

MINUTES OF ROANOKE CITY SCHOOL BOARD AUDIT COMMITTEE
School Administration Building, Mr. Baker's Office
September 22, 2009

1. CALL TO ORDER:

The meeting of the Roanoke City School Board Audit Committee was called to order at 4:05 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 Mullins, Assistant Municipal Auditor
Margaret Lindsey, Director of Accounting
Doris England, Administrative Assistant, Municipal Auditing

Ms. Moore welcomed everyone to the meeting.

2. BRIEFING – PROGRESS OF 2009 AUDIT OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

Ms. Moore recognized Mr. Harmon for comments on the progress of the 2009 audit of the Comprehensive Annual Financial Report.

Mr. Harmon stated there are several stages to the audit with the first stage being the planning stage with timelines included. The interim period covers the months of May through June when process control documents are updated and carried forward. This year, with the new system, some process documents are there and some are not. This has inhibited the evaluation of design at this point.

Final field work will be conducted October 12-19, and final reports are due November 6, 2009.

Mr. Harmon stated that procedures to follow are determined by controls in place. Under government standards, the external auditors will have to comment on internal controls. KPMG will go through the documentation, and that information will be fed into the report on internal controls. Some issues will be in the report, so there needs to be something in place to address these issues.

Mr. Penn asked if the issues could be brought to the attention of the School Board Audit Committee as they are discovered. Mr. Harmon replied that one process affects another so that might not be possible initially. He stated he would meet with the KPMG staff and discuss any issues before the final field work. No findings have been cited as yet.

Mr. Harmon explained that general information technology controls could not be evaluated because the system is hosted in another state. (Do I need further explanation – something about SAS?) He noted that the Payroll Audit and the security roles relative to that affect this evaluation. Mr. Harmon stated there would be more testing of data this year.

Mr. Harmon stated the single audit should wrap up this week or next. The Title I and Special Education Grants are almost clear, but the issues with William Fleming High School may have some affect on the audit. Mr. Harmon stated that we would need to work with the Department of Education and Tim Spencer on any potential impact.

Mr. Baker asked if the management letter would need to acknowledge this issue with specific language that would list William Fleming or any other issue affecting the audit as exceptions. Mr. Harmon responded that the report on internal controls should line up with the management letter. He stated there was a potential for litigation or loss of funds. Mr. Baker acknowledged that potential and stated the superintendent would work with the language regarding that. Mr. Harmon noted that any disclosures should be presented to KPMG. Mr. Penn asked if funds needed to be set aside to buffer this. Mr. Harmon replied that the funds did not need to be set aside, but the potential amount should be disclosed. This could be done with a footnote in the financial statements that states there may be a lawsuit and the amount that may be involved should be indicated. If there has been a trial, then the amount may have to be booked instead of disclosed in the footnotes.

Mr. Baker mentioned OPEB, medical plan changes, and the wellness program. May need ...(I need more info for this part). Ms. Lindsey stated the liability account for medical for 2009 was okay. As of June 30, it will not be overfunded. She explained that a great deal more had been paid out in the last three months. Ms. Mullins stated she would e-mail all attendees at the Audit Committee meeting the programs that were audited by KPMG last year as part of the single audit.

Ms. Moore asked if there were any further questions. There were none.

3. AUDIT INVESTIGATION – SCHOOL GIFTS

Ms. Moore asked Mr. Harmon to comment on the audit report of school gifts. Mr. Harmon noted that the report had been distributed to the Audit Committee previously, and there were no issues found in the audit. Mr. Baker stated he would move to the consent agenda at each School Board meeting. Ms. Moore stated the administration was making every effort to bring this to the attention of (who – the schools?) Mr. Penn stated that no one thought of the risk involved in accepting these gifts. Ms. Moore explained that in this economic climate, schools are trying to receive gifts to help offset costs.

Ms. Moore asked if there were any further questions or comments. There were none.

4. BRIEFING – ONGOING SCHOOL AUDITS

- Payroll
- Student Activity Funds
- Hurt Park Renovations

Ms. Moore asked Mr. Harmon to comment on the ongoing school audits.

Payroll:

Mr. Harmon stated his office had sent out the final draft of the Payroll audit findings to school management on Monday. The results were good with only one outstanding question to resolve. Mr. Harmon noted there is a security issue as to who has access to what in the system that may be incompatible with their duties. He noted school administration should have a report within two weeks from which to respond.

Mr. Baker discussed how he should respond to the audit findings. He stated the over-withholding on social security for employees making more than \$102,000 per year was being addressed. The employee can list the extra amount withheld on their tax return. The schools also overpaid by \$11,000 and efforts are underway to get that amount refunded.

Mr. Baker spoke of the security issue in regard to the Payroll audit. Three school employees and seven AptaFund employees have access to the system, making a total of ten (10). Mr. Baker expressed concern on how he could maintain administrative ability if the other two who have access (Margaret Lindsey and Dave Daniels) were to, for example, collude with one another.

Mr. Harmon responded that according to best practices no one at the deputy superintendent level should have access, and that is because of their authority. AptaFund recommends only two school employees have access. The vendor would be the last resort to access the system if it must be done. Mr. Harmon stated he would set up an exit conference with Mr. Baker, Pam Mosdell (the in-charge auditor), and himself to discuss these concerns.

Ms. Moore asked if there were further questions or comments regarding the Payroll audit. There were none.

Activity Funds:

Mr. Harmon stated that, as of last Monday, Municipal Auditing had received about half of the records that had been requested from the schools and had itemized them. Municipal Auditing has the statements in draft form to review and will get back with Margaret Lindsey with any questions.

Ms. Mullins asked Ms. Lindsey if she had a preference as to when Ms. Mullins should send e-mails to her with questions regarding the records for the school activity funds. Ms. Lindsey stated it was okay to e-mail any time during the day and as often as necessary. She stated she did prefer e-mails instead of telephone calls.

Mr. Harmon stated that October 30 was the deadline for the Activity Funds audit. He noted that his staff would not be visiting all the schools as in the past, but his department will be doing a lot of data analysis this year. Since this is a centralized system, auditors will check to determine if the AptaFund statements agree to the system reports. Findings will be withdrawn as things come to light. Ms. Moore asked if any issues will be discussed and communicated with school officials. Mr. Harmon replied that they would.

Mr. Baker commented that school principals think the system provides greater transparency. Since the bookkeepers have learned the system, there have been few complaints. Ms. Lindsey stated she had not had any calls of complaint recently. Mr. Baker mentioned there had been a backlog of bills to be paid when the system was initially started, but the approval system is in place now with no backlog. Mr. Harmon stated that spending seemed to be constrained during the 2009 year, perhaps because of this initial backlog. Ms. Moore stated that she had noted a difference in schools that had a fulltime bookkeeper versus those schools that had a secretary/bookkeeper combined.

Ms. Moore asked if there were any further questions or comments. There were none.

Hurt Park Renovations:

Mr. Harmon stated he had not found the allegations regarding the asbestos issue at the Hurt Park School to be true, and there were no findings as yet. He plans to continue with this audit in about two weeks and speak with two employees in maintenance. Mr. Harmon stated the audit should be completed soon.

Mr. Penn stated he was concerned with any allegation of intentional public health/asbestos issues. Mr. Harmon responded that it was critical to know (explain in the report?) how this event happened. The person who made the decision to pull up the carpet in the school did not think it would disturb the asbestos; however, it did. Ms. Moore asked if the schools had an asbestos plan indicating what is in the buildings. Mr. Baker responded that he did not know what is resident now in the schools. Mr. Harmon stated that when renovating or building, it has to be specified asbestos-free with the contractor, or there could be asbestos used even in new buildings.

Ms. Moore asked if there were any additional questions or comments. There were none.

5. RFP DEVELOPMENT FOR ANNUAL AUDIT OF SCHOOL CAFR

Ms. Moore recognized Mr. Harmon for comments.

Mr. Harmon explained that according to state code, a contract with the external auditing firm must be in place by April 1 of the current year's audit. He emphasized

the need for the Audit Committee members to be involved in selecting a qualified, diligent firm not based on price but on qualifications.

Mr. Penn asked if the new contract would be a consolidated contract for both the City and the Schools. Mr. Harmon responded that it may be merited to go out to bid as separate contracts although the City and the Schools could wind up with the same firm. Mr. Penn asked if the contracts were separate, would the Finance Director still be engaged in the School's CAFR. Mr. Harmon replied that either way, the Finance Director would have to sign off on the CAFR because the Schools, as well as GRTC, are component units of the City. Mr. Baker stated there was a higher standard on the GRTC audit. Mr. Harmon explained this was because of grant funding, which is reported through the City as its primary agency.

Ms. Moore asked if the bid might go to another firm besides KPMG. Mr. Harmon stated that KPMG is the only large, well-known firm here in the Roanoke area. Other firms in the area that might bid include Brown Edwards & Company and Robertson, Frammer, Cox. Mr. Harmon thinks that five firms in the area might place bids. Ms. Moore asked when the decision would be made to request the bids either separately or consolidated. Mr. Harmon stated it would be soon, perhaps by December. If the RFP went out in January, the contract could be awarded by March. He added that the GOA recommends a five-year contract.

Mr. Penn raised the question of who would be on the Audit Committee if the contract was awarded jointly for both the City and Schools. He asked if it would consist of himself, Ms. Moore, and the City Council members. If the contract is separate, would just Ms. Moore and Mr. Penn be on the committee. Mr. Harmon responded that he would need to research this and check with the APA requirements. He stated he would get back with Ms. Moore on what his research yielded. Ms. Moore stated that with a new City Manager, this may be a good time to go out separately. Mr. Harmon stated this would be a good time to consider incorporating the Activity Funds audit into this RFP and determining how much extra this would cost. He explained that typically a firm would assign one auditor to be over the School Activity Funds audit. This would free up more time for Municipal Auditing to audit other areas within the school system.

There was discussion regarding the School Activity Funds. Mr. Harmon stated the revenue at the "Club" level was open to irregularities. He added that the parents of school children might just prefer to make donations to the school rather than have their children go door to door selling fundraisers. Ms. Moore stated that children may feel low self-esteem if they do not sell as much as other children.

Ms. Moore asked Mr. Baker what his feelings were about rolling the Activity Funds audit into the RFP. Mr. Baker replied that he agreed with Mr. Harmon that this might be a good time to include the Activity Funds audit in with the external audit. However, he expressed concern with the level of specificity that might be applied. He stated that Municipal Auditing might provide a more detailed audit than an outside firm, and he would wait to see how the RFP goes out and what responses come back.

Ms. Moore asked if there were further questions or comments. There were none.

6. AUDIT PLANNING

Mr. Harmon stated he understands what areas the Audit Committee wants to be audited, but he has not yet put those in the plan.

7. OTHER BUSINESS

Stimulus Funds:

Mr. Baker spoke of the Stimulus Package and stated the school's approach to this is with caution. He stated Roanoke City Public Schools had not requested or spent any stimulus dollars thus far and was using traditional funds and IDA funds. He explained there had been no realignment of spending to stimulus funds, and he was concerned about the reporting requirements. His understanding is the reports on spending are due 10 days after the end of the quarter and are locked down 30 days after the end of the quarter. He expressed concern that employee contracts could be based on that funding and tied to it. (Drew, did you make the comments in the two sentences above or did Mr. Baker?)

Mr. Harmon stated that senior auditor, Ann Clark, had identified \$10.7 million of stimulus funding available to Roanoke Schools. Mr. Baker said that amount sounded accurate to him.

Mr. Baker stated that by the second report period, the spending of stimulus funds by the Schools should be underway. He indicated that he would be the point person for the deployment of stimulus spending, and Ms. Lindsey will in charge of the accounting for the funds.

Global Compliance:

Ms. Moore stated this was not just a way for whistle-blowers to make complaints, but it was also a tool for constructive comments to be made in an anonymous manner. Mr. Penn stated that people do not feel they can speak up, and they need to have a way to be heard. Mr. Harmon said that people often complain because they do not know all the factors involved, and Global Compliance would drive two-way communication.

Mr. Baker stated that Dr. Bishop would be doing a presentation on this topic the following day. He said there were probably good and bad examples of the implementation and methodology of using the system.

8. ADJOURNMENT

The committee adjourned at 5:48 p.m.