

**MINUTES OF THE BOARD OF EDUCATION OF HOWARD COUNTY
AUDIT COMMITTEE**

June 26, 2007

The Audit Committee of the Board of Education of Howard County met in public on Tuesday, June 26, 2007, at 3:00 p.m., in Board Room A, located at 10910 Route 108, Ellicott City, Maryland. The following were present:

Patricia S. Gordon, Chairman, BOE Audit Committee
Lawrence H. Cohen, BOE Audit Committee
Ellen Flynn Giles, BOE Audit Committee
John J. Connors, Internal Auditor
Beverly Davis, Director of Finance
Susan A. Shown, Recording Secretary

The meeting was called to order by Committee Chairman Patricia S. Gordon, and on motion by Mrs. Giles and second by Mr. Cohen, the agenda was approved (3/0).

On motion by Mr. Cohen and second by Mrs. Giles, the minutes of the Audit Committee meeting of March 13, 2006, were approved (3/0).

The Internal Auditor provided a recap of audit results since the inception of the office in March 2006 and presented a proposed Audit Plan for Fiscal Year 2008. Other items covered during the meeting included discussions on the external audit contract, audit recommendations status report, and preparing for the Legislative Audit.

➤ **March 2006-Present**

- 12 School fiscal/administrative audits have been completed.
 - 3 Elementary (Deep Run ES, Elkridge ES, Talbott Springs ES).
 - 4 Middle (Cradlerock School, Murray Hill MS, Mayfield Woods MS, Mount View MS).
 - 5 High (Oakland Mills HS, Long Reach HS, Centennial HS, Hammond HS, Mt. Hebron).
- Approximately 30% (\$1.3 million) of School Activity Funds have been audited thus far.
- Observed inventory process at warehouse for Finance to establish a value for financial statements.
- Prepared proof of loss for Folly Quarter MS embezzlement and transmitted to Traveler's Insurance (\$9,000+ recouped).
- Provided consultation and assistance on internal controls to Special Education office with regards to Disability Awareness Program.
- Participated in meetings for Custodial Supervisors and Athletics Activities Managers to inform them of audit objectives for their areas of responsibilities during school audits.

- **Audit reports issued and recommendations monitored by the Internal Auditor until corrective action is taken.**
 - HCPSS management has been very responsive to reports and has taken prompt action to address weaknesses (e.g. gate receipts/tickets, payroll issues, safeguarding receipts) and to communicate weaknesses to schools so that they can be addressed systemically.
 - Best practices are also identified and communicated to HCPSS management for consideration (e.g. improved receipt/deposit process; electronic payments).

- **Fiscal Year 2008 Audit Plan (see attachment)**
 - 61 schools have not yet received a comprehensive internal audit.
 - A comprehensive audit takes approximately 66 hours per school. There is little difference in the time required to conduct the audits for high, middle, and elementary schools. Even though transactions and dollars are greater at the high schools, the books and records are generally in better condition for audit at high schools.
 - There are approximately 1269 staff hours available for audit in FY 2008, and it is estimated that between 20-24 school audits can be completed (approximately 2/month).
 - A mix of schools will be selected for audit with the principal criterion being the potential risk to HCPSS. Risk factors could include large bank balance swings, inaccurate/untimely reports to Finance, and/or negative publicity or complaints.
 - If the 2008 plan is accomplished, then approximately 50% of the schools and 70% of the dollars will have been audited by June 30, 2008.
 - Three schools will be audited in July and August.

Action: On motion by Mrs. Giles and second by Mr. Cohen, the Audit Committee approved the FY 2008 Audit Plan to be presented to the full Board for approval (3/0).

- **External Audit Recommendations Status Report**
 - Accounting Procedures Manual to provide procedures control for Finance Office is 70% complete.
 - Procedures are role-specific instead of employee-specific.
 - Cross training will be provided for all core functions to ensure continuity of work.
 - School administrators will continue to be reminded of the importance of monitoring school funds, and training will continue to be provided to principals, bookkeepers, and secretaries.

- **Continuation of External Audit Contract**
 - In 2004, a three-year contract with an option to extend two years was awarded to Clifton-Gunderson, and the contract has been extended to Clifton-Gunderson for the first option year. Field work will begin on August 15, 2007.
 - It was recommended that the BOE Audit Committee meet with the external auditor in September/October 2007 when the management letter is issued and again in March/April before the FY 2008 audit begins.

- If the school system or the external auditor decides not to extend the contract for the second option year, staff must be ready to issue a Request for Proposals as soon as possible after the beginning of the new year (2008).

The Committee agreed to meet with the external auditors in September/October 2007, when the management letter is issued, and again in March/April 2008 before the FY 2008 audit begins.

➤ **Legislative Audits**

- Legislative audits, which have been completed for other jurisdictions, have been reviewed, and a matrix of the findings was developed. Staff who are responsible for each key area of the audit have been asked to respond to the findings which may apply to Howard County and indicate how each item has been or would be addressed.

The Audit Committee will continue to follow-up and keep the Board apprised of developments/ issues relating to the Legislative Audit.

Next Audit Committee meeting: TBA.

The meeting was adjourned by the Chairman at 3:55 p.m.

Board of Education of Howard County Audit Plan - FY 2008

Purpose: This audit plan has been developed to provide audit coverage of HCPSS activities and operations based on available staff resources. Since the internal audit function is still relatively new to the HCPSS, particular emphasis has been given to planning audits of HCPSS operations that have not been subject to audit in the past and have been identified as being a higher risk by the HCPSS External Auditors (Clifton Gunderson, LLP). Our primary emphasis will be continuing the audits of the fiscal operations at individual school campuses that started in FY 2007.

In addition to the school audits time will also be spent providing assistance on an as needed basis to various Department of Education components. During FY 2007 assistance and/or guidance was provided to Special Education, Athletics and Activities Managers and Custodial Supervisors. We also participated in the semi-annual training conferences for school based fiscal staff (bookkeepers and principal secretaries).

Generally Accepted Governmental Auditing Standards (GAGAS) require that auditors performing work under GAGAS need to maintain professional competence through continuing professional education (CPE). A total of 80 hours CPE is required every 2 years, with no less than 20 hours in any one year. For planning purposes an estimate of 40 hours per year is used.

Methodology: To develop a realistic FY 2008 audit plan we considered the number of schools that had not yet been the subject of an internal audit, the average audit time expended per school in FY 2007, and available audit resources.

Conclusion and Recommendation: It is our opinion that audits of 20-24 schools can be accomplished in FY 2008 with existing audit resources. If the FY 2008 plan is accomplished we will have audited almost 50% of schools and approximately 70% of the dollars since the inception of an internal audit program. We also believe that we will have audited all schools with the highest risk factors. We recommend that the Audit Committee endorse the FY 2008 audit plan and forward it to the Board for final approval.

Hours Available for Audits - FY '08

	Hours per week	35	
	Weeks per year	52	
	Total Available Hours	1820	
Less: Vacation (20 days x 7 hours)	140		
Sick Leave (8 days x 7 hours)	56		
Personal Days (2 days x 7 hours)	14		
Holidays (13 days x 7 hours)	91		
Subtotal	301	301	
Available Audit Program Time		1519	
Less: Indirect Time			
Training, Seminars, Conferences, etc. (CPEs)	40		
Board/Committee meetings, Audit Planning, Risk Analysis, Advisory Services, Department of Education meetings	70		
Audit Liaison (MSDE, OLA etc.)	35		
Administrative (filing, correspondence, etc)	105		
Subtotal	250	250	
Time Available for School Audits		<u><u>1269</u></u>	
<u>Audit Universe -- Schools</u>			
Total number of Schools		73	
Less: Number of Schools Audited in FY 2007 (Attached)		12	
Schools Remaining to be Audited		<u><u>61</u></u>	

Using the experience gained in FY 2007, it is estimated that 20 to 24 school audits can be accomplished in FY 2008 (approximately two per month).

Currently audit time expended per school breaks down as follows:	<u>Hours</u>
Preparation (account analysis and data gathering)	10
On-site audit testing	35
Audit exit meetings, finalizing audit working papers, preparing and issuing draft audit report	14
Finalizing and issuing audit report	7
	<u><u>66*</u></u>

** can increase or decrease based on the condition of the school's books/ records and/or audit scope changes*

Schools Audited	#	School Funds			Enrollment @ 9-30-06	
		7/1/05	sy 05-06			6/30/06
High		Balance	Revenues	Disbursements	Balance	
<i>Centennial</i>	1	\$239,403	\$1,128,265	\$1,098,107	\$269,562	1,466
<i>Hammond</i> **	1	\$170,490	\$666,797	\$622,194	\$215,093	1,323
<i>Long Reach</i>	1	\$98,687	\$703,473	\$686,307	\$115,852	1,372
<i>Mount Hebron</i> **	1	\$276,567	\$819,530	\$811,043	\$285,054	1,427
<i>Oakland Mills</i>	1	\$135,226	\$568,225	\$539,804	\$163,647	1,168
SUBTOTALS	5	\$920,373	\$3,886,290	\$3,757,455	\$1,049,208	6,756
Middle						
<i>Cradlerock</i>	1	\$34,692	\$133,805	\$129,188	\$39,309	921
<i>Mayfield Woods</i>	1	\$62,433	\$129,838	\$134,176	\$58,094	517
<i>Mount View</i>	1	\$32,886	\$143,411	\$138,652	\$37,645	721
<i>Murray Hill</i>	1	\$1,699	\$171,775	\$155,931	\$17,542	684
SUBTOTALS	4	\$131,710	\$578,829	\$557,947	\$152,590	2,843
Elementary						
<i>Deep Run</i>	1	\$13,216	\$115,454	\$112,224	\$16,446	592
<i>Elkridge</i>	1	\$36,098	\$165,561	\$154,652	\$47,007	638
<i>Talbott Springs</i>	1	\$41,341	\$62,250	\$75,622	\$27,969	426
SUBTOTALS	3	\$90,655	\$343,265	\$342,498	\$91,422	1,656
Audited Totals	12	\$1,142,738	\$4,808,384	\$4,657,900	\$1,293,220	11,255
ALL SCHOOLS	72*	\$3,968,490	\$15,751,019	\$15,368,839	\$4,350,670	48155
% of Dollars Audited	17%	29%	31%	30%	30%	

* does not include Veterans ES
 ** audit field work complete; report has not yet been issued