

AUDIT COMMITTEE OF THE BOARD OF EDUCATION

The Audit Committee of the Board of Education met on Wednesday, May 2, 1990, from 8 p.m. to 9:55 p.m., in the Board of Education Conference Room, Carver Educational Services Center, Rockville, Maryland.

Members Present: Mr. Blair G. Ewing, Chairperson
Ms. Alison Serino
Dr. Robert E. Shoenberg

Others Present: Ms. Melissa Bahr Dr. Pam Splaine
Mr. Steve Keleti Mr. Charles Stine
Dr. H. Philip Rohr Mr. Richard Woods
Dr. Carl W. Smith

Re: **Management of Accrued Liability
Funds**

Mr. Stine explained that up until they had done the Unfunded Accrued Liability Study they had funded the UAL in level dollar amounts in each budget. The UAL came into being when the retirement and pension plans were created. At that time employees came into the plan with prior years of service for which no contribution had been made to retirement funds. Originally they had decided to pay back the funds in 30 years, but after the study they had determined that their actuarial assumptions were incorrect and UAL was not being funded properly. Therefore, they had decided on a 40 year payback with new actuarial assumptions and with the agreement that UAL funds would not be used for other budgetary needs. On the retirement system, they had 18 years remaining, and for the pension system they had 30 years remaining.

In regard to investment strategies, Mr. Stine reported that they had split out the funding. The Aetna pool of funds was used to honor the benefits of those already retired, and the other funds were invested in a more aggressive manner which for the past three years had yielded them 12 percent. They would have an updated report for the committee in September, and he felt that overall everything was going well.

Mr. Ewing thought they had done a steadily better job of managing this whole effort including the commitment on the part of the Board to fund the UAL and the staff's new investment strategy. They were also fortunate to have County Council support on this issue. Committee members agreed that it would be well to review the actuarial standards every five years and asked staff to plan for such a review.

Re: School Construction Audits

Mr. Ewing stated that the committee wanted to know what was planned in this area, what auditors would look for, and examples of what had been done to oversee construction projects given the size of the MCPS construction budget. The Board would be discussing school construction in general in the near future, and the discussion this evening would be a helpful preliminary to that.

Mr. Woods introduced Mr. Keleti who had spent 28 years in auditing work with the federal government and who was the principal auditor working on the school construction issue. Mr. Keleti had surveyed other states, other school systems, and the staff in the Division of Construction. He had developed a plan to audit construction activities which included looking at individual projects and then functions such as design and inspection.

Mr. Keleti reported that he wanted staff to look into value engineering which was a widely accepted cost control technique. After the architects prepared a plan, a team of engineers was brought in to look at the design to see if cost savings could be identified. For example, the State of Washington had used this technique and realized 5 to 14 percent savings in construction costs. He had studies which he would share with MCPS construction staff. He noted that the use of value engineering did not mean that they had to accept all savings proposed. Dr. Rohr explained that a lot of the savings came from the use of different materials in construction.

Dr. Shoenberg pointed out in Montgomery County the community was involved in school construction and were likely to be less tolerant about the removal of certain features. Dr. Rohr indicated that Maryland had mandated this in the mid 1970's and then abandoned it. They had done a form of it with Briggs Chaney because of the need to save money and time. At that school it had been recommended that over-sized bricks be used which saved materials and labor.

Mr. Ewing indicated that the federal government used value engineering, and if properly managed the system worked well. The Metro designers used VE to reduce graffiti in the stations.

Dr. Rohr said that he would be providing reactions to all of the issues in connection with the audit of construction activities. In regard to suggestions for change orders and progress payments, he was in agreement. The idea of a management information system to highlight repetitive reasons for work order changes was a good

idea. Another recommendation was price competition for architectural services which would be considered by staff. Dr. Rohr noted that this also had been mandated by the state at one time. He was in agreement with having an audit clause in fixed price contracts.

Mr. Woods reported that the next phase would include audits of Cloverly, Brooke Grove, Woodlin, and Watkins Mill construction projects. Mr. Keleti had just finished Cloverly and Brooke Grove and would be sharing that information with staff.

Dr. Shoenberg suggested that it might be well for the audit to look at countywide projects such as roofing and track resurfacing. Mr. Keleti said he would be looking at the architectural selection process and the energy management system. He had gone to several users to solicit their views. Mr. Ewing asked that Mr. Keleti's work, or at least a sampling, be shared with the audit committee. Mr. Keleti added that he planned to contact other school systems and to work with the architects.

Dr. Rohr commented that the operational audit was an excellent idea, and the time was right. He thought that Mr. Keleti's horizontal look at the Division of Construction would be of value to them. Mr. Ewing asked if Dr. Rohr made use of the internal auditors, and Dr. Rohr replied that they had made a request regarding plant operations. Mr. Woods said they had done work with the cafeteria and maintenance operations. Dr. Rohr commented that the auditing operation was a valuable asset to the school system because it was independent and yet part of the system and provided a quick response time to issues raised.

Mr. Ewing suggested that committee members study the design paper describing the proposed audit work on the Division of Construction. If members had questions, they could be raised at the next meeting.

Re: Review of the Committee's Role

Mr. Ewing said that this was a follow up to the discussion they had had with Peat Marwick regarding the role of the audit committee and, in particular the review of role of the committee in reviewing the internal auditing plans. PMM had implied that the audit committee would be involved in some kind of supervisory role over the auditing function. However, in discussing this last time, PMM had said that the committee should not be the operational supervisor. The unit should have direct access to the committee and help set the agenda for the work of the unit. The committee agreed that it was not their intent to become an operational supervisor. It seemed to Mr. Ewing that the members of the committee had to think about what role they wanted to play

in the auditing function.

Mr. Ewing commented that they had been reviewing some administrative elements of the superintendent's office which had some responsibility for financial management and auditing, but not all of them. They had looked at issues raised by the auditors, and occasionally the committee had made its own recommendations. Originally the committee had made regular reports to the Board of Education.

Dr. Shoenberg remarked that in a small school system the audit committee could play a more active and formative role. However, MCPS operated at a high level of sophistication and much of this was beyond the ordinary experience of most members of the Board.

It seemed to him that any real problems would be pointed out by the school system to the committee rather than being discovered through the activities of the committee. He was comfortable with the way in which the committee now functioned.

Mr. Ewing recalled that the committee had been formed originally because of concerns by the outside auditors that problems raised by them were not getting the attention they deserved. At that point in time MCPS had not been certified by ASBO, and the auditors thought the Board should have some involvement. MCPS had made a lot of progress in the last decade or so, and as things had gotten better there was less concern on the part of the Board regarding financial issues.

Mr. Ewing suggested that one possibility might be to have an annual report of the internal auditors accompany the annual report of the external auditors. The committee could consider the reports and make a report to the full Board stating that they had reviewed the report and had the following comments. This might be a useful way of demonstrating to the public that the committee was alive and alert. It was also healthy to remind the public and staff that there were auditors working about. Dr. Shoenberg recalled that in past years the Board had reviewed the external auditors report and had had an opportunity to raise questions. Mr. Ewing's suggestion added the report of the internal auditors to that process. Mr. Ewing explained that the reports would go to the committee and the committee would review the reports and the recommendations and forward this to the full Board.

Dr. Shoenberg commented that he was not interested in having the committee set the agenda for the auditors. Mr. Keleti offered the suggestion of having the auditors establishing priorities, setting their plan, and having the audit committee look at the plan. Dr. Shoenberg asked if the internal auditors did yearly planning. Mr. Woods replied that they had an annual plan in the

budget. This year they had one staff member working full time on salaries and benefits, one on construction, one on independent activity funds, one working on the computerized bookkeeping system, and one doing special request work and investigations. Dr. Smith remarked that the plan for the internal auditors was pretty standard and was changed only if there were some kind of an issue. He agreed that it might be useful at the end of the year to have a summary similar to that of the management letter.

Mr. Ewing thought that it might be useful for the committee to see these plans. They had a copy of the one for the school construction study. It would be helpful to have a brief annual summary of activities so that the committee could offer its comments to the Board in a public session.

Ms. Serino asked if the other auditors had plans similar to the one for school construction. Mr. Woods replied that they had one for auditing the independent activity funds and one for payroll.

These plans were updated, and they invited the part-time auditors in the schools to submit a critique of the auditing program.

Mr. Ewing asked that the minutes of the meeting be circulated in draft form so that the committee could approve them. He thought that the superintendent should be informed of the gist of this discussion as well.

Re: Detailed Review of the School Audit Process

Mr. Ewing stated that these audits were a matter of continuing concern, and this was a follow up of a previous discussion. Mr. Woods provided the committee with a copy of the audit program for independent activity funds. He used part-time staff who spent two days in each school. These people had to follow a detailed step-by-step plan and sign off on each step. As appropriate, the auditor might prepare a working paper on certain aspects of the audit. Central office staff would receive a working paper and the audit program on each school. When the auditors finished, they were required to have a close-out conference with the principal and the financial agent. In the high schools, the business manager was required to attend this conference. Local school reactions to the report were provided and turned in with the other documents. He provided committee members with sample reports from several schools. Mr. Woods explained that he had asked a number of secretaries to critique the reports, and comments had come back that they were never praised for the things that they had done well because the auditors only wrote up deficiencies. Therefore, they would be including more positive statements in these reports.

Ms. Serino asked if all secondary schools had computer print-outs to give to sponsors, and Mr. Wood replied that only 35 schools had this capability. Mr. Woods reported that this year everything seemed to be in good shape. Most principals felt that the audit helped them to get an idea of what was going on and what needed to be improved. It seemed to Dr. Shoenberg that any problems in the schools were as a result of laxness and casualness about financial matters. Dr. Smith pointed out that in a high school they might have 60 sponsors issuing receipts and making deposits which complicated matters.

As a result of requests from principals, Mr. Wood said he was now preparing a more digested summary of the process. In addition, principals were requested to read the first 15 pages of the independent activity fund manual prior to the start of each school year. Principals were told that if their financial agent appeared to be in difficulty, a call to the auditors would bring help. In recent years they had stressed the need to provide receipts for monies received which made for better record keeping and was something examined by the auditors. They also told principals that they had to keep control of procurement and not let staff order items on their own. They also told principals to look at the monthly financial report and ask a question now and then of the financial agent. The bank statements should be delivered directly to the principal so that he or she could examine the timeliness of deposits and account for all checks.

In regard to fund raising, Mr. Woods reported that they asked the business manager to take some initiative here. The principal had to authorize the fund raising and there had to be an accounting of whatever stock was offered for sale. Principals had told the auditors that it was difficult to get sponsors and even more difficult when those sponsors were burdened by paperwork. Other areas of concern were the school store operations and the vocational education ships. In regard to field trips, he said that a lot of elementary schools did not budget properly and ended up with a deficit in this account. Therefore, the auditors were providing some assistance here.

Mr. Ewing asked if the financial agent in the high school was the business manager. Mr. Woods replied that it was the financial secretary, and in most cases in the elementary school it was the principal's secretary. He had been receiving complaints about the burden of financial record keeping from these elementary school secretaries. Mr. Ewing asked that the committee be provided with the position descriptions for school secretaries. Mr. Woods reported that when they opened a new school, the auditor would spend a day there and went back once or twice to help out. He indicated that more and more schools were expressing an interest in computerized bookkeeping. Mr. Ewing

remarked that he continued to think that they probably were under administering their elementary schools. Dr. Shoenberg thought it might be useful, but costly, to have staff at the area office to assist in the financial management and auditing of schools.

Mr. Ewing thanked staff for their presentations and the information provided to the committee.

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