

**AUDIT COMMITTEE MEETING
MINUTES OF
SEPTEMBER 24, 2019**

BoE: Sonia Mesika, Dan Heintz (Absent: Glen Niles)

BCSD: Victor Karlsson, Elena Nash-Graham, Susan Morgan (Absent: Laurie Bandlow, Michelle Gosh)

Community Members: Joke Alade, Kristin Cacal

Presenters: Alan Kassay, Partner - PKF O'Connor, Davies, LLP, Eric Schmid & Marco DiRusso - Tobin & Company, LLP

Meeting began at 8:04am.

Victor began the meeting by providing an overview of the Audit Committee's function in relation to the Board of Education. He added that the roles and responsibilities are outlined in the Audit Committee Charter, which is reviewed by the committee and recommended to the Board for re-adoption each year.

The minutes of the May 22, 2019 meeting were distributed for reference, and Alan began to present the financial statements focusing first on the External Audit Management Letter. Victor provided the District's Corrective Action Plan in response to the auditors' recommendations, which are submitted to the NYS Comptroller's Office each year. Alan went on to explain that the District received an "unmodified opinion" in its financial statement audit, which is the highest level of assurance that a District can receive.

The Statement of Net Position was reviewed next, which presents a long range outlook of the District's financial standing. Victor explained to the committee that there are essentially two types of financial statements for local governments: 1) fund-level statements, which focus on the short term outlook similar to the annual budget process, and 2) government-wide statements, which compares to that of a corporation. He added that the intent of the government-wide statements was to put local governments on a level playing field with other corporations that issue debt. Alan reassured the committee that, in reality, bond rating agencies rarely evaluate the government-wide financial statements when considering a local government's bond rating. Instead, the fund-level statements are those which we primarily focus on when considering a local government's financial health.

Alan described a significant change in accounting principle issued by the Governmental Accounting Standards Board Statement (GASB), resulting in GASB Statement # 75. This Statement changes the accounting of long-term liabilities for future pension obligations for employees. The change in accounting principle resulted in a decrease of \$167M in the District's Net Position for the year ending June 30, 2018. Alan then lamented about the inconsistencies of GASB in that long-term liabilities are required to be presented in the Net Position, yet reserves for those future liabilities are not permitted. Again, Alan reassured the committee that this accounting change affected all local governments equally, and it is not uncommon when a negative Net Position exists.

Alan then reviewed the Schedule of Revenues, Expenditures and Changes in Fund Balance, noting the positive revenue and expenditure variances. He explained that revenues are typically budgeted conservatively because outside of the Tax Levy and State Aid, all other revenues vary from year-to-year and are mostly unpredictable. He noted that through conservative budgeting, the District realized an initial surplus of \$1M, which was transferred to the Capital Fund at year-end to partially fund a future capital project authorized by the voters. He commended the District for reinvesting surplus funds back into the facilities, which is a strategy often overlooked in most school districts. After the Transfer to Capital, the District realized a positive net change in fund balance of approximately \$20K.

The total fund balance and reserves were reviewed next, and Alan noted that the District has 4% of unassigned fund balance available to protect the District from unanticipated expenditures and/or revenue shortfalls. He reminded the committee that 4% is the maximum amount allowed by law, and stressed the importance of maintaining that level of unassigned fund balance.

Victor commended the entire Business Office for their dedication to their work, naming them individually: Shona Beal, Michele Kolhossner, Ann Marie Kovaleski, Susan Morgan, Elena Nash-Graham, and Kathy Keane. Alan agreed and thanked the Business Office for promptly providing information and records, which led to a clean audit.

Eric reviewed the Internal Audit Risk Assessment, which evaluates the risk associated with 11 operational areas tested. He noted that the District has addressed most of the prior years' findings, focusing on new areas for improvement. One such recommendation related to the District's requirement for a second signature on checks issued in excess of \$7,500. The auditors' opinion is that although the signature is being provided, the claim for which the check was issued is not reviewed sufficiently. Victor explained that all checks, whether issued for \$1 or \$100,000 are reviewed thoroughly by the Claims Auditor and that the District's additional requirement appears to be ineffective and redundant. Eric also added that there are many other controls in place prior to a check being issued at all, and reassured the committee that removing the second signature would not result in a significant weakness in controls.

Sonia questioned why a second signature is required, to which Victor explained the requirement exists in BoE Policy #5570: Authorized Signatures and pre-dates the State's requirement for the claims audit of all checks. After the State implemented the claims audit requirement, it made the provision in Policy #5570 redundant. Victor asked the Audit Committee to consider removing the second signature requirement, which represents a redundant activity. The committee agreed, and Victor informed them that he would recommend the amendment to the Policy Committee on behalf of the Audit Committee.

Eric went on to describe challenges observed in the Payroll, Human Resources, and Employee Benefits departments with regard to the implementation of a new HR software package called "Talent Ed". Victor acknowledged the challenge, which he attributes to the turnover in two key HR employees this summer. Marco added that implementing *any* new software is often difficult because most people generally do not like change. He suggested that Human Resources be selected for the next Focus Area Audit in the spring, to which the committee agreed.

Overall, Eric described that the District's risk scores have mostly improved due to the implementation of prior years' recommendations. Sonia questioned why the risk scores remained at the "medium" level and are not "low", to which Eric explained that there are inherent risks in certain functions that automatically raise the risk level to "medium". For example, payroll activities and those involving the handling of cash are inherently risky, as well as, large dollar volume transactions such as accounts payable. He acknowledged that it would require the hiring of significantly more employees to segregate responsibilities to reduce risk levels to "low".

Victor updated the Committee on the Office of the State Comptroller (OSC) Audit. An OSC Examiner has been in-district since June, performing a risk assessment similar to the one performed through the internal audit function. The Examiner indicated that the Procurement of Professional Services would be reviewed in greater detail as the focus area of their audit. Victor provided the committee with excerpts of OSC audit findings when reviewing the procurement of professional services at other local school districts, such as Katonah-Lewisboro and Croton Harmon. Most notably, the largest professional service expenditure in these two districts is for the legal services. Coincidentally, the Board has been contemplating whether or not to solicit proposals from other law firms effective for the 2020-21 year.

Kristin asked if there were expenditure thresholds that require the District to solicit Requests for Proposals (RFP's) to which Victor explained that General Municipal Law and Board of Education Policy #5510-R: Purchasing Regulation are silent in many regards. He further explained that it is considered best-practice to follow the same thresholds outlined in Policy #5510-R for the purchase of goods. It would not be cost effective or efficient to complete the RFP process for very small dollar service agreements.

The Corrective Action Plan Tracker was reviewed next, and Victor noted that the report is split into two sections: unresolved and resolved. As expected, the resolved section continues to grow and there are very few unresolved recommendations, most of which were noted in the focus area report presented just four months earlier. Victor added that he, Elena, and Susan meet quarterly to review the Corrective Action Plan Tracker, which often requires the actions of different departments district-wide. Joke suggested that an added field for "completion date" be incorporated into the Tracker. Sonia agreed and added that it will assist the District in continuing to revisit unresolved items.

Victor noted that the next Audit Committee is scheduled for Tuesday, May 19, 2020 at 8am, but reminded the group that it may be necessary to meet sooner if the OSC issues their audit report.

Meeting ended 9:32am.

Respectfully submitted,

Susan Morgan