

AUDIT COMMITTEE OF THE BOARD OF EDUCATION

The Audit Committee of the Board of Education met on Thursday, January 17, 1991, from 7:30 p.m. to 10:10 p.m., in the Board of Education Conference Room, Carver Educational Services Center, Rockville, Maryland.

Members Present: Mrs. Carol Fanconi, Chairperson
Ms. Ana Sol Gutierrez

Others Present: Dr. Harry Pitt Mr. Blair G. Ewing
Mrs. Fran Brenneman Ms. Melissa Bahr
Mr. Larry Bowers Dr. Joy Frechtling
Dr. Philip Rohr Dr. Pam Splaine
Mr. Charles Stine Mr. Dick Woods

Re: **External and Internal Audit Reports**

Mr. Woods explained that Peat Marwick was the external auditor, and every year they came in and expressed their opinion on the annual financial report of the school system. Their report was contained in the financial report and was not the management letter which was an add-on to their certification of the financial wellness of MCPS.

Mr. Woods provided the committee with a description written by Lawrence Sawyer of the Institute of Internal Auditors. The Board had adopted a resolution several months ago which called for a work plan to be submitted by the internal auditors to the audit committee. He explained that there were five full-time auditors in his group, and they used part-time auditors to get around to the 174 schools and departments they audited. They had five categories of work: (1) financial and compliance audits, (2) operational audits, (3) assistance to management and staff, (4) training of staff, and (5) investigations.

Mr. Woods indicated that under financial and compliance audits they examined financial records, reports, and internal accounting controls for the Independent Activity Funds. Last year they had cut back on school audits, and this year they would visit all high schools, half of the mid-level schools, and one-third of the elementary schools. However, they would monitor the schools they did not audit by taking a reading of their accounts for an hour or two. He would be providing the committee with a report of the findings of these audits, and he provided the committee with a page showing their significant findings. After they audited a school they held a conference with the principal and the person responsible for the financial records, and a copy of their report was also sent to the area associate superintendent. Dr. Pitt commented that the auditors looked for misuse of funds, but one of their main functions was to train staff in the schools to keep the records. The principal was financially and legally responsible for the school, but the auditors provided a check on

the status and accuracy of accounts.

Mr. Woods reported that the basic causes of problems with accounts were a lack of familiarity by the principals and financial agents about good financial management, no conviction that these accounting procedures were important, and not enough time to do proper financial reporting. Mrs. Fanconi asked that staff take three or four worst cases and give the committee examples of what the problems were. Mr. Woods said that his group planned to audit payroll records and controls and had planned to do 10 schools. They had completed the audit of contracts and grants administered by the Division of Health and Physical Education and found no problems. They were also auditing the Automotive Trade Foundation and the Construction Trade Foundation, and this would be a future agenda item for the committee. Mr. Woods said they planned to look at accountability controls over the \$100 million inventory of furniture and equipment owned by MCPS. Mrs. Fanconi thought the committee might want to discuss this with the external auditors.

Mrs. Fanconi inquired about the operational audits and how they evaluated efficiencies and effectiveness. Mr. Woods explained that they had not done effectiveness but looked at efficiencies and economies. For the past two years an auditor had been working with the Division of Construction and had prepared five reports. His biggest finding was that Construction did not use value engineering. Dr. Rohr indicated that they would be using value engineering on two upcoming projects. Mrs. Fanconi asked that this issue be added to their list for a future agenda. She suggested that when they had the report on the Division of Construction and a description of cost savings that they try to get some publicity on these activities.

Mr. Woods indicated that they would be looking at the "part-time and other" payroll of MCPS which was budgeted at \$37 million. Ms. Gutierrez suggested they might want to look at consultant funds as well. Mrs. Fanconi asked that the committee be kept informed about this study. She said that the committee should also discuss the "two-week window" for payroll at its next meeting. In regard to the workplan of the auditors, Ms. Gutierrez asked that the committee be provided with periodic progress reports. She commented that when they could act on the findings of the auditors immediately, the more effective the audit was. Dr. Pitt explained that the superintendent had the responsibility for running the school system and providing good financial management. In effect, the audit committee looked over his shoulder. Most of the findings were not going to be policy issues but rather a picture of how well the school system was operating. It was the responsibility of the superintendent to say they were fixing things or this was a real problem or this could be improved upon. The audit committee served as a check and balance by looking at the operational efficiencies and fiscal management of the school system.

Re: **MCPS Task Force on Efficiency**

Dr. Frechtling provided the committee with a list of suggestions from the auditors on areas where there might be savings. Mrs. Fanconi recalled that they had wanted to get something in the Bulletin regarding employee suggestions for efficiencies.

Mr. Woods provided the following suggestions:

1. Invite MCPS staff to participate in offering cost reduction suggestions. Ms. Gutierrez asked that at some point the committee discuss whether there should be incentives for staff offering the suggestions.

2. Check with other LEAs regarding their cost reduction programs.

3. Look at the per pupil cost of pupil education. Mr. Bowers said that his staff had prepared a report which would be shared with the committee.

4. Capital Improvement Program. Dr. Rohr reported that work was already underway in this area particularly in looking at what could be charged to bonds rather than to current receipts projects.

5. Surplus real estate. Mrs. Fanconi requested a list of properties that had been turned over to the county, the status of these properties, and the value of the properties.

6. Maintenance of buildings/land. Mrs. Fanconi asked that they look at what they were spending because they were not renovating buildings in a timely fashion. They also needed an evaluation of what was needed in these buildings. She suggested that the committee be provided with an accountability report on PLAR.

7. Consider using non-teaching professional staff and appropriate supporting services staff as substitute teachers.

8. Reevaluate vehicle fleet management, including replacement schedules, assignments, and general utilization.

9. Value engineering. Here Mrs. Fanconi suggested that Brian Porter release information on operational efficiencies.

10. Part-time employees to see whether work might be deferred or discontinued.

11. General services.

12. Out-of county staff travel.
13. Supervisory costs and responsibilities.
14. Community use of buildings.
15. School cafeteria operations.
16. Consolidation of building facilities.
17. Furniture and equipment.
18. Restructuring and/or curtailment of educational programs and activities.

Mrs. Fanconi asked about the superintendent's efficiency plan, and Dr. Frechtling explained that she and Mr. Bowers were working on this with Steve Frankel, Dick Woods, and Steve Keleti. In addition, Dr. Pitt had given them permission to use up to 40 hours of time from Peat Marwick. She indicated that they would provide a report on what the issues were, what efficiencies might be, and what the possible costs were. Mrs. Fanconi said that she would like them to look at possible savings between the operating and capital budgets. For example, it might save money if they were to bid large amounts of equipment that appeared in both budgets. She also suggested that they look at educational specifications to see what could be saved in school construction.

She said that they could get some good public relations if Dr. Rohr were to sit down with the county staff on these issues. Ms. Gutierrez asked whether they would be looking at computer hardware, software and systems, and Dr. Pitt said that it was his judgment that this would require a long-term outside look.

Committee members reviewed the charge to the task force on efficiency and made several changes to it. It was decided that the task force would be briefed by Mr. Bowers and Dr. Frechtling and would be provided with some key documents to start them on their task. The task force would be meeting with Mr. Ewing on January 22 at 5:45 p.m.

Mrs. Fanconi indicated that she would be working with Ms. Bahr to set a time for the next meeting of the audit committee.

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