**NORTH KINGSTOWN AUDIT COMMITTEE**
**October 15, 2009**
**BEECHWOOD HOUSE SENIOR CENTER**
**7:00 pm**

**PRESENT WERE:** **Jeff Wadovick, Chairman**
**Richard August**
**Charles Cardente**
**Matthew Leonard**
**John McNamee**

**ALSO PRESENT:** **Patricia Sunderland, Finance Director**

A tape recording of this meeting was made to supplement the written record.

**I. Call to Order**

- Finance Director called the meeting to order at 7:08 pm and introduced Matthew Leonard as the newest committee member.

**II. Notice of Meeting being posted**

- Pursuant to RIGL 42-46-6, Notice of this meeting has been posted on the Secretary of State's Website

**III. Selection of Chairman to serve until February 28, 2011**

- Finance Director conducted the selection of chairman by requesting nominations of the position

- **MOTION** made by John McNamee, seconded by Charles Cardente to nominate Jeff Wadovick as Chairperson. A request to vote on each motion was recommended until a majority was reached; therefore a vote was entertained on the first nomination. Vote taken by show of hands: John McNamee, Charles Cardente and Jeff Wadovick voted in the affirmative.

**IV. Introduction of new member- Matthew Leonard**

**V. Approval of Minutes – 12/4/2008, 12/23/2008, & August 4, 2009**

- **MOTION** made by Richard August, seconded by Charles Cardente to approve the minutes of the meetings for December 4, 2008 and December 23, 2008 and to defer the approval of the August 4, 2009 minutes until a future meeting when the committee has had a chance to review the content. Vote: 4 to 1 with Matthew Leonard abstaining as he was not in attendance at the last meetings where the minutes are being approved.

**VI. Larry Cerisi, School Committee Chairman, to discuss the results of a special audit report on student activities funds and request the assistance of the audit committee in responding to the recommendations in that report.**

Larry Cerisi and Phil Thornton presenting thanking the committee for meeting with them. Mr. Cerisi led the discussion explaining that the school committee and school administration is working towards updating policies and procedures to strengthen some controls as well as new policy implementation and respectfully request the assistance of the full audit committee or the school committee liason of the audit committee to work on a regular basis with the Superintendent and Director of Administrative Services and to give the School Committee the opportunity to address any concerns that the Audit Committee may have. Superintendent, Phil Thorton, handed a packet out to the Audit Committee members recognizing that the policies being handed out were of the Student Activities Fund and requested that the committee review the current policies and submit any comments or recommendations that they may have. Dr. Thorton turned the discussion over to the committee to entertain any questions that they had pertaining to the special audit report.

Chairman Wadovick entertained all committee members input and comments and advised the committee to voice their issues for discussion purposes. First, Chairman Wadovick clarified that the policies handed out by Dr. Thornton were 3 current policies in place in the district. He addressed multiple concerns and issues he had with the Student Activity Audit report, noting the following: 1. Concerned that the document and process was done outside the scope of the Audit Committee and that they were never given the opportunity to review the agreed-upon procedures nor review the

RFP or the selection of the auditors. Jeff did not necessarily disagree with many of the procedures that were conducted but perhaps using the committee as a resource could have provided them with other areas of focus for the report. Questioned why the Audit Committee was not considered as part of the process that had been conducted?

School Committee Chairman, Cerisi, responded to Mr. Wadovick's concerns by explaining that Mr. August was part of the RFP process and addressed that the Audit Committee meets 4-6 times a year which wasn't enough time to address the process with the committee. Chairman Cerisi felt that Mr. August, as liason to the school department was appropriately consulted with on behalf of the audit committee to review the process.

Chairman Wadovick questioned whether the school committee complied with the Town's bidding procedures at which time Chairman Cerisi acknowledged their process did comply that in fact the RFP was put out twice because the first time yield no bidders. Chairman Wadovick questioned the cost of the audit and whether the school committee had appropriated the costs associated with the audit. Chairman Cerisi clearly indicated that the cost has been covered in their budget appropriately. Due to the substance of the material being reviewed, Chairman Wadovick questioned whether any public person, non school official, was allowed to contact the outside auditors on this engagement? Chairman Cerisi explained that any information that was given to the school administration or school committee member was given to the auditor. Chairman Wadovick quickly questioned again whether any non-school committee member or non-school administration had direct contact with the auditor. Dr. Thornton, speaking on behalf of the school administration, explained that they had worked with the auditor regularly and saw them once over the summer to review the draft, however, could not speak on behalf of anyone in Town and were not aware of anyone else who may have had an influence on the finding.

John McNamee expressed that there was enough blame to go around from the top down but one of his main concerns was of the system of internal controls that are in place from an entity that is maintaining a $55M school committee budget which has some controls in place monitoring the budget, however, it would seem that it would be easy enough to incorporate the student activity funds into the system currently in place. Noting the current system in place at the very least would be where checks go through an approval process, receipts get approved and properly booked. Mr. McNamee noting that they may be getting ahead of themselves by making a recommendation for improvement however, felt it would seem that if they could incorporate those within the internal control system which is under the purview of the audit committee and the school committee that it would go a long way into resolving some of the issues found within the engagement such as: undocumented disbursements, which should not be present when managing a $55M budget. From Mr. McNamee's standpoint, as a member of the audit committee and a taxpayer, he would prefer these controls move into the controls of the school committee. Superintendent Thornton acknowledged that the policies are in place, however they just weren't being followed. One of the findings in the reporting was that in 2002-2009, referencing multiple expenses to one particular vendor whereas the dollar amounts were small thereby circumventing the process. However, over the years it amounted to a lot of money. Mr. McNamee felt that just the approval process on the invoices would often times catch that and prevent it from continuing. Superintendent Thornton explained that there are two signatories required and during the period being audited, 2002-2009, the two signees were the Athletic Director and the Principal at which time it was not picked up on. Chairman Cerisi noted that the policies and procedures are in place, however they may not have been followed and feels these are personnel issues that they are addressing and ensuring that the policies in place are being adhered to.

Chairman Wadovick further expressed his concerns about some of the expenditures that are flowing through the student activity funds and his belief that some of the expenditures should be coming out of the School Operating Fund and not the activity accounts. Chairman Cerisi agreed with Chairman Wadovick reflected to the School Committee's Activities Account Guidelines which were revised in July, 2006, authored by Lynn LeValley, School Controller, which are very specific and basically say that all of the funds in these funds are to be used solely for student benefits BUT they were not being followed as can be depicted in the report. Chairman Wadovick reiterated the need for better student activity funds policy and procedures manual and not just for the High School Student Activity Funds but for the Middle Schools and Elementary Schools as well. Superintendent Thornton recognized the High School has approximately 106 line items whereas the Middle and Elementary School funds are much more manageable but point well taken. However, Chairman Wadovick noted that in looking at some of the funds in the High School, he felt that almost 10% don't belong in the Student Activity Funds and some should be expenditures that flow in and out of the School Fund. For example, uniforms should not be purchased out of the student activity funds and that student activity funds are typically designed so that when the "ski club" needs a check to pay the bus driver for a trip that it wouldn't take the 30 days that it normally would having to go through the school administration. Perhaps another thing the school committee should be also addressing are which funds should be flowing through the student activity funds and which should not which is the

same with cash receipts that are coming in, if the original expense is coming out of the School Operating Budget then the reimbursement should be going back to that fund. Chairman Wadovick questioned whether the school is working on a revised policy manual where the student activity funds are concerned? Superintendent Thornton explained that in terms of the three policies that speak to it he had handed them out at the beginning of the meeting as well as explained that their policy subcommittee members are currently working on a draft of the updated policies and in conjunction of the audit coming out in September. Currently, the policy subcommittee does have drafts to update the current policies but the one's handed out at the beginning of the meeting were the current one's.

Charles Cardente noted that items 8 & 9 on the agenda were at his request and wanted them to be rolled into the current discussion of the Student Activity Funds report. Chairman Wadovick acknowledged and agreed that the items can be taken out of sequence and reflected upon during current comments/discussion. Mr. Cardente recognized that there is a lot of discussion regarding disbursements of these activities accounts, however, it appears that at any time within the school year that there are dozens of these types of accounts so the assumption is that these are funds that roll from year to year. Mr. Cardente feels that there is some burden on the school department to get control over these with turnover in personnel. He noted that it seems that there is a large potential for abuse on the collecting end in terms of receipting which is collecting of cash from students, endorsement of checks, etc. Superintendent explained that they had been working with Karen Coccia on exactly that, for example, in terms of gate receipts that there be two people working on the collection of gate receipts and the counting of cash using sealable envelopes where it then goes to the business office. Chairman Wadovick questioned whether the school has a conflict of interest policy. Superintendent Thornton reported that he did not believe such a policy exists. The Chairman recommended a strong conflict of interest policy especially where it related to vendors and the purchasing of equipment. Richard August noted that back in December the Audit Committee recommended that the School Committee adopt a policy which prohibited employees of the school department from being officers, directors or related to anyone doing business with the school committee which he does believe the school committee did adopt such a policy. Matthew Leonard felt that the problem with the audit is that there wasn't enough safeguards in place, not necessarily that the policies don't exist. He questioned who has responsibility of these funds today? And what is going on with these funds today and what has been done to address these issues? Superintendent Thornton responded that the policy still stands today that the principal is the overseer of the funds. One thing that has been discussed is to do quarterly audit internally with the Superintendent himself and the Director of Administrative services. He reiterated that the Principal is still overseeing the accounts. John McNamee questioned the number of checking accounts? Are there multiple accounts or just one? Superintendent Thornton verified that there are multiple checking accounts. Mr. McNamee questioned centralizing the funds into one account. Mr. McNamee recommended accounting for them individually within the general ledger so that you know what is in each account and bring it under the control of the business manager in the school department and whoever is the authorized signer in the school department would sign off on the check and the Principal would still continue to approve the check request and supporting documentation which would give an extra set of eyes on the accounts separate/independent from whoever is requesting the disbursement. The Superintendent responded by questioning at what point do they trust people in the existing seats and in terms of operationally, if there are nine schools and if there is one person signing all of the checks is this a situation where they would "lose speed" at a rate of which the district needs to operate. He questioned whether it would slow business down by having one person sign off on all of the checks. Chairman Wadovick wrapped up the discussion explaining that generally they have one checking account at each school due to the need at different times of when a check is required because the business cannot process a check quickly due to internal controls in place. However, regarding the High School and because of the high volume of high school funds that it is his belief that there is several activities that is being funneled through the activities fund that should go back to the school general operating budget.

Chairman Wadovick reflected back to the "audit" and the issue that he had with the "audit" is that it focused too much on specific issues and a specific person rather than the overall control problems that typically lie within student activity funds. What Chairman Wadovick would like to have seen more focus on the actual activities which are flowing through the student activity funds that could be funneled through the school operating budget which can be controlled by the business offices, for example, the purchase of uniforms. The purchase of uniforms is not an expenditure of the student activity funds. Chairman Cerisi responded to Chairman Wadovick's comment regarding the 'audit" focusing on one person where you see some glaring irregularities where there are process/policies/procedures in place but were ignored and the irregularities exist you, at some point, would have to look to who is ultimately the custodian of the checking accounts. He feels that is should reflect back to the individual(s) who ultimately have control over the applicable funds. Mr. Cerisi feels that some of the findings were lack of common sense. Chairman Wadovick responded that referring back to the report and it appeared to him that the report referred back to the athletic director, however, many of the findings were not relative to athletics and they appeared to be class accounts, some 10 or 15 class accounts and questioned if the athletic director had responsibilities for those accounts as well even though they were not athletic

accounts. Chairman Cerisi verified that the Athletic Director is also the Director of Student Activities and had responsibility over these accounts. Superintendent Thornton informed the audit committee that since last spring the Principal is now the overseer of the student activity accounts. John McNamee wrapped up the discussion by noting that the report should not be blown out of proportion and that the report indicates that "although most disbursements appeared to be for legitimate student activity purposes, due to deficiencies in the accounting records we were not able to determine the valid student activity purpose of **some** disbursements." He furthered by reiterating that the auditors were looking at $3million in disbursements from a period of July, 2002 through June 2009 in looking at it in terms of the overall budget, Mr. McNamee made the point that Superintendent Thornton and Chairman Cerisi are here to educate the children and not to have to account for student activity funds. He noted that a system needs to be put in place to account for these funds and to meet the fiduciary responsibilities to the taxpayers and with the student activity funds which is where the focus should lie. Chairman Cerisi defers to the audit committee on direction of whether the school liason will work directly with the school committee as they move forward to revising policies and procedures. Chairman Wadovick responded that the audit committee will discuss their intent on direction and reiterated that the body is available for both the school and the town and certainly can meet more than six times a year of which they're charged with. Chairman Cerisi noted Mr. August's as school committee liason commends his support and felt that he will leave it up to the liason to determine whether an issue requires the attention of the full body of the audit committee. Chairman Cerisi wrapped up his discussion noting the audit of the student activity funds is not something that evolved overnight. He felt credit should be given to the school administration and school committee to finally take action and move forward to some of the allegations bought to the committee for appropriate actions. He furthered by noting they are not present to address personnel matters to the audit committee, however, they would like to continue to work with the committee with regards to the policies and procedures currently in place.

Mr. August clarified that the school committee is inquiring as to whether there will be an audit committee member who will be more available to continue to communicate to the audit committee on issues of the school committee and report back to the audit committee to determine whether a meeting of the two bodies is required which has been the case with Mr. August having been the liason. He furthered by noting that the audit committee is always available. Charles Cardente requested clarification on whether the audit committee was relying on the liason to determine whether the committee should be involved in an issue or not or should the school committee recognize that an issue may require the audit committee's expertise/involvement? Mr. August explained that the liason is more immediately available to the school committee. Mr. Cardente clarified that some burden should be placed on the school committee such as what happened with the audit report and would like clarification on who should be addressing the committee as a whole. Mr. August explained that as his role as liason the school committee asked for his direction on the issue of hiring an outside auditor to perform the procedures in the engagement of the student activity funds, he did not bring that back to the audit committee nor did he feel it required a vote of the committee to give his recommendations on the process. Mr. August explained that the audit committee was not cut out of the process although it appears that some feel the committee was not part of the process although Mr. August does voice his concerns that the auditor did not present their findings to the audit committee, however, Mr. August learned that the school committee had not seen the report prior to its distribution either. Mr. Cardente clarified that his comments were not a criticism of the liason he was just looking for clarification. As a first step for the school committee, Chairman Cerisi noted that they will reach out to the school liason first.

**VII. Discuss/Review with town auditors, Braver P.C., the planning procedures and responsibilities for the audit as well as audit areas that the auditors feel there is high risk at the Town level.**

Presenting Jim Wilkinson, shareholder with Braver P.C., along with Lindsey Albernaz, Sr. Accountant. The purpose of meeting with the audit committee is to reviewing the planning procedures for the town's audit for 6/30/2009. In accordance with professional standards (Statement #114) which outlines what the planning process has been which began June 26, 2009 where they held an internal planning meeting, approximately 4 hours in length to review the prior year findings, work papers, financial statements and to do a re-assessment of internal risk before any fieldwork is performed. Following that meeting there were certain areas that were deemed audit risk such as: Government-Wide: Capitalization of Capital Assets based on the dollar amount and the significance of the balance sheet classification as well as Taxes Receivable Allowance – reviewed to determine that allowance is a reasonable amount. The areas deemed as high risk are depicted on page 2 of the October 15, 2009 letter from the auditors. Mr. Wilkinson ensures that they will continue their rotational testing of specific schools for compliance in addition to the Cafeteria Fund deficit reduction plan. Preliminary field work commenced on June 23, 2009 and is shooting for a draft available by November 15th. Chairman Wadovick questioned the deficit in the cafeteria fund, Mr. Wilkinson noted that it is material however the final audit work has not been completed. John McNamee questioned whether, in light of the audit performed on the student activity accounts if the town's auditor will focus more in depth but also explained that the student activity

accounts will be required to be uploaded under the new uniform chart of accounts along with the rest of the financial transactions. Mr. Wilkinson explained that the student activity funds have specific definitions under the new uniform chart of accounts and may limit the number of checkbooks. Mr. Wilkinson explained that some of their clients do have one central account to monitor the revenues and expenditures in the student activity funds which appears to work well. Richard August questioned the auditor's scope of the unfunded liability for pensions. Mr. Wilkinson responded that their work involved in this area is to verify the contributions that the town has made to the State on behalf of the actuarial report which is performed by the State Auditor General's office because his office monitors this fund. The footnote comes directly from the State. Meeting tentatively made for December 17th @ 7:00 - draft financials.

**VIII. Discuss bidding procedures and compliance**

This item was discussed in conjunction with item #6. Mr. Cardente expressed that his main concern was whether the school committee had adhered to the bidding procedures currently in place. Chairman Wadovick, upon a quick review of the information handed to them by the Superintendent was not, in fact, policies and procedures rather guidelines. The audit committee will take a look at existing policies and support in strengthening the current policies with the school department, not develop but to review for completeness and accuracy. Mr. August's suggestion is to obtain the conflict of interest policy that the school department has adopted to review for possible changes.

**IX. Discuss conflict of interest (ethics) policy and compliance**

Item addressed above.

**X. Correspondence**

The Finance Director handed out a complaint to the audit committee members and that the information follow protocol outlined in the Whistleblower Policy and requested that the person making the complaint in writing or through the fraud hotline as requested by the committee at the last meeting of the audit committee on August 4th. Correspondence to be reviewed by the committee, however, in accordance with the Whistleblower Policy, John McNamee pointed out that the communication should be referred to the superintendent and ask for a response at their next meeting in terms of the issues. A Town issue, as outlined by the whistleblower policy, should be forwarded to the Town Manager as well as a School issue should be forwarded to the Superintendent. The Audit Committee can recommend that the Superintendent provide them with a response within the prescribed period of time.

**MOTION** made by Richard August, seconded by John McNamee that the whistleblower complaint submitted to the committee under correspondence be submitted to the superintendent of schools for a response at our next meeting, December 17th, at which time the audit committee will be able to discuss the response to the complaint. Vote: unanimous.

**XI. Public Comment**

Bill Mudge handed out the latest revision of guidelines the student activity funds as published by the federal government…budgeting/financing, etc. Concerned about the special audit findings and the state police involvement referencing the athletic part of the activity funds. The report was not considered and audit so some things were not performed. Mr. Mudge pointed out that the issues started over the yearbook funds back in September, 2004. He questioned what was audited? Referencing the $60,000 for class accounts that was all rolled into one account which is not proper accounting. Mr. Mudge wished he had input into the "audit" and would like to see the final report…there is a lot of suspect of what was done with regards to the vending machine revenue, etc. Mr. Mudge spent his own money to gather information to confirm that $1600 per year was spent out of the student's activity funds to pay for hors deuvoer at the Carriage Inn. Again expressed his disgust in the lack of transparency. Continues to question why the Town Council did not appropriate funds for the Cafeteria Fund. Mr. Mudge believes its time for a compliance audit with regards to the school department's budget submittal perhaps some of these things could be avoided.

The student activity report is accessible on the school department's web site.

Tracy McHugh noted that this is the first school committee and school administration that has finally begun to address these issues that have been brought to their attention by Mr. Mudge, Mr. McGwin, etc. She believes its across the state and that they deserve some kudos and it's a systemic problem, however, they will need to continue to work through some of the issues brought forth.

Dick Bee agreed. He, too, is happy to see that the school committee is finally addressing the issues that have been brought to their attention. Mr. Bee addressed the audit committee and questioned the current town auditor's position, being associated with the student activity accounts for 5 years found nothing, and wondered whether he is not being told to do the right things or he's incompetent based upon the number of findings in the student activity audit. He recommended that the audit committee send out a cover letter along with the student activity audit findings to all student athletes and their parents so they are made aware of what is going on with their funds. Mr. Bee is asking that the audit committee direct the town auditor's on other areas of their fieldwork.

Jim McGwin acknowledged the systemic problems. Mr. McGwin read the letter of the Auditor General of July, 2007. Mr. McGwin believes the scope of the audit is problematic, not blaming Mr. Wilkinson yet its an issue with the scope. After many years of issues of the Cafeteria Funds and Student Activity Funds it took him an hour to put his findings together and most of the issues of the special activity report are in his findings and identified. Mr. McGwin refers to a suit filed in 2006 which is still ongoing, it states that the athletic director, count 5 item 40, collectively engaged in a conspiracy to protect improper and unlawful financial practices which referred to the athletic department. Mr. McGwin noted that too much money is being raised by classes noting that over $15,000 has been left in some class accounts after the classes have graduated. Mr. McGwin acknowledged that he gave information to the school committee lawyer and it was conveyed that he will be contacted by the auditors should any questions arise. Mr. McGwin was never contacted by the auditors and some of the information that was supplied to the auditors by him was confidential and the people who supplied the inside information feared for their jobs. Mr. McGwin recommended that the audit committee ask for a reconciliation of the vending machine revenues because it is taking away from public funds let alone activity funds. In addition, Mr. McGwin asks that more focus be given by the town's auditors in areas that have been outlined in the "report" such as vending machine revenues because they are not deminimus to the general fund. Finally, Mr. McGwin questioned why the audit committee in the first year met 10 times but why hasn't the audit committee met since December or, as corrected, August? Mr. McGwin felt that the audit committee did not have the opportunity to fulfill the duties within the charter to work with the independent auditors of which they are charged. Mr. August refuted the claim and explained that the audit committee was waiting for a full panel of the committee but from this point forward their meeting frequency will increase. Mr. McGwin recommends that the audit committee review the process as charged in the ordinance. Mr. McGwin recommends reviewing the process of getting candidates on time and make recommendations to its charge.

Committee member Leonard acknowledges that the report depicts several areas of concern of which the school committee addresses the issues with the student activity funds and the audit committee will be reviewing their recommendations.

Larry Cerisi questioned a comment he thought was made by the town's auditor in that he noted that the town audit did not find any irregularities of the student activity accounts? Chairman Wadovick reiterated that was not what the auditors said yet explained what their performance was in their testing. Chairman Cerisi also explained that the school committee agreed that the vending machine is still an outstanding issue which they will be addressing and hopefully will have some resolution in place. Editorial comment: can call it an audit, a report, whatever you want to call it but they are factual finding by a third party individual audit, it doesn't change any of the work that the school administration need to do in the future.

Dick Welch noted Mr. Cayer stated the night he gave the report to the school committee that he was a member of the firm who audited the town in 1995 acknowledging there were irregularities way back then and the Dir of Admin Services said he would take care of it, however, nothing was ever done. Mr. Welch notes that the current school committee is doing something that has not been done before which is to protect the interest of the community, taxpayers and students. Sees no end until they find they have covered all of their basis.

Linda Avanzato noted written guidelines are on file for the student activity funds, however, they are not accepted as a policy nor were they being followed. Ms. Avanzato agrees with Mr. Welch in that the school committee is trying to work through these issues and she, currently, is drafting a conflict of interest policy and a donation policy and would appreciate the assistance of the audit committee once it is in final draft form.

## XII. Adjournment

**MOTION** made by Richard August, seconded by Matt Leonard to adjourn. Vote: unanimous.