

**Montgomery County Board of Education
Audit Committee Minutes**

February 6, 2008

A meeting of the Montgomery County Board of Education Audit Committee was held at the Carver Educational Services Center in Room 120 on Wednesday, February 6, 2008. In attendance were:

Members: Mr. Christopher Barclay, Chair
Mr. Steve Abrams, Member
Mrs. Patricia O'Neill, Member

Staff: Mr. Larry Bowers, Chief Operating Officer
Mr. Roger Pisha, Audit Supervisor
Ms. Suzann King, Staff Assistant, Policy and Communications
Mr. G. Wesley Girling, Director, Benefits Strategy and Vendor Relations
Mr. John Kevin, Investment Specialist, Benefits Strategy and Vendor Relations
Dr. Marshall Spatz, Director, Management, Budget and Planning
Mr. Robert Doody, Controller

Guests: Mr. William Early, Clifton Gunderson, LLP
Ms. Heather Warriner, Lead State Auditor, Maryland Office of Legislative Audits

The meeting was called to order by Mr. Christopher Barclay, Chair, at 9:00 a.m.

Approval of November 8, 2007 Minutes

The audit committee members voted unanimously to approve the November 8, 2007, minutes as submitted.

Overview of MCPS Audit by the Maryland Office of Legislative Audits

The Maryland Office of Legislative Audits began their audit of MCPS in November 2007 and anticipates the final report to be ready next fall. The lead auditor gave the audit committee members a brief overview of their work. The audit will focus on the effectiveness and efficiency of each school system, enrollment, financial implications, and internal controls. The audit will identify best practices, areas of need, and make recommendations.

The process will consist of periodic status meetings; an exit conference; a draft report; MCPS response to draft report; a final report submitted with response to the State; a hearing in Annapolis; and then a report to the public. The committee expressed some concern over the amount of staff time spent to support the work of the auditors and that some of the work would be duplicated in other audits. With further rollout of the Financial Management System (FMS), information used in future audits will be easier to obtain and will in some ways, reduce the amount of staff time spent. Staff was asked by the committee to provide a list of all audits conducted of MCPS, including external agencies and those performed by the MCPS Internal Audit Unit.

Audit of the Financial Statement of MCPS

Management Letter from Clifton Gunderson, LLP

Clifton Gunderson, LLP completed their audit of the MCPS financial statement for the year ending June 30, 2007. The audit noted two schools had a cash balance deficit which occurred due to the schools processing checks in advance and then holding the checks until payment was due. The recommendation was for schools to process payments only when they are due.

Staff Responses to Management Letter

MCPS staff will provide specific guidelines next fiscal year to stop this practice.

An Independent Activity Fund (IAF) Work Group was established to look at support practices, processes, and existing problems, and will identify best practices as well as make other recommendations and work on a pilot. The work group consists of school based financial assistants, business managers, and principals at each instruction level, along with representatives from the Internal Audit Unit, Office of School Performance, and Human Resources. Some monitoring has already been put into place to ask questions of Principals, who will need to continue monitoring financials as well as instructional program. Staff informed the Board that the pilot should be ready in a couple of months to go to 9 schools.

Some areas that are being looked at are secondary schools consolidating their banking to a single account and investing funds. A suggestion was made to look at use of debit cards for IAF accounts, using IAF accounts through the procurement system, and a possible position in accounting, or at the school, to help increase the internal controls and easier monitoring. The system is trying to implement IAF in the FMS system without impacting the size of the staff, and have no recommendations at this time.

The Audit Committee asked staff for a memo outlining the work of the IAF work group.

Recommended Amendment to the MCPS Employees' Retirement and Pension System

On May 9, 2006, the Board approved a resolution to enhance and modify plan benefits to reflect changes made to the Maryland State Teachers' Pension System. MCPS staff brought to the Audit Committee members a proposed amendment that would reflect those changes. The committee members agreed to bring the recommended amendments to the full Board at its February 25, 2008, meeting.

Amended and Restated Trust Agreement for the MCPS Retirement System Trust and Other Post Employment Benefits Plan Trust

The Board recently adopted the Amended and Restated Trust Agreement which incorporated the Other Post Employment Benefits (OPEB) Plan Trust. The school system had been asked to include language in their trust agreement to ensure that any remaining assets would revert back to a governmental entity exempt from taxes under Code section 115(1). The committee members agreed to bring the recommended amendments to the full Board at its February 25, 2008, meeting.

FY 09 Spending Affordability Guidelines (Status Update)

MCPS staff updated the Audit Committee members on the Montgomery County Council's adopted Preliminary Spending Affordability Guidelines (SAG). The preliminary guidelines may be amended in April 2008, after completion of the regular legislative session, based on new revenue forecasts or expenditure projections. MCPS will be meeting with the County Executive in the last week of February to discuss figures that will include the February income tax numbers. The committee was updated on the main issues and concerns that the County Council is facing. It does not look like a great situation, everything is up in the air at this point and MCPS is working with the county to get the accurate economic figures.

The county has made some improvements on their projections; and has a general committee with a better track rating.

Update on the Fiscal Situation and Actions Taken by MCPS Regarding Expenditure

Freezes

The committee was given a brief update on the expenditure freezes. All managers are required to get an exemption through the freeze committee and the Office of the Chief Operating Office, including authorization of temporary employment. Staff development teachers will be discontinued earlier this year than usual. One of the challenging areas is making sure buildings are covered sufficiently. Building service manager positions are exempt from the freeze and assistant managers are being authorized to fill manager positions as a higher level assignment.

Knowing what we could be facing next year and depending on the size of the gap, it is good, sound management to keep as many vacancies open right now without impacting the schools.

Appreciation for Mr. G. Wesley Girling

The committee expressed their appreciation for the work of Mr. G. Wesley Girling during his many years of service and dedication to the school system and for his wealth of knowledge and resources. Mr. Girling will be retiring from MCPS and this will be his last committee meeting.

Mr. Girling thanked the committee members and Mr. Bowers for their leadership, he could not have asked for more.

Summary of Actions and Follow-ups

- 1) Memo on the Independent Activity Fund Work Group
- 2) Note on the additional audits that MCPS is expecting
- 3) Bring recommended Amendment to the MCPS Employees' Retirement and Pension System to the full Board
- 4) Bring recommended Amended and Restated Trust Agreement for the MCPS Retirement System Trust and Other Post Employment Benefits Plan Trust to the full Board
- 5) Follow-up with the Board on the income tax during the February evening meeting

The meeting was adjourned at 10:16 a.m.

Recorder: Becky Gibson