MINUTES OF ROANOKE CITY SCHOOL BOARD AUDIT COMMITTEE

January 21, 2009

1. CALL TO ORDER:

The meeting of the Roanoke City School Board Audit Committee was called to order at 5:14 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 Vivian Penn-Timity, Director of Financial Reporting

2. COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2008:

Mr. Harmon reported that KPMG will not release their opinion letter until the school administration signs the Management Representation letter. Mr. Baker stated that he and Dr. Bishop planned to sign the letter as soon as they completed the process of obtaining outside counsel.

Mr. Penn asked about concerns related to the period of time in July and August 2007 that preceded Mr. Baker's appointment as Deputy Superintendent. Mr. Baker responded that he had no specific concerns; but he did not feel it was appropriate to warrant activity occurring prior to his hire.

Mr. Harmon stated that he had sought guidance from outside entities such as the American Institute of Certified Public Accountants and the Virginia Auditor of Public Accounts, but no organization would provide a formal opinion. Generally Accepted Auditing Standards specifically require management's representation letter to address the entire audited period. Mr. Harmon noted that the Standards specify that management must sign the letter even in cases when they were not in place for the entire period.

Mr. Penn noted his concern related to the 37 days for which management has been reluctant to offer the required representations. He proposed that Municipal Auditing thoroughly review activity during the 37 days in question. Mr. Harmon noted that KPMG's audit work did not exclude the 37 days and suggested that the review could focus on those specific representations that have the greatest potential for risk. Mr. Penn and Ms. Moore will brief the full Board at their next meeting and ask for a vote on revising the audit plan to include an audit of the 37 days.

The Committee discussed the State's deadlines for localities to complete their comprehensive annual financial reports. The Virginia Auditor of Public Accounts requires localities to report audited financial data by November 30th of each year. State law requires that external auditors meet with the governing body of the locality no later than December 31st each year. A final draft of the School Division's financial statements was not provided to KPMG until December 17. In view of the lateness of the 2008 statements, the Committee agreed that the Division should reevaluate its processes for preparing and finalizing its financial statements in 2009.

Mr. Harmon noted that he has not yet received KPMG's management letter comments and that when they are received, they will be brought to the Committee.

Mr. Harmon reviewed CAFR Exhibit A and noted that the Instruction category was underspent by $4.6 million. Mr. Baker responded that the full balance of CMERP was appropriated last year, but was not spent. Additionally, school personnel generated approximately $3 million in efficiency savings and medical premiums were overfunded by $1 million. These are the basic components of the FY08 fund balance. He anticipates similar results this year as schools have recently been directed to slow spending to address potential revenue shortfalls.

3. **AUDIT OF ROANOKE CITY PUBLIC SCHOOLS ATHLETICS DEPARTMENT**

Mr. Harmon stated that the original purpose of the audit was to make sure all athletic revenues had been recorded and that support from booster clubs was appropriately accounted for and disclosed. No material concerns were noted with regards to revenues or booster club support. The audit included developing pro-forma financial statements for athletics, providing a more complete view of the investment in the Division's overall athletics program.

Mr. Baker stated that he met with the booster clubs at both high schools to share results from the audit. As a result, a clearer understanding of roles and responsibilities has been developed between school administrators and members of the booster clubs.

Mr. Baker noted that controls over spending have been improved, yet some issues remain with the purchases of services and compensation. Employee compensation issues will be addressed through the ongoing compensation study. Mr. Baker commented that this audit was a classic example of a helpful audit and provided management with the information they needed.

Mr. Penn expressed surprise that issues related to Department of Labor regulations were not noted in the audit. Mr. Baker responded that the administration had addressed wage and hour issues that arose with certain employees. Ms. Hope confirmed that stipend and extra-duty payments were included in the pro-forma statements and were tested for accuracy. Determining compliance with wage and hour laws was not an objective of the audit and was not tested.

Ms. Moore inquired about the status of transportation issues related to athletics. Mr. Baker responded that all transportation costs related to athletics now appear in the Athletics Fund, eliminating departmental billings to schools.

The audit committee received and filed the Athletics audit report.

4. AUDIT SCHEDULE FOR WINTER AND SPRING 2009

Mr. Harmon discussed the schedule for auditing Aptafund processes for payroll, accounting, and accounts payable. The consensus of the Committee was for Auditing to plan on auditing the 37 day period as discussed earlier, pending Board approval. The Committee agreed to proceed with the payroll audit as originally planned. The audits of the Accounting and Accounts Payable systems are to be reconsidered after Auditing and Management review the current status of the system implementation and development of associated processes. Current efforts should be focused on ensuring preparedness for the annual financial audit and the school activity funds audit.

5. AUDIT SERVICES BUDGET FOR FISCAL 2010

The proposed audit services budget increased $646 over fiscal year 2009 to $65,282. Mr. Penn asked if the Municipal Auditing Department anticipates being held harmless by the City during the budget process. Mr. Harmon responded that there have been no assurances given that the department will not be cut. The School Division's budget for auditing services was discussed. Mr. Baker stated that the current budget proposal appears reasonable.

6. EXTERNAL AUDIT CONTRACT FOR JUNE 30, 2009 FINANCIAL AUDIT

Mr. Harmon briefly discussed the history of KMPG fees. KPMG anticipates that fees will increase by approximately 10% to 15% for the FY09 engagement in light of changes in the accounting system, internal control structure, and administrative personnel. KPMG offered a not-to-exceed proposal of $36,225 for fiscal year 2009, which represents a 15% increase above the original contracted amount. Mr. Harmon recommended amending the current contract as proposed by KPMG. This will be the last year of the original five year contract. Competitive proposals will be sought in January 2010 for a new five year contract. By state law, the new contract would need to be in place by April 2010.

Ms. Moore and Mr. Penn concurred with Mr. Harmon's recommendation to revise the existing contract to provide a not to exceed cost of $36,225 for the 2009 audit.

7. OTHER BUSINESS

Homebound Instruction Audit – Mr. Harmon confirmed that Audit Committee members and Mr. Baker had received a draft copy of the audit. He then asked for a status update on management's response. Mr. Baker advised that the Municipal Auditor should receive the Management Response shortly. It was agreed that the Audit Report will be received and filed at the next Audit Committee meeting.

Gift Cards – Ms. Moore initiated a discussion of the school's new policy of not allowing gift cards to be purchased. Mr. Baker explained that management has put in place a no cash or near-cash policy meaning that employees are not allowed to accept cash, gift cards, or gift certificates. Per IRS regulations, these must be recognized as income and taxed accordingly which would create a large administrative burden on the Payroll Department. In order to maintain consistency with this policy, cash or near-cash gifts funded by teacher social funds are also not allowed as these run through the district's accounting system.

There is no change in the gift policy, as long as it is not cash or near-cash. Additionally, the policy does not apply to personal collections taken up with which a gift is purchased, as long as it is not run through the district's accounting system. It is also not Management's intention that employees keep cash funds on hand, but that they spend collections as they are taken up. Per Ms. Lindsey, school staff have been advised to spend down current teacher social funds on the books and to discontinue adding to them. The Accounting Department is still working with school staff on how to record vending commissions.

8. ADJOURNMENT

The committee adjourned at 7:15 p.m.