

**Minutes of the Roanoke City School Board Audit Committee
November 1, 2022**

Audit Committee Members:

Mark Cathey, Committee Chair – Present
Diane Casola, Committee Member - Present

Others Present:

Kathleen Jackson, Chief Financial Officer
Chris Perkins, Chief of Operations
Donna Caldwell, Director of Accounting
Chris Banta, Partner, Brown Edwards & Company (remote)
Drew Harmon, Municipal Auditor

1. Call to Order

Mr. Cathey called the meeting to order at 10:58 a.m.

2. Presentation of Audit Results for the June 30, 2022, Annual Financial Report and School Activity Funds

Mr. Banta began by commenting on how good the communication from Ms. Caldwell and the accounting team has been throughout the year. He mentioned the creation of the new capital projects fund as an example of changes that were communicated timely. This helps avoid surprises when it is time for the audit to begin.

Mr. Banta commented on how lengthy the financial reports have become and invited Committee members to contact him at any time if they find they have questions about any of the documents at a later date. He noted that there are two audits: one is the school board audit, the other is the audit of school activity funds.

He began with the school board audit, referring the Committee to the Independent Auditor's Report. Mr. Banta noted that the report is longer this year due to changes in the auditing standards. The opinion has been moved up to the beginning of the report so that readers do not have to search for it. He read the opinion, noting that it is clean and the highest level of assurance they provide. Mr. Banta commended the Division's Accounting team for once again receiving an unmodified opinion.

Mr. Banta discussed the new accounting standard for leases. In prior years, lease payments were treated as a period expense. The new standard requires recognizing a liability for the life of the lease, as well as an intangible asset for the right to use the asset during the lease. The liability / asset recognized this year was ~ \$400,000 which is not material. The net effect is zero (0) in terms of impact on the Division's net position.

He then discussed compliance as being a significant driver of audit procedures for government entities. Auditors have to take a closer look at school operations and internal controls, as well as perform procedures specified by Virginia's Auditor of Public Accounts (APA). They look at both the design and

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execution of controls. If they identify material weaknesses or significant deficiencies, it increases the risk of errors in the financial reports and the risk of fraud. These would be included in the auditor's report. Mr. Banta was happy to report there were no material weaknesses noted for Roanoke City Public Schools. He commented on the notable accomplishment of having no control deficiencies cited.

There was one finding under the APA procedures related to budgeting. Mr. Banta said he would provide more details about the finding later in his presentation.

Next, Mr. Banta discussed what is commonly known as the "single audit" or uniform guidance. He noted that the Division expended over \$58 million from federal grants for FY22. Larger programs (Type A) have to be tested every three years. Brown Edwards tested four (4) programs this year, accounting for 61% of all grant expenditures. This is substantially more coverage than the 20% required for RCPS as a low risk auditee. The federal government required testing of COVID and ESSER funds, which resulted in the high percentage of funds being tested. Mr. Banta was happy to report that the Division received an unmodified opinion on grant expenditures and that there were no findings and no questioned costs.

Mr. Banta then referred the Committee to the Schedule of Findings and Questioned Costs at the back of the financial report. He noted that this schedule summarizes the results of the audit. As mentioned earlier, there was one finding related to APA procedures. Mr. Banta stated that management brought the issue to the auditor's attention. A late invoice from the former food services provider caused the expenditures to exceed the adopted budget for the Food Services Fund. He noted that there was nothing management could do.

Mr. Cathey asked if this was a Sodexo invoice; Mr. Banta confirmed that it was from Sodexo.

This concluded his presentation on the primary results of the financial audit. Hearing no questions or comments, Mr. Banta moved on to the required communications letter.

He described this letter as describing any hurdles that had to be cleared to get to the opinions discussed above. The letter communicates any difficulties that were encountered, any disagreements with management, any material adjustments that had to be made, and any non-trivial / non-material misstatements. Mr. Banta stated that this year's letter is about as clean as can be given. The only item noted was due to a late true up of revenues from the City in the prior year (FY21). The \$500,000 entry on entity-wide statements was clearly immaterial to the statements overall. It reversed this year and had no impact on net position or fund balance. The last several pages of the letter are required representations from management. There were no questions from the Committee.

Mr. Banta then referred the Committee to the *Report on Comments on Internal Control* document. He noted that this is a very clean report as well. There were two (2) items from the prior year that still apply. Brown Edwards considers these best practices. He noted that management clearly takes the issues seriously based on their responses. Mr. Banta then mentioned the upcoming GASB pronouncements for informational purposes.

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The Committee discussed the control finding related to super users of the financial system. A possible answer would be to have the Chief Human Resources Officer or someone from Municipal Auditing review the Chief Financial Officer's system activity.

Mr. Banta noted that these control comments involving information technology could be material at organizations with weaker control systems. He commented that it is good that RCPS management gives serious consideration to these issues.

Audit of School Activity Funds

Mr. Banta commented that there is a lot of financial activity occurring at individual schools that warrants auditing activity funds; code also specifically requires activity funds to be audited. He noted that activity funds have been incorporated into the School's overall financial statements since 2021 due to an accounting standard that took effect at that time.

Brown Edward's provides a separate opinion on activity funds. Mr. Banta noted that it is a qualified opinion due the challenges with testing completeness of cash receipts. He stated that the opinion RCPS received is as clean an opinion as Brown Edwards gives for activity funds.

The comments in the report on internal controls are common ones for activity funds. Mr. Banta noted that due to the decentralized nature of cash collections, it is difficult to ensure all cash receipts are recorded.

Mr. Banta then reviewed the required communications letter with the Committee, which was similar to the one issued for the primary audit. He noted the management representations attached to this letter are specific to activity funds.

Finally, Mr. Banta covered the *Report on Comments on Internal Control*. He noted that they tested a large number of receipts and disbursements, finding only minor issues. These were procedural issues that auditors commonly see and which are not material to the statements. Mr. Banta asked if there were any questions.

Mr. Harmon asked about item 37 in the management representations letter, related to a listing of checks from February. Mr. Banta responded that auditors ask Principals to review a list of expenditures that auditors pull on a sample basis from one month each year. They ask the Principals to confirm that the checks look valid to them.

There were no other questions.

Ms. Caldwell thanked Chris and his team for their work and professionalism.

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Mr. Cathey let Ms. Casola know about the partner rotation the Committee requested two years ago that resulted in Mr. Banta being the lead partner. He thanked Mr. Banta for Brown Edward's work and for his presentation, noting that Mr. Banta had covered all of his questions.

Chris noted that John Aldridge (Concurring Partner) will brief the full School Board at its next public meeting.

There being no further questions, the reports were received and filed.

3. Other Business

Mr. Harmon noted that the approval of the minutes from the August meeting was inadvertently left off of the agenda and asked if the Committee could approve the minutes. Ms. Casola moved that they approve the minutes and Mr. Cathey concurred.

Ms. Jackson commented on the good work of Ms. Caldwell and the Accounting staff, noting that all of the positive feedback from the auditors was due to the team. Mr. Cathey agreed and commented on the exemplary work of Ms. Caldwell and her staff.

The Committee discussed the importance of being vigilant for fraud. Ms. Caldwell noted that at the beginning of the audit each year, her office sends a fraud inquiry letter to each bookkeeper and principal. Both the bookkeeper and principal review and sign the letter. At the end of the audit, bookkeepers and principals have to sign a representation letter. Mr. Cathey commented on the large sample sizes tested by the auditors. Ms. Casola commented, as previously being a teacher at the high school, how impressed she was with the low number of exceptions noted. Mr. Cathey asked if the secretaries at the schools serve as the bookkeepers. Ms. Jackson confirmed elementary school secretaries also serve as bookkeepers, however; each middle school and high school has a dedicated bookkeeper in addition to a secretary. There was a general discussion about the transition away from cash to online payments and credit cards, which removes some risk. It was also noted that boosters are now involved in ticket sales at athletic events and that an audit of booster clubs is planned for this year.

Mr. Harmon commented on the audit of capital improvement planning, stating that the report has been written and the first draft should be in management's hands later today or tomorrow.

He noted that the next Committee meeting will be February 16 at 11:00 in the Board Conference Room. The Committee may receive the CIP report in the interim. The report will be on the February agenda for discussion. Mr. Cathey may have a conflict with the date, but will confirm as the date approaches.

Mr. Cathey commented on how informative he found the Annual Comprehensive Financial Report to be. He noted that it provides great information on the Division and its finances. There was discussion about the pension information and the information on leases. Ms. Caldwell noted that the leases were not significant for FY22, but would be more significant this year due to the Division's move to leasing

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vehicles. Mr. Cathey noted that the new standard on recognizing subscription based technology services also starts this year and could be significant. He mentioned Office 365 as one of the services that would be involved. Ms. Caldwell confirmed the standard is effective this year and that Debt Book (third party) would help with this standard, just as they did with the lease standard.

4. Adjournment

Hearing no further questions or comments, Mr. Cathey adjourned the meeting at 11:46 a.m.