

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

May 19, 2008

A meeting of the Montgomery County Board of Education Audit Committee was held at the Carver Educational Services Center in Room 120 on Monday, May 19, 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
Ms. Susan DeGraba, Chief Financial Officer
Mr. Robert Doody, Controller
Mr. Alan Kaplan, Specialist, Technology, Reporting and Systems Support
Mr. John Kevin, Investment Specialist, Benefits Strategy and Vendor Relations
Mr. Roger Pisha, Audit Supervisor
Ms. Laura Steinberg, Staff Assistant, Legislative and Inter-governmental Relations
Dr. Marshall Spatz, Director, Management, Budget and Planning

Guests: Mr. Doug Rowe, MERCER Human Resource Consulting
Ms. Heather Warriner, Lead State Auditor, Maryland Office of Legislative Audits

The meeting was called to order by Mr. Christopher Barclay, Chair, at 9:04 a.m.

Approval of February 6, 2008 Minutes

The Audit Committee members voted unanimously to approve the February 6, 2008, minutes as submitted.

OPEB Actuarial Valuation

The purpose of the annual actuarial valuation report is to determine annual required contribution (ARC) and Net Obligation of Post Employment Benefits (OPEB) obligation under GASB 45 and to determine the phase in obligation over the course of the next five to seven years. The audit committee reviewed the report submitted by MERCER Human Resource Consulting. The report showed the comparison of this year's and last year's contributions, the normal cost value of benefits being earned during the year, and the actuarial accrued liabilities which are slightly less this year than in 2007 due to the change in prescription drug plan. The report also showed the economic and non-economic assumptions.

MCPS is making progress in full funding and is still talking of a five year phase in, a longer phase in period would mean a change in the 7.5 percent assumption.

403(b) Web site; Regulations and Common Remitter

MCPS staff brought to the Audit Committee proposed solutions in order for the school system to be compliant with new 403(b) regulations. The Internal Revenue Service (IRS) issued final 403(b) regulations in July 2007 that are effective in January 2009. These regulations were put in place because they were unable to locate assets, determine eligibility and opportunity of potential participants, and distribution prior to termination. The IRS no longer allows self certification for employees who have an interest in the outcome.

An educational web site has been created, that is up and running, vendors are participating to get the message out, and MCPS is communicating with new employees now, including new teacher orientation, substitute teacher orientation package, and a weekly informational session with supporting service employees.

The proposed action is to evaluate the existing nine vendors for ability to assume administrative responsibilities and common remitter function for both plans based on expected plan document changes to follow MCPS procurement guidelines for no-cost administrative solution, and to provide full transparency and reporting to Board of Education. The Audit Committee will be updated on the common remitter search.

Maryland Legislative Audit Update

The lead auditor, Ms. Warriner, gave the Audit Committee a progress update on the Maryland Legislative Audit which began in November 2007. The auditors are currently working in the transportation, food services, and information technology offices, as well as the warehouse.

The auditors expect to be done with the preliminary work in mid-to late-June and will sit down with school officials to go over their preliminary findings and how they came to the conclusion in order for the school system to make a response and to schedule an exit conference.

The final report with response should be submitted to the state in early fall and the Board and superintendent will be invited to attend the hearing in Annapolis.

Internal Audit Annual Plan

Mr. Pisha presented the Audit Committee with the Internal Audit Unit work plan for fiscal year 2009. The priorities are: 1) look at each school (elementary, middle, high, and special) every 18 months; 2) meet with new principals every year; 3) look at inventory accounts; 4) the warehouse audit; 5) the transportation audit; 6) issue a report to the external auditor; 7) the schools Independent Activity Funds (IAF); and 8) centralize investments.

The audit unit will need to look at the accountability and use of purchase cards, and the payroll process in regard to substitute teacher requests in order to make sure that they are being used correctly. The unit will continue to meet professional education requirements, work with financial agents, advisory and consultant services, as well as allocating time to the legislative audit, the Maryland State Department of Education biannual audit, and consolidating documentation and project requests.

A lunch loan program will begin this fiscal year for children who run out of funds in their lunch account. Currently the source of payment can come from anywhere, and the principal would reimburse the source. This account will be a non-appropriated account and will have the same controls in place as the IAF accounts for monitoring. An item that was pointed out is the lack of computer terminals; the committee would like to look at asset disposal and aging of equipment which could be acceptable for use in another role or capacity.

The Internal Audit Unit does an excellent job, but some areas need improvement. The report from the IAF Committee is in draft form and will be given to the Audit Committee when final. The committee moved and unanimously accepted the 2009 work plan for the Internal Audit Unit.

Financial Management System Update

MCPS is wrapping up their first fiscal year using the new Financial Management System (FMS) and updated the Audit Committee on this year's progress, including the introduction of *Expense* and *Isupplier*. With these new additions, employees are able to electronically file their mileage reports and 200 suppliers have been able to go into the system in order to check on the status of invoices and submit invoices for payment.

The system controls are in place for financial monitoring, allocations, staffing, position control, and dollar control. The budget program is challenging, and Oracle may need to come back in order to make improvements in order for FMS to be used as a daily management and control tool. The system interaction with all sources, in the general ledger, and reporting with the state and federal governments are electronic. Some reporting is incurring limitations on the state side.

The Audit Committee would like to be updated on what is being done to gain more efficiency with the new system?

Summary of Actions and Follow-ups

- 1) Legislative Oversight on Class Size
- 2) Report on Recycling Released in June by OLO
- 3) Looking at Charge and Name of Audit Committee
- 4) IAF Committee Report to be brought at a future Audit Committee meeting

Releasing next year's work plan in the next couple of weeks

The meeting was adjourned at 10:57 a.m.

Recorder: Becky Gibson