

**Minutes of the Roanoke City School Board Audit Committee
June 29, 2010**

1. CALL TO ORDER:

The meeting of the Roanoke City School Board Audit Committee was called to order at approximately 3:50 p.m. by Chairperson Suzanne Moore.

Audit Committee

Members Present: Suzanne Moore, Chair

Others Present:

Curt Baker, Deputy Superintendent for Operations
Drew Harmon, Municipal Auditor
Dawn Hope Mullins, Assistant Municipal Auditor
Margaret Lindsey, Director of Accounting
John Aldridge, Partner, Brown, Edwards & Company
Chris Banta, Senior Associate, Brown, Edwards & Company

2. PLANNING PRESENTATION BY BROWN, EDWARDS, & COMPANY

Mr. Aldridge began the presentation and a handout was provided by Mr. Banta [attached]

- A planning meeting with the audit committee is required.
- The audit firm asks that committee members communicate any concerns they may have related to the audit.
- The audit will include the financial statements, grants, compliance with Virginia requirements, and school activity funds.
- The audit does not include an opinion on internal controls, however; a management letter will be issued to communicate the firm's observations and recommendations related to internal controls and best practices.

Mr. Aldridge discussed the firm's audit process:

- The firm will first develop their understanding of the school division's internal controls related to financial processes.
- Significant controls will be tested to determine they are operating as expected.
- Results of controls testing will be used to determine the extent and focus of the firm's specific audit procedures.

The committee asked that internal control concerns be discussed with management when the firm completes its consideration of controls. A meeting will be scheduled with the administration and the Municipal Auditor, tentatively targeted to be held in early August.

Mr. Aldridge discussed the concept of risk and materiality and highlighted the typical areas of emphasis related to a financial statement audit:

- Cash and cash equivalents
- Grant receivables and revenue
- Accounts payable and self insurance accruals
- Compensated absences and payroll accruals
- Other post employment benefits

Mr. Aldridge discussed the timelines for the audit and noted that the firm had already completed a substantial portion of the grants audits, in accordance with their planned timetable.

- School activity fund audits will be performed the weeks of August 2 and 9.
- Financial audit will begin September 13.

Mr. Aldridge noted his firm's good relationship with the City's audit firm, KPMG. He discussed the importance of good communications between the two firms to ensure certain financial records of the two entities are consistent. The committee discussed the uniqueness of the level of autonomy the Roanoke City Schools have with their treasury and finance functions, as well as having a separate audit firm from the city.

Mr. Aldridge discussed the engagement team and then asked Mr. Banta to discuss the details of the audit.

Mr. Banta discussed the changes to Statement on Auditing Standards [SAS] 115. He noted that "significant deficiencies" are essentially defined as issues about which the governing body should be informed. The committee discussed materiality concepts related to control deficiencies, noting that a dollar threshold would not be applicable when considering issues that would be reportable. It was also noted that the Auditor of Public Accounts specifies certain compliance issues be reported that might not be reported if relevance / materiality were considered.

Mr. Banta noted that grant coverage under the single audit [A-133] would likely be greater this year than in past years, based on two factors:

- The school system is now having its grants audited separately from other City and related entity grants. The rules essentially require that a sufficient number of grants be audited to achieve specified dollar coverage [50% for Roanoke City Public Schools]. By separating from other city-related entities, there are fewer large grants in the pool, resulting in the need to audit more of the smaller grants.
- The American Recovery and Reinvestment Act [also known as federal stimulus] includes provisions to require greater accountability. Federal agencies providing stimulus funds to schools and localities have added to their audit requirements, which may result in additional grants having to be audited.

It was acknowledged that there is a benefit associated with the greater breadth of single audit coverage. The compliance supplement from the federal Office of Management and Budget is due to be published in mid-July. Mr. Banta expects that it will include required audit steps related to job creation and retention data reported by organizations receiving stimulus funds.

Mr. Banta discussed changes to the guidelines for single audit sampling. Sample sizes are now specified based on the number of transactions related to a grant. This may result in larger sample sizes than those taken in past audits.

At this time, Mr. Aldridge and Mr. Banta asked that they be allowed to speak with the Audit Committee chair privately about any concerns she may have about the audit, internal controls, and risks of fraud.

The meeting was adjourned at approximately 4:45 p.m., while Ms. Moore, Mr. Aldridge, and Mr. Banta met privately in the Board room.

At approximately 5:00 p.m. the committee meeting commenced and Mr. Aldridge and Mr. Banta left the meeting.

3. ANNUAL AUDIT PLAN – MUNICIPAL AUDITING

The committee discussed the timing, scope and objectives proposed in the audit plan [attached]. It was agreed that the scopes and objectives were appropriate as proposed.

The vendor tables audit is expected to require limited school staff involvement and is hoped to be substantially completed during August. Municipal Auditing will delay work with staff as needed to accommodate heavy work loads during the opening of school [after Labor Day].

Audit findings follow-up: Mr. Baker asked if the scope of this audit would include issues that Brown, Edwards & Company would be addressing as part of the annual financial audit. Mr. Harmon stated that it would not include accounting or activity fund findings. In terms of timing, it was noted that letters will be mailed to managers in early September giving them 30 days to respond. Any field testing required will occur in October or later, well after school opening related activity has slowed.

The Technology audit will open in early November and must be concluded by the end of January.

The committee discussed the audit universe. Mr. Harmon noted that the school activity funds had been removed based on those annual audits now being included in the independent auditor's contract. The audit universe was further reduced based on changes in the organizational structure and the history of audit activity or inactivity in areas. The cycle goals were based on projections of completing three to four audits annually.

There were no suggestions for additions or deletions to the universe, nor any revisions to the cycle goals. The committee discussed potential future priorities:

Records Management – long standing issues remain in this area and actions are underway to address them. Expect it to take 2 to 3 years to complete improvement, at which time an audit would be more beneficial.

Risk Management – has been outsourced this year and an audit should be considered in 2011.

Grants Management – has been an area of emphasis recently and school administrators feel they have a good grasp in this area. It was noted that there are significant aspects of grants management that may not be addressed within an A133 audit and that an audit by Municipal Auditing should be considered for 2011.

HR – an important area that has long standing issues, that has undergone significant change with the Aptafund system, and that is changing leadership. This area should be considered for audit in 2011.

Capital Projects – this is an area that is expected to be less active in the near future due to the high school projects wrapping up. Two potential audit projects were discussed in this area:

1. Verifying the accuracy of the final settlement with the contractor and architect related to the sharing agreement used for miscellaneous small projects at Patrick Henry and William Fleming. Timing would have to be early July 2011.
2. Evaluating financial processes related to contract management, including the issues with change orders, progress billings, invoice processing and accounting through the Advantage system.

Mr. Baker discussed the experience in construction management that the division has garnered during the construction of Patrick Henry and William Fleming high schools. He believes the clerk of the works model has been the most effective.

Ms. Moore asked if the recent issue with personal identifying information being left on computers sold for surplus should be looked at in the Technology audit planned for November. Mr. Baker noted that the Information Technology department approves the surplus of the computers, but the warehouse was responsible for removing the hard drives. Mr. Harmon remarked that the hard drive issue was an area that could easily be audited and that is appropriate for audit. Mr. Baker stated that surplus sales have been halted until after he fills three positions at the warehouse. He suggested that perhaps the next surplus sale could be audited. Ms. Moore asked Mr. Harmon to consider the merit of auditing the hard drive issue and to respond back to her.

Ms. Moore will recommend the annual plan to the full School Board. The plan will be placed on the July Board agenda for approval.

4. OTHER BUSINESS

Ms. Moore asked if the school bookkeepers had received training on the new policies and procedures for accounting. Ms. Lindsey explained that a training session was held in May and was well attended. Mr. Baker stated that all audit findings that have been reported the previous two years were reviewed. Ms. Lindsey noted that updated policies and procedures have been loaded onto the Eschedule site and that bookkeepers, Municipal Auditing staff, and Brown, Edwards & Company staff have access to them through the site.

Ms. Moore asked if the Bookkeepers had been notified that Brown, Edwards & Company will be performing the activity funds audit this year. Mr. Baker stated that they have not been formally notified; but that it was a good idea and staff would act promptly to issue a notice to the bookkeepers.

5. ADJOURNMENT

The meeting adjourned at 5:27 p.m.