

**Minutes of the Roanoke City School Board Audit Committee
June 23, 2016**

Audit Committee Members Present:

Bill Hopkins, Committee Chair
Laura Rottenborn, Committee Member

Others Present:

Steve Barnett, Assistant Superintendent for Operations
Kathleen Jackson, Chief Financial Officer
Cari Spichek, Senior Auditor, City of Roanoke
Drew Harmon, Municipal Auditor, City of Roanoke
Sarah Gregory, Roanoke Times

1. Call to Order

Mr. Hopkins called the meeting to order at approximately 11:01 AM.

2. Approval of Minutes

Mr. Hopkins asked if anyone had any changes to the minutes. Hearing none, the minutes were received and filed.

3. General Audit Plan – Brown Edwards & Company, for the 2016 Financial Audit

John Aldridge, Partner with Brown Edwards & Co., presented the general audit plan for RCPS. He noted that the audit plan has three (3) components:

1. Financial Records
2. Activity Funds
3. VRS

Mr. Aldridge briefly discussed the audit approach and noted that cash receipt testing for school activity funds is already underway. He stated that management is scheduled to submit the final comprehensive annual financial report (CAFR) to Brown Edwards by 10/10/16 in order for the firm to issue its opinions by 10/31/16. This timing ensures the City will be able to incorporate the School Division's financial information in the City's CAFR in advance of the State's deadline for filing locality financial reports.

Mr. Aldridge stated that since there were no internal control weaknesses cited in the prior year and no significant findings in 2014 and 2015, his firm can limit its single audit testing to 20% of the total federal awards. Any grant with more than \$750,000 in expenditures during the fiscal year must be audited at least once every three (3) years. Based on preliminary numbers, the following grants will be audited this year:

1. Special Education Cluster
2. Title IV-B Community Learning Centers

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3. Title II-A Improving Teacher Quality

Related to the school activity funds audit, Mr. Aldridge noted that auditors have found instances in which teachers have not deposited classroom receipts timely. In his experience, this is an audit finding routinely cited with the majority of school divisions. Brown Edwards has also audited receipts for one football game and one basketball game and noted no issues.

Mr. Aldridge briefly discussed the Division's pension liability, noting that the majority of employees participate in the Virginia Retirement System (VRS) and a small number participate in the City of Roanoke's pension plan. Combined, the Division's pension liabilities total \$125 to \$130 million.

Mr. Aldridge mentioned that there had been some discussion about who audits the Division's capital expenditures. He noted that the assets and debt are reported on the City's financial statements and the firm auditing the City is responsible for auditing all capital expenditures.

After Mr. Aldridge's presentation, Mr. Harmon noted that he had provided the audit engagement letter to the Committee so that members would be informed as to the terms of the audit and responsibilities of management. Mr. Hopkins asked if next year's engagement letter would also be signed by the Chair of the Audit Committee. Mr. Aldridge acknowledged that this had been discussed and that the firm works with management and for the School Board. Brown Edwards will include the Audit Committee Chair as a signature on next year's engagement letter.

Mr. Hopkins thanked Mr. Aldridge for the presentation and asked if there were any further comments or questions. Hearing none, the plan was received and filed.

4. Transportation Follow Up Audit

Mr. Harmon went over the Transportation Follow-Up Audit and noted that the findings from the most recent follow-up audit were not cleared. There was some discussion on the data management plan and premature inspections. Mr. Hopkins questioned what the concern would be related to premature inspections. Mr. Harmon explained that we would expect unnecessary costs incurred by the vendor to eventually flow through to the Division.

Mr. Hopkins questioned whether Mountain Valley had improved on the premature inspections since the original audit. Mr. Harmon responded that it had not. Ms. Rottenborn questioned whether Mountain Valley agreed that the inspections were premature, or whether representatives felt that the early inspections were warranted. Mr. Harmon responded that the audit used Mountain Valley's own standard of forcing inspections after 35 school days when buses were in for other repairs. The company agreed to an action plan that included using window stickers to communicate when the next inspection is due. Mr. Harmon expressed that the inspection issue is one that should be easily remedied.

5. Annual Audit Plan for FY 2016-17

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Mr. Harmon presented the proposed audit plan for 2016/17, noting that it includes the following seven (7) areas:

1. Special Education
2. 21st Century Community Learning Centers
3. Substitute Teachers
4. Information Technology Survey
5. External Audit Coordination
6. Audit Findings Follow-Up
7. Annual Risk Assessment

The competitive grants area was considered for inclusion in the plan, however; based on meetings with administrators there was little formal structure in this area to audit. There is a webpage on the RCPS website for grants but no grants office. The Librarian at William Fleming prepares grant applications as directed by the Superintendent's office. There is no full time position tasked with identifying and researching grants. Given the growing number of foundations supporting education the Board will likely want to evaluate the potential costs and benefits of establishing a grants office in the future.

Special education requires substantial funding and is highly regulated, which caused this area to rank high in the risk assessment. The Director of Special Education shared a 2013 consultant's report with Auditing which was included in the Committee's packet with the audit plan. Auditing proposes reviewing the recommendations with the new Director, Jacque Banks, and evaluating in detail the outcomes of the more important recommendations. Additionally, the audit would look at the criteria for providing specialized and out of zone transportation for students with IEPs.

Ms. Rottenborn noted the large expenditures for special education as noted in the 2015 financial reports (\$27 million). Mr. Harmon replied that regional program costs flow through the Division's expenses and after accounting for reimbursements from the state and other localities, the Division's net costs are about \$19 million, including grant funded costs. Ms. Rottenborn indicated concern that the audit objectives are not specific about evaluating costs. She would like the audit to closely examine costs, perhaps at a line item level, to ensure funds are spent appropriately and to determine if there are opportunities to reduce costs. Mr. Harmon responded that there were opportunities to reduce costs cited in the consultant's recommendations. Once the detailed audit plan is developed with management, Mr. Harmon promised to review the specific audit objectives and scope with Ms. Rottenborn and Mr. Hopkins for their input before proceeding with the audit.

Ms. Rottenborn asked what percentage of the special education budget was expended on transportation. Mr. Harmon replied that a percentage of transportation services billings were allocated to special education based on the number of students with IEPs. This provides a rough estimate for reporting purposes and totaled approximately \$400,000 last year. Ms. Jackson stated that transportation services billings do not break down costs between special education and regular

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education. Mr. Harmon mentioned the costs to add a route; Mr. Barnett stated that Transportation estimates it is approximately \$57,000 to add a route.

21st Century Community Learning Centers: Based on concerns related to the program this past year and the resulting changes, an audit is proposed in the last half of the school year to confirm that the program is meeting expectations. Ms. Jackson suggested the preferred timing for the audit might be in advance of the Department of Education's annual review, which has typically taken place in April. Mr. Harmon responded that Auditing could work with the administration on the timing of the audit.

Substitute Teachers: Mr. Hopkins asked that the audit include contrasting current costs with projected costs had the Division retained responsibility for recruiting, scheduling, and paying substitutes. Also, Mr. Hopkins and Ms. Rottenborn asked that the audit verify that the vendor is not removing substitute teachers from assignments to keep hours under the 29 hour weekly threshold that would cause the employee to be considered full time. Mr. Harmon responded that Auditors will work with the vendor and division management to address the Committee's concerns. He also stated that Auditors will likely develop and administer a survey to gather feedback from Principals about the quality of substitute teacher services.

Information Technology Survey: Mr. Harmon noted that Tasha Burkett, Information Systems Auditor, will be meeting with Mark Thompson, Director of Technology, and his managers to develop an overview of the Technology department. The results of the survey will be used to prioritize IT audits and develop preliminary objectives for an audit in 2017/18.

Mr. Hopkins asked if there were any questions or comments. Hearing none, the plan was received and filed.

6. Other Business

Mr. Harmon addressed the future Audit Committee meeting schedule, and the following meetings were tentatively scheduled:

- 9/15/16 at 11:00 a.m.
- 11/1/16 at 11:00 a.m.
- 2/16/17 at 11:00 a.m.
- 5/18/17 at 11:00 a.m.

7. Adjournment

Mr. Hopkins adjourned the meeting at approximately 12:00 PM.