasing card managers and cardholders.

RECOMMENDATION #36 – *Accounting Operations take the necessary steps to perform “audits” in a timelier and consistent manner.*

Action: *Accounting Operations was backlogged due to conversion year workload. The department is now current in its review.*

Finding – *During this audit, and other audits/reviews recently performed, we noted that purchasing card “audits” performed by Accounting Operations personnel were not conducted in a timely manner. For Food Services personnel’s purchasing cards, many months’ transactions were not “audited” until 9-10 months after the transactions occurred, and on average were “audited” over 6 months after the purchases. We did note that one “auditor” consistently perform her “audits” on a timely basis. Purchasing card audits serve as valuable detective control. They cannot stop fraud from occurring, but if done timely, they can assist in quickly identifying potential issues.*

Upon inquiry by Mrs. Moultrie, the Superintendent advised that the Accounting Operations staff was now current in their review of transactions, but noted reviews would always be a month behind because transactions would occur one month yet the bill for that transaction was not received until the following month. Mr. Bryant confirmed that a recent sample of several different cardholder transactions indicated that this issue had been resolved; and all signs indicated that the backlog had been a result of the Skyward conversion workload. He said his office would continue to monitor the situation.

RECOMMENDATION #41 – *Given the continued growth in number and total amount of purchasing card transactions processed by the District, we recommend the District consider staff whose main job duties are dedicated to auditing purchasing card transactions.*

Action: *The District considers and reviews all employee job responsibilities on a continuous basis and base staffing decisions accordingly.*

Finding – *Current the “audits” of purchasing card transactions are performed by accounting specialists who main job duties are to process invoices for payment. There are 6 individuals who “audit” both the administrative requirements of monthly reporting and the \$8 million of transactions. There are 20,000+ yearly transactions that occur across 450 different purchasing cards. That amounts to almost 1,700 transactions a month, or approximately 280 transactions per “auditor” per month. As use of purchasing cards continues to grow throughout organizations, including the District, many organizations have secured full and/or part time staff dedicated to providing continuous auditing of purchasing card transactions. These individuals are traditionally degreed, certified, and/or receive continuous training in current trends and best practices in fraud and purchasing card auditing.*

Upon inquiry by Mr. Bergosh, Mr. Bryant reviewed the audit recommendation that the District consider staff whose main job duties were dedicated to auditing purchasing card transactions. Mr. Bryant said the recommendation was due to the continued growth in number and total amount of purchasing card transactions processed by the District. Mr. Bryant advised that the University of West Florida (UWF), which was comparable to the School District in terms of size of budget and number of purchasing card transactions, currently employed two (2) part-time purchasing card auditors; UWF also utilized specialized software to assist with that auditing process. Mrs. Hightower believed this was a possibility that the School Board should ask Mr. Bryant to research further in terms of scope and cost; the rest of the Board agreed.

RECOMMENDATION #46 – *We recommend Food Services follow established practices for collection of amounts owed the District for Ms. Szoboszlay’s children’s outstanding meal account balances. The District should also determine if any action is required involving the receipt of the older model iPad. Action: District practice for students moving out of district has been not to collect as cost associated with collection generally exceeds outstanding balances. As such, the school is generally responsible for paying outstanding balances from internal funds at the end of each year. The current charge policy prevents excessive charges by calling students daily that have a negative balance and limited charges to \$6. With respect to the iPad recommendation, the disparity in models between the iPad 2 and 3 is of nominal value. An employee restitution SOP has been developed to prevent substitution issues in the future.*

Finding: *Ms. Szoboszlay departed with certain items and amounts owed to the District. For instance, both of Ms. Szoboszlay children’s meal accounts had balances due to their charging of meals. In addition, Ms. Szoboszlay was issued an iPad 3 by the District, which could not be located after her departure. When confronted, Ms. Szoboszlay provided the District with a new un-opened iPad 2, which was opened, tagged for inventory purposes, and placed into use. Upon departure, employees are required to satisfy all obligations owed the District.*

Mr. Bergosh said he had discussed this matter with Mrs. Waters; he was not completely convinced that the District ought to be asking for its money back from Ms. Szoboszlay until the disposition of the investigation was completed in terms of a decision being made by the State Attorney’s Office as to whether or not they would pursue further investigation and/or prosecution. Dr. Alan Scott, Assistant Superintendent for Human Resource Services, said staff had decided to refrain from sending any communication to Ms. Szoboszlay regarding the money owed to the School District until the audit investigation was complete, the findings were released, and the total amount owed to the was determined. Mrs. Waters warned against saying Ms. Szoboszlay could pay a certain amount of money and return certain items and in return the School District would not pursue criminal prosecution; doing so, could imply extortion. Instead, she said the District should either say pay the money, return the items and that would be the end of the matter; or, say if she does not respond to their request the District would turn the matter over to law enforcement. At the request of several School Board Members, the Superintendent indicated that a letter would be sent to Ms. Szoboszlay simply informing her of the total amount owed (once determined by Mr. Bryant’s office), identifying the items to be returned, and providing her a copy of the audit report.

RECOMMEND #47 – *We recommend Food Services and Food Services Accounting determine the extent of the over-claimed meals, draft the required written communication to DOA/DOE, and return any excess reimbursement received.*

Action: *Notification letter sent 9/10/13.*

Finding – *During the 2012 fiscal year, we conducted an investigation into allegations of misconduct of a high school cafeteria. The investigation revealed a fraud involving the entering of fictitious meals for students. Our analysis identified a minimum of 2,700 meals which were recorded, but not served. The District later received reimbursement through the NSLP for these meals. In our report, we recommended the District conduct further analysis to determine the full extent of the over-claim, notify DOE/DOA, and return the excess reimbursement. According to Ms. Szoboszlay’s email and discussions with current Food Services and Food Services Accounting personnel, DOE/DOA was verbally notified. DOE/DOA directed the District to provide details of the incident in writing. Ms.*

Szoboszlay failed to do so, and as of the date of this report, DOE/DOA has not been provided the requested information.

Mr. Bergosh said he understood that there was turnover in that department but wanted to know why it the notification letter was sent so late. Mr. Shawn Dennis, Assistant Superintendent for Operations, said he had originally instructed Ms. Szoboszlay to provide the details in writing to the DOE/DOA and he was told by Ms. Szoboszlay on several occasions that the information had been sent; it was only after researching the records that it was discovered no such communication had occurred from Ms. Szoboszlay to the DOE/DOA. The notification letter was eventually sent on September 10, 2013. Mr. Bryant said DOE/DOA had responded and instructed his office to calculate the meals by month for the 2010-11 year, as well as the 2009-10 and 2011-12 years.

III. PUBLIC FORUM

Mr. Bergosh called for public forum; however, there were no speakers.

IV. ADJOURNMENT

Prior to adjournment, Mrs. Hightower took a moment to thank Mr. Bryant and his staff for their diligent work on this extensive audit. She also thanked the Superintendent and his staff for their cooperation with the Internal Auditing department.

There being no further business, the Special Workshop adjourned at 7:30 p.m.

Attest:

Approved:

Superintendent

Chair