

MINUTES OF ROANOKE CITY SCHOOL BOARD AUDIT COMMITTEE

June 18, 2009

1. CALL TO ORDER:

The meeting of the Roanoke City School Board Audit Committee was called to order at 4:40 p.m. by Chairperson Suzanne Moore.

Audit Committee

Members Present: Suzanne Moore, Chair
Courtney Penn

Others Present: Curt Baker, Deputy Superintendent for Operations
Drew Harmon, Municipal Auditor
Dawn Hope, Assistant Municipal Auditor
Margaret Lindsey, Director of Accounting
Pete Ragone, KPMG Senior Manager

Ms. Moore asked for any proposed changes to current meeting agenda. Mr. Harmon asked that discussions about the auditing budget, faculty funds, and school activity fund financial records be added to the agenda. The agenda was amended as requested and approved.

2. APPROVAL OF MINUTES FROM JANUARY 21, 2009, AUDIT COMMITTEE MEETING:

The minutes were approved as presented.

3. KPMG GENERAL AUDIT PLAN FOR THE YEAR ENDING JUNE 30, 2009:

Mr. Ragone presented an overview of the audit plan related to the upcoming FY2009 financial statement audit. He briefly discussed Statement on Auditing Standards [SAS] 115, Communicating Internal Control Related Matters Identified in an Audit, effective for fiscal year 2009. This standard will slightly modify the level at which deficiencies are reported to the audit committee.

Mr. Ragone discussed the single audit work planned for the school division and noted Title I, Special Education and possibly Title IIa programs would likely be audited in accordance with OMB Circular A-133. He discussed the impact of federal stimulus money on future single audits. It is expected that expenditures of stimulus dollars will have to be specifically tracked and reported. Mr. Baker reported that no stimulus money was spent during fiscal 2009. Federal regulations allow a portion of funding received to be dedicated to cover audit expense. Mr. Harmon conveyed the need for program staff to allocate funding for single audit costs.

Mr. Ragone discussed aspects of work in the area of information risk management. He noted that the new AptaFund system is a hosted application housed on a remote server maintained by the vendor. The vendor has not had an audit of their facility or

internal controls more commonly known as a SAS 70 audit. As a result, KPMG must perform additional substantive testing to verify the data in the system is complete and accurate. The Payroll audit being performed by the Auditing department will be provided to KPMG for consideration as KPMG plans test work.

KPMG's audit approach and the timing of audit procedures were discussed. Mr. Harmon requested that KPMG let him know when budgeted hours for individual audit tests are affected due to actions/ inactions on the part of school personnel. Mr. Ragone agreed to communicate issues as they arise.

Significant audit areas were reviewed and specific items for review were identified including cash and investments. Reconciliations of opening balances and vendor set-up were discussed.

GASB Statement 49, Accounting and Financial Reporting for Pollution Remediation Obligations, will be in effect for fiscal 2009. The remediation of pollution was discussed as it relates to the demolition of the old William Fleming High School. The School Accounting department and City Department of Finance will need to work together closely to identify potential remediation costs and determine the necessary accounting entries based on the city's ownership of the buildings and the school division's responsibility for operating and maintaining the buildings.

Other Post-Employment Benefits: Mr. Baker reported that the School Board adopted a plan during fiscal 2009 that reduces the Division's liability and will enable him to un-reserve approximately \$2.3 million of the \$3 million reserved for OPEB in fiscal 2008.

Various other matters related to the audit were discussed, including financial reporting for the Athletics Fund. Mr. Ragone will research the implications of management's proposed presentation of Athletics and determine if a restatement of prior year data will be required in the statistical section of the financial reports.

The consideration of potential component units was discussed. The Committee discussed the parent-teacher association [PTA], athletic boosters, Roanoke City Public Schools Foundation as organizations that would require evaluation. The criteria for recognizing an organization as a component unit were discussed, with materiality identified as the element that would likely prevent recognition. The policies with regard to recording donations of cash and equipment were discussed. Fiscal Services will need to document their evaluation of potential component units as part of their year-end procedures.

System Access: KPMG will be given read-only access on Aptafund, similar to that provided to Municipal Auditing.

Mr. Ragone commented on the need for a strong CAFR review process this year. Mr. Baker acknowledged that there would be one in place.

Mr. Ragone will talk with Municipal Auditing about incorporating some KPMG test work into the current payroll audit in order to maximize efficiencies between offices.

Mr. Ragone closed his presentation and left the meeting at approximately 5:50 pm.

4. HOMEBOUND INSTRUCTION AUDIT, OCTOBER 7, 2008 – REQUEST TO RECEIVE AND FILE:

Mr. Harmon commented that he had received a written response from Mr. Baker earlier in the day. Mr. Baker advised the committee that new Homebound Instruction protocols have been in place since January which addressed the issues identified in the report. He noted that Homebound Instruction expenditures would be coded to the Homebound cost center in fiscal 2010 as opposed to being coded to regular instruction, as they were in fiscal 2009.

The committee asked about notifying KPMG concerning the investigation into Homebound expenditures. Mr. Harmon responded that he would share the report with KPMG.

The Audit Committee received and filed the Homebound Instruction audit report. Final copies will be distributed once Mr. Baker prepares a cover letter to accompany management's written response.

5. REVIEW OF 2008 ANNUAL SCHOOL REPORT ISSUES:

This review was undertaken on the advice of Mr. Harmon after Mr. Ragone noted problems with the report in conversation with Ms. Moore regarding the 2008 audit of the Division's financial statements. Auditing confirmed that the errors and delays in filing did not result in any financial or punitive action by the Department of Education. Mr. Harmon commented on the complexity of the annual school report workbook provided by the Department of Education, which consists of approximately 45 spreadsheets. Given the changes in the financial system and the chart of accounts, it was recommended that management designate the person responsible for preparing the report as soon as possible so that preparations for the 2009 report may begin.

Ms. Moore inquired whether all the items listed in Exhibit 1 were errors. Mr. Harmon replied that this was an example of the high-level error check performed by the Department of Education at the time of filing. Ms. Hope added that although the items on the page identified significant variances, those variances were not necessarily due to errors in the data. The fact that average daily membership numbers are not a part of the annual school report was also noted.

Mr. Penn asked if the issue related to the debt service numbers in the report had been resolved. Mr. Harmon explained that the initial 2008 report had included the city-paid portion of the Division's debt service and that the number had been corrected in the final version of the 2008 report.

6. REVIEW OF FINANCIAL RELATED ACTIVITY FOR PERIOD JULY 1, 2007, THROUGH AUGUST 6, 2007 [37 DAYS]:

Mr. Harmon stated that the review included the areas of procurement, grants, and manual accounting entries. A large volume of data was scanned and filtered to identify transactions for review. No issues were noted in the grants and accounting areas. In the procurement area, the historical records indicated tension between members of the prior school administration and the school purchasing office. While management override of some school division procedures appeared to have occurred, there were no definitive violations of laws or regulations identified that would have required disclosure.

7. BRIEFING – AUDIT ASSISTANCE IN ACCOUNTING AND ACCOUNTS PAYABLE AREAS:

Fiscal Services staff has made progress in addressing identified weaknesses. Issues such as timely reconciliations represent potential internal control findings that could be cited in the annual financial audit. Mr. Harmon discussed the concept of materiality and aspects of schools revenues and expenditures that enable auditors to opine on the Division's financial statements.

Mr. Penn asked about the likelihood of errors being noted in the General Fund and some general discussion followed regarding past errors. Mr. Baker noted that his staff has addressed items in order of priority and he anticipates all items will be substantially corrected by the time KPMG arrives for final field work. He is confident that the financial statements will be materially correct. In his opinion, the Division's vulnerability lies in the fact that some issues have taken 9-12 months to resolve. He went on to say that because there are good controls over revenue, payroll, and debt, he feels that timing will be the only issue.

Looking at the timeline, Mr. Penn asked when and how they will know if things are not going well. Mr. Harmon proposed having an Audit Committee meeting in September. KPMG should have completed the planning and control evaluation portions of the audit and it would be a good time to discuss any issues identified and/or single audit issues. Mr. Harmon will also provide an update on the status of the School Activity Fund audit at this time.

8. OTHER COMMITTEE BUSINESS:

Meeting Schedule – The committee agreed to meet next in September 2009.

Annual Audit Plan – Mr. Harmon is currently working on the FY10 audit plan. Mr. Baker would prefer that an audit on Accounting and Accounts Payable be done earlier in the year. He also requested that any audits in relation to Human Resources occur later. Mr. Penn suggested that Special Education be considered. There was discussion on this topic and the committee concurred that it should be added to the plan. Ms.

Moore commented that perhaps a review of the bus service should be included in the long-range plan as well.

Mr. Penn requested that the Audit Committee get an executive summary of all audits conducted in the Division by outside agencies so as to have a complete picture of audit activity in the Division. Mr. Harmon agreed that this would be very useful for the committee and his office. Mr. Baker asked for an opportunity to talk with Dr. Bishop about potential audit areas that he would then pass along to the committee.

Faculty Funds – Mr. Harmon discussed the various items related to faculty funds noted by staff in planning for the School Activity Fund audit. He requested clear guidance on the use of vending commissions for faculty social funds. Mr. Baker responded that this practice is acceptable if approved by on-site school administration.

Mr. Harmon requested guidance on the practice of individual school faculties establishing a separate bank account for faculty social funds that would not be accounted for on AptaFund, would not be reported as a fiduciary fund, and would not be subject to audit. Mr. Baker stated his preference that monies generated through teacher dues and vending commissions be deposited in the Division's accounts and accounted for in Aptafund.

Gift Cards: There was a discussion on the use of gift cards. Gift cards and cash awards should only be made from faculty social funds. These funds are accounted for as "restricted general funds" in order to distinguish them from student monies which should not be used for gift cards or cash awards.

School Activity Fund Financial Records – There was a discussion about plans for retaining the financial records from those schools scheduled to be permanently closed or repurposed [Raleigh Court Elementary, Ruffner Middle School, and Oakland Intermediate]. No specific plans have yet been made for these records. Auditing staff will need access to these files for audit purposes.

There was also a discussion about the final disposition of student funds that were unspent at June 30. Funds will follow the club sponsors to their new school in some cases; in other cases funds will be allocated on a proportional basis to the schools receiving the transferring students.

9. ADJOURNMENT

The committee adjourned at 7:15 p.m.