

**Minutes of the Roanoke City School Board Audit Committee  
November 1, 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  
Donna Caldwell, Director of Accounting  
John Aldridge, Partner, Brown, Edwards & Company  
Drew Harmon, Municipal Auditor, City of Roanoke  
Sarah Gregory, Roanoke Times

**1. Call to Order**

Mr. Hopkins called the meeting to order at approximately 10:59 AM.

**2. Presentation of Audit Results for the June 30, 2016 Comprehensive Annual Financial Report and School Activity Funds**

Mr. Aldridge began by reviewing the school activity funds financial report. He noted that all schools reported positive cash balances. He commented on the merits of Roanoke City Public Schools “pooled” approach that centralizes all school activity funds into one bank account rather than allowing each school to maintain its own bank account. Due to the nature of cash receipts in schools, Mr. Aldridge’s firm typically qualifies its opinion on the financial statements for school activity funds, as was the case for Roanoke City Public Schools.

Mr. Aldridge discussed the management letter related to school activity funds next. He noted there were two new findings this year. The first finding was missing documentation to support two deposits totaling \$11,471. The second finding was related to the theft of \$300 in petty cash from one school.

Mrs. Rottenborn asked if there was a minimum dollar amount for which receipts must be written. Mrs. Jackson responded that the policy is for a receipt to be written for any amount. Mrs. Rottenborn asked about the average dollar amount receipted to which Mr. Aldridge responded that it varied. Mrs. Rottenborn asked what made up the \$11,471 deposit that was missing support. Mr. Aldridge stated he would need to look at the work papers and get back to her.

Mr. Aldridge then reviewed prior year findings, noting that they were typical findings in other divisions. Cash receipts are considered a material weakness due to the decentralized nature of cash collections and the impracticality of being able to ensure all cash collections are reported. Other issues noted included receipts not being written, deposits not being made timely, petty cash not being replenished timely, and a short deposit.

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Mrs. Jackson commented that the findings will be reviewed with the Principals at the monthly principals meeting. Fiscal policies are also reviewed during the annual leadership conference and new employee orientation. Mrs. Caldwell noted that she asked all petty cash custodians to reconcile their petty cash funds at year end in the hopes they would request replenishments at that time.

There were no further questions or comments related to the school activity funds financial report.

Mr. Aldridge then directed the committee's attention to the Comprehensive Annual Financial Report (CAFR). He noted that the school staff and management produce the CAFR and commended them for their work and success in publishing the CAFR so promptly after the audit. He began the discussion by highlighting the chart on page eight (8) of the CAFR, showing the annual change in fund balance for the general fund since 2009. For the year ending June 30, 2016, Roanoke City Public Schools was essentially able to maintain the fund balance at the prior year's level.

Mr. Aldridge next commented on Roanoke City Public Schools receiving awards from the Association of School Business Officials International, and the Government Finance Officers Association. These certificates acknowledge that the Division goes beyond the minimum required for financial reporting and prepares financial reports consistent with best practices.

The audit opinion on the June 30, 2016, financial reports was unmodified, meaning it was a clean opinion. Mr. Aldridge noted that this was the best opinion that can be received and that this year's audit went very well.

Mr. Aldridge directed committee members' attention to the "Management's Discussion and Analysis" section of the CAFR, noting that it is written by management and summarizes the information contained in the rest of the CAFR. The information is reviewed by the auditors for consistency with the audited statements. Mr. Aldridge referred to the chart on page 26 showing sources of revenue and noted the City provides the largest source of funding.

The Statement of Net Position presented on page 29, shows that the Division's capital assets are minimal. Mr. Aldridge noted that this is primarily due to the buildings and land being reported on the City's financial statements where the associated debt is also reported. Roanoke City Public Schools also contracts with a vendor to provide transportation services and the vendor owns the school buses. Mr. Aldridge noted that in 2015, all governments were required to report their net pension liability on the Statement of Net Position. This year, Roanoke City Public Schools reported a \$130 million liability for pensions. He noted that Roanoke City Public Schools has paid the pension contribution required by the Virginia Retirement System each year.

Mr. Aldridge then discussed the Balance Sheet shown on page 31. Fund balance can be designated as non-spendable, restricted, committed, assigned or unassigned. The unassigned balance should be monitored as it provides the Board financial flexibility. Mrs. Rottenborn asked what the sinking fund for transportation represented. Mr. Hopkins responded that the Board intended to put aside money every year in case it decided the Division would be better served by bringing transportation back in-house.

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However, once the Administration and Board became more comfortable with the vendor's performance, no further funds were committed to the sinking fund. Mrs. Rottenborn asked if the money in the sinking fund could be uncommitted. Mr. Aldridge confirmed that the funds could be uncommitted.

Mrs. Rottenborn asked about the approximately \$3 million assigned under the Food Services Fund. Mr. Aldridge and Mrs. Jackson responded that funds in Food Services are largely provided by the Federal government and generally have to remain in the food services fund.

Mr. Aldridge discussed the Statement of Revenue, Expenditures, and Changes in Fund Balances, noting that the net reduction in the fund balance for the general fund was only \$86,000 in fiscal 2016. He also noted that while the City reports the buildings and debt on its balance sheet, Roanoke City Public Schools pays the debt service for bond funds used for school building improvements. Debt service payments totaled ~ \$15 million in fiscal 2016.

Mr. Aldridge encouraged committee members to read the notes, required supplementary information, and statistical section when they have time. He specifically mentioned the budgetary comparison on Schedule A, the fund balance history on Table 3, and the changes to fund balance for the last ten years on Table 4. Mrs. Rottenborn commended the citizens of Roanoke and the City Council for significantly increasing financial support for schools over the past ten years.

Other tables discussed during committee included the principal property taxpayers on Table 9 and principal employers on Table 16. Mr. Aldridge commented that Carilion accounted for 13% of total employment and was by far the largest employer. He also pointed to Table 19 showing full time equivalents for Roanoke City Public Schools the past ten years and noted the impact of outsourcing.

Mr. Aldridge discussed the compliance section of the report and noted that Roanoke City Public Schools expended a little over \$21 million in grant funds during fiscal 2016. The auditors identified no questioned costs or compliance violations in the grants tested. Roanoke City Public Schools continues to be designated as a low risk grantee.

Mr. Hopkins asked what factors enabled the division to reduce its reliance on fund balance and if they will continue going forward. Mrs. Jackson responded that the largest factor was improved experience with the Division's healthcare claims from prior years. This provided an expenditure reduction of approximately \$2.5 million. Healthcare costs are now expected to increase around 2.4% this year; substantially less than the 15% increase that was incorporated into the fiscal 2017 budget.

This concluded the discussion of the CAFR. Next, the Committee discussed the management letter from the auditors that provided comments on internal controls and offered suggestions for improvements.

One new comment was included in this year's letter. It related to grant funds awarded through the 21<sup>st</sup> century program that were not spent within the required timeframe and as a result had to be forfeited.

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Mr. Aldridge noted that several comments from prior years had been addressed by management and were not repeated in fiscal 2016. One prior year comment that was repeated related to the timeliness of grant reimbursement requests. Mrs. Jackson responded that requests are made more frequently than they were in the past, improving timeliness. The 21<sup>st</sup> Century reimbursement requests are sometimes delayed while awaiting the Department of Education's approval of budget amendments. She commended the Accounting staff's efforts to improve this process.

Mr. Hopkins and Mrs. Rottenborn thanked Mr. Aldridge for his presentation. They also thanked Mrs. Jackson, Mrs. Caldwell and the Accounting staff for their work in completing the CAFR on time. The Committee received the reports and asked Mrs. Jackson to place them on Board Docs for the next Board meeting.

**3. Other Business**

Mr. Harmon reminded Committee members that the next public meeting will be on February 16, 2017, at 11:00 AM.

**4. Adjournment**

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