

Internal Audit Services Final Report

21st Century Demonstration Project Grant
Internal Audit Working Group

Spring 2012



Table of Contents

Table of Contents	2
Summary & Background	3
Historical Spending	5
Methodology and Data Notes	7
Current Services Forecast	8
2010-11 Internal Audit Cost Savings	10
Lessons Learned and Recommendations	11
Prototype Modifications	13
Appendix A: 2006-07, 2007-08, and 2009-10 Internal Audit Survey Respondents	15
Appendix B: Audit Working Group Meeting Notes	16

Summary & Background

K-12 education is a significant enterprise in Nassau County. Nassau County school districts provided instructional support to more than 200,000 students through 56 school districts in 2010 and employed more than 21,000 teachers, administrators, and other support staff.¹ Collectively they spent more than \$5 billion dollars. An enterprise of this magnitude requires sufficient internal controls. Auditing is a key tool utilized by school districts to employ and safeguard financial and administrative policies of the school districts. There are currently three types of audits required by New York State law that school districts must perform:²

- **External:** Audits financial statements to render an opinion on whether they adhere to Generally Accepted Accounting Principles (GAAP).
- **Internal:** focuses on assessing risks in school district's internal business controls and provides recommendations on how to mitigate those risks.
- **Claims:** Ensures that all expenditure vouchers are properly itemized and documented before payments are made.



Since the end of 2006, all school districts in New York State have been required to perform an independent internal audit, as well as appoint a claims auditor to ensure accuracy with expenditure vouchers.³ Prior to the institution of these two requirements, the only audit that was required to be conducted by school districts was an external audit performed by a certified public accountant (CPA).⁴ The internal audit function must include at a minimum:

- Development of a risk assessment of districts operations including, but not limited to, a review of school district financial policies, procedures and practices, and the testing and evaluation of district internal controls;
- An annual review and update of such risk assessment;
- Periodic testing and evaluation of one or more areas of the district's operations; and
- Preparation of reports, at least annually or more frequently as the trustees or board may direct, which analyze significant risk assessment findings, recommend changes for strengthening

¹ Chapter 655 Report on Unduplicated Counts of Professional Personnel, New York State Department of Education, October 2011.

² Chapter 653 of the Laws of 2005, also known as Fiscal Accountability Legislation, required, among other things, that school districts retain an internal auditor, as well as an independent claims auditor. The external audit was a function that existed prior to the enactment of this legislation.

³ There are three exceptions to the requirement; if the school district employs less than eight (8) teachers; the school has total General Fund expenditures of less than \$5 million in the previous school year; or the school district enrolled less than 300 students in the previous year.

⁴ Prior to the early 1980s, the NYS Office of the Comptroller discontinued regular audits of school districts when it became a requirement for school districts to obtain an external audit. See <http://www.osc.state.ny.us/reform/school/index.htm>



controls and reducing identified risks, and specify timeframes for implementation of those recommendations.⁵

One of the first shared service initiatives identified by the Steering Committee was internal audit services due to the growing costs of these services and the overlap of providers within Nassau County. The Steering Committee solicited and formed a consortium of school districts to jointly solicit vendor services for school district internal audit services. The original intent of the initiative, as described in the Grant Project Application, was to develop unique school internal audit function competencies within the County Comptroller’s Office. However, legal liability concerns compelled the Audit Group to solicit a third-party vendor to provide the services.

The Internal Audit initiative activities were led by a Working Group of ten members, which consisted of school board members, superintendents, business officials, County officials and consultants (see Appendix A for a list of the participating school districts).

21st Century Demonstration Grant Internal Audit Working Group

Name	Affiliation
Amy Beyer	North Shore School District Board of Education
Dr. Jack Bierwirth	Superintendent, Herricks Union Free School District
Dr. Herb Brown	Superintendent, Oceanside School District
Anthony Cedrone	Assistant Superintendent for Business, Carle Place School District
Dr. Christine Gucci	Assistant Superintendent for Business, Merrick Union Free School District
Joseph Dragone	Assistant Superintendent for Business, Roslyn School District
Aline Khatchadourian	Nassau County Comptroller’s Office
Maryanne Lehrer	Oceanside School District Board of Education
Mary Jo O’Hagan	Nassau-Suffolk School Boards Association
Joy Watson	Deputy Comptroller, Office of the Nassau County Comptroller

Over the past two years, the Working Group conducted business in bi-monthly meetings, or more often as needed. Minutes of these meetings can be found in Appendix B of this document. The main tasks undertaken by the Working Group included:

General Project Management

- ✓ Solicited working group members from a broad base of stakeholders, including: School board members (individual districts and regional BOCES), superintendents, school business officials, and technical consultants
- ✓ Organized meeting schedules and coordinated with business officials to maximize attendance and participation
- ✓ Developed a work plan which outlined: An overview of group objectives; group members; and point-by-point activity categories with corresponding deliverables and timeline milestones

Technical Activities

- ✓ Drafted communications to State Comptroller requesting a comprehensive description of best or “sound” practices for school district internal audits, a universe of key systems and processes

⁵ http://www.p12.nysed.gov/mgtserv/accounting/accountability_legislation05.htm



with greatest risk to school districts, and a checklist for internal audit committees to use in evaluating internal audit proposals

- ✓ Drafted RFP for a firm to provide internal audit services to school districts
- ✓ Conducted outreach activities to generate publicity

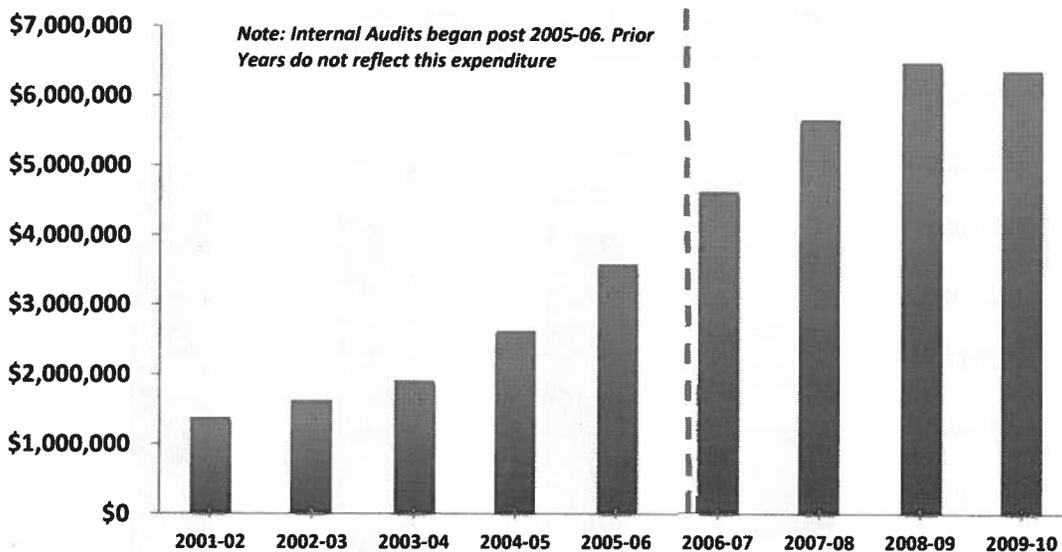
Cost Savings Documentation and Analysis

- ✓ Collected data on internal audit costs for five most recent school years via survey and state agency data sources
- ✓ Provided description in narrative and graphical format of total school district internal audit expenditures, with analysis of spending trends, cost drivers and data adjustment for outliers and other anomalies
- ✓ Developed spending forecast for three to five years, with “high-end” and “low-end” estimates

Historical Spending

School districts are required to perform internal, external, and claims auditing. Most often school districts contract for these services. According to data from the State Education Department, total Nassau County School District audit spending for all three services was \$6.4 million in 2010, a relatively small percentage of total school district spending - \$5.1 billion in 2009-10.⁶ From 2006-07 to 2009-10, total audit spending has increased by 91.4 percent. While publicly available sources collect total audit costs by school district, it is difficult to isolate the breakout of spending of the three audit services. PFM utilized surveys, interviews with school district business officials, and pro-rata analyses to estimate internal audit spending.

Figure 1: Total Audit Spending, 2001-2010, All Nassau County School Districts

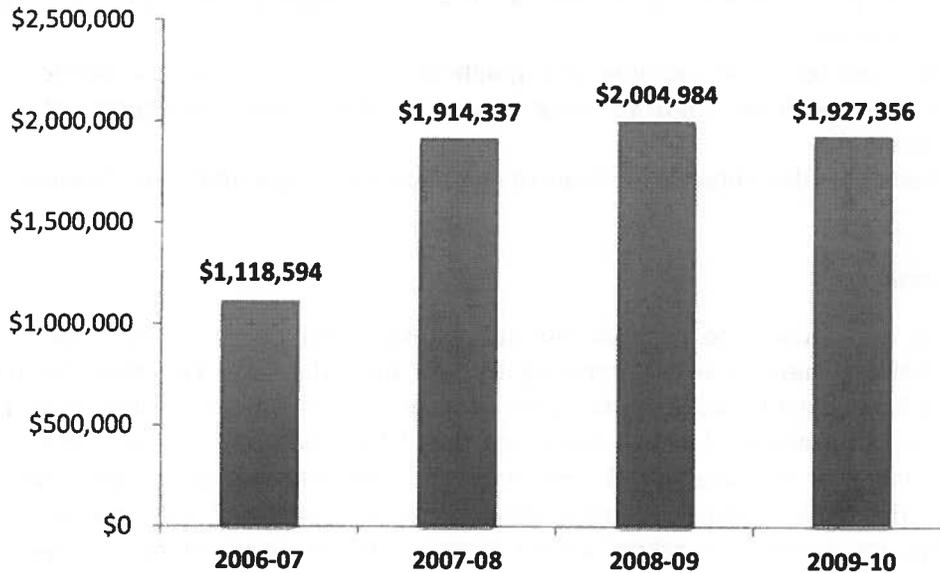


⁶ Data provided by the NYS Office of the Comptroller



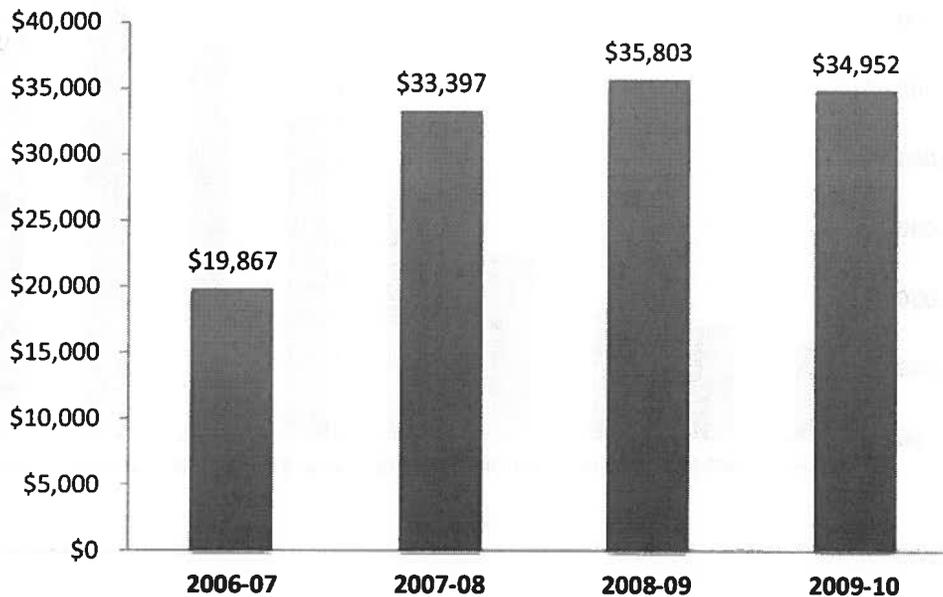
Aggregate annual spending on internal auditor contractual services by all 56 Nassau County school districts is estimated to have stabilized at approximately \$2 million, beginning in 2008-09. The initial spike from 2006-07 to 2007-08 likely reflected school districts' phase-in of the internal audit function, which was mandated by State law to be in operation no later than December 31, 2006.

Figure 2: Total Estimated Internal Audit Spending, All Nassau County School Districts



Similarly, the estimated average annual internal audit expenditure per district has leveled out at approximately \$35,000.

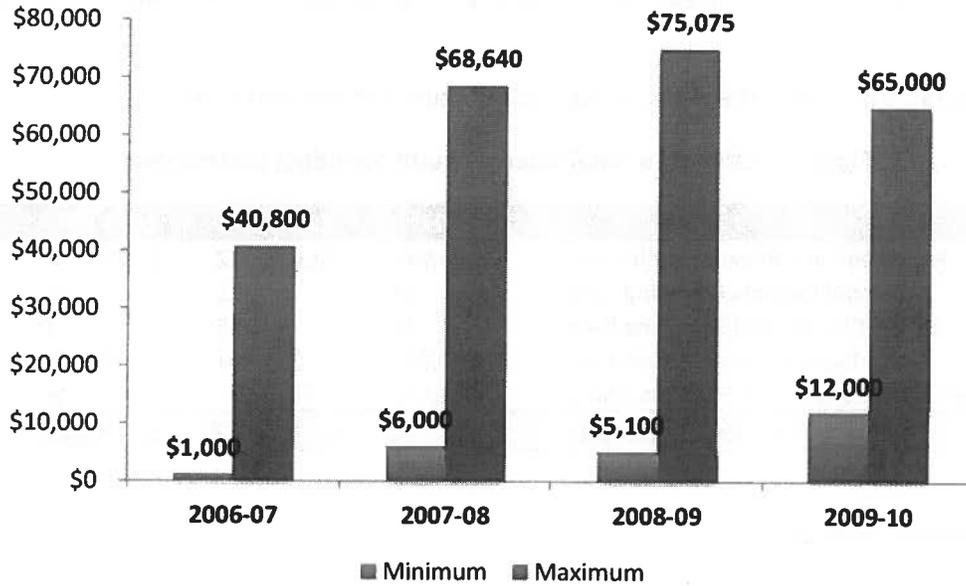
Figure 3: Estimated Average Annual Internal Audit Spending, Nassau County School Districts





The range in spending among reporting districts varied greatly likely due in large part to varying services offered by vendors and varying services requested by school districts.

Figure 4: Minimum and Maximum District Internal Audit Expenditures



Methodology and Data Notes

As previously stated, school district financial data is readily and publicly available. However, this data provides audit-related expenditures at the aggregate level, including costs related to the claims and external audit functions. In order to isolate internal audit costs, PFM, with the assistance of school business officials, conducted a survey of all 56 school districts to assess internal audit expenditures for the 2006-07 through the 2009-10 school year. Participation varied each year, with all 56 school districts providing data for 2008-09.

Figure 5: Number of Districts Providing Historical Data

Fiscal Year	Districts Providing Data
2006-07	23
2007-08	31
2008-09	56
2009-10	30



In order to identify historical trends and forecasts going forward, assumptions and estimates were developed. For school years 2006-07, 2007-08, and 2009-10, estimated aggregate internal audit spending by Nassau County School Districts (Figure 2) was calculated based the sum of two parts:

$$\begin{aligned} &\text{Reported internal audit costs by School Districts in each year} \\ &+ \\ &(\text{Median Audit Costs in each year X Number of Schools Districts that did not provide data}) \end{aligned}$$

The following table describes the methodology using actual and estimated data:

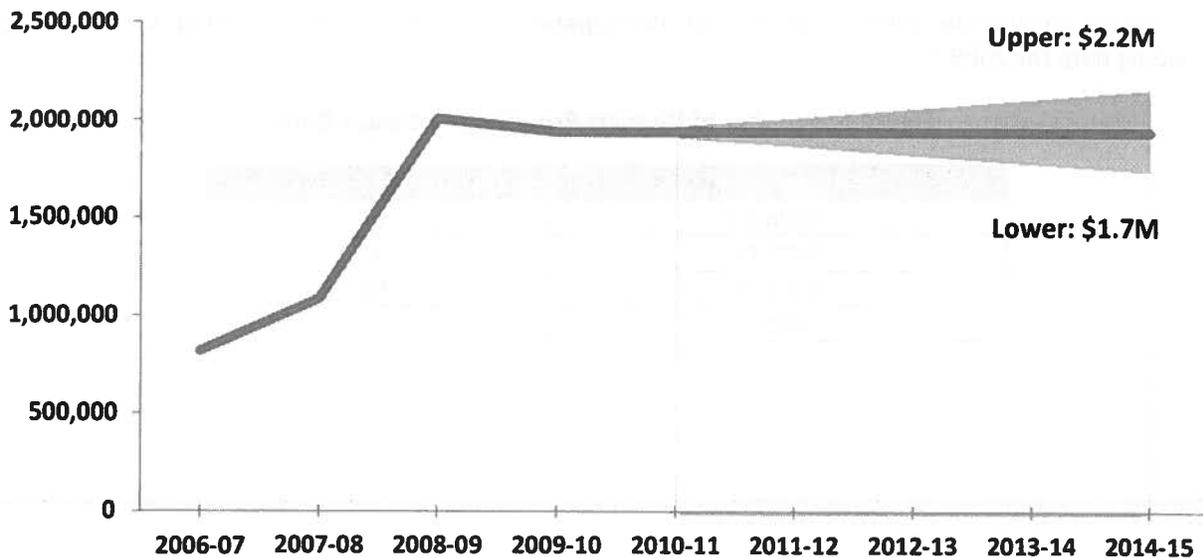
Figure 6: Estimated Total Internal Audit Spending Methodology

	2006-07	2007-08	2008-09	2009-10
Reported Total Internal Audit Costs	\$456,944	\$1,035,312	\$2,004,984	\$1,048,556
School Districts Providing Data	23	31	56	30
School Districts Not Providing Data	33	25	0	26
Median Internal Audit Cost	\$20,050	\$35,161	\$33,620	\$33,800
(Median Cost X Schools Not Providing Data)	\$661,650	\$879,025	\$0	\$878,800
Estimated Total	\$1,118,594	\$1,914,337	\$2,004,984	\$1,927,356

Current Services Forecast

Baseline data indicates that internal audit expenditures have stabilized. However, internal audit expenditures for all districts could further increase or decrease in the coming years. An annual rate of change plus or minus up to the CPI-U for each year, as determined by the New York City Independent Budget Office (IBO) has been estimated to forecast total school district internal audit spending through 2014-15. Based on this methodology, total internal audit spending for Nassau County school districts may range between \$1.7 million and \$2.2 million by 2014-15.

Figure 7: Total Internal Audit Spending, Estimates and Forecast Range





As with any projection, numerous events and factors may affect the forecast. The projected annual change of up to the rate of CPI-U for the NY-NJ-CT region and the confidence range in the graph above acknowledge these risks and uncertainties. Also, the forecast is constrained by limited available data in the baseline years.

Internal Audit Forecast Confidence Range High-End Scenarios: The following scenarios are possible under certain parameters, as described below, and may result in higher than estimated costs:

- Districts entering into new multi-year contracts may be forced to agree to higher fees
- Auditor fees increase in line with the New York-Northern New Jersey-Long Island Regional Consumer Price Index - All Urban Consumers (CPI-U) as a reflection of broader inflationary pressures
 - Historical regional CPI-U % change⁷:
 - 2007: 2.8%
 - 2008: 3.8%
 - 2009: -0.4%
 - 2010: 1.6%
 - Regional CPI-U forecast %⁸:
 - 2010: 1.5%
 - 2011: 1.6%
 - 2012: 2.1%
 - 2013: 2.5%
 - 2014: 2.3%
 - 2015: 2.3%
- Extensive list of business processes examined in initial risk assessments in 2006 and 2007 come due for review again, forcing higher one-time expenditures
- State regulations or laws mandate new areas of audit review
- Political circumstances and events compel school district audit committees to ask for greater review of financial policies and testing of internal controls

Internal Audit Forecast Confidence Range Low-End Scenarios: These scenarios would have a positive effect on school district spending by reducing those costs associated with Internal Audit services:

- Shared services agreements and cooperative bidding for audit firm services results in lower flat rates or hourly rates for all participating districts
- More audit firms establish a presence in Nassau County to respond to the business opportunity represented by a cooperative bid
- Industry-wide and private sector trends result in lower internal audit fees for schools and governmental entities
 - A 2009 Survey by Financial Executives Research Foundation, a non-profit business research group, found that the majority of public and private companies negotiated vigorously in 2008 for lower audit fees and expected fees to hold relatively flat or decrease in 2009

⁷ U.S. Bureau of Labor Statistics

⁸ Independent Budget Office of the City of New York.



2010-11 Internal Audit Cost Savings

On March 14, 2011, the Nassau County Department of Shared Services issued an RFP for internal audit services on behalf of the school districts in Nassau County. The proposals were opened on April 7, 2011. Nine firms responded to the RFP and the cost proposals received were very competitive.

Based on an analysis of costs incurred for internal auditing services before and after the issuance of the RFP, it is estimated that five school districts saved a total of approximately \$61,000, or 27 percent, by utilizing the RFP.

In order to quantify savings realized by school districts, the internal audit working group conducted outreach via phone survey and e-mail to all school business officials who had participated in the RFP.

Figure 8: Total Savings Achieved via 2011-12 Internal Audit RFP

School District	2009-10 Enrollment	2010-11 Audit Related Costs (Actual)	2011-12 Audit Related Costs (Estimated)	Savings Achieved
Carle Place	1,462	\$54,300	\$38,800	\$15,500
Great Neck	6,538	\$48,360	\$40,608	\$7,752
Hicksville	5,465	\$46,200	\$34,742	\$11,458
Island Trees	2,574	\$36,000	\$24,000	\$12,000
Rockville Centre	3,545	\$43,758	\$29,242	\$14,516
School District Totals	19,584	\$228,618	\$168,392	\$61,226

A list of districts who responded to the baseline survey of internal audit expenses, along with total enrollment for the 2009-10 School Year, can be found in Appendix A of this document.

It should be noted that initial savings estimates were in the range of \$600,000. However, those savings were assumed based on an increased percentage of school districts utilizing the Internal Audit RFP. Although only five school districts used the pricing in the RFP, total costs were 26 percent less than the prior year (assumes same level of services was requested). Based on this sampling, it can be argued that an increased pool of participants may result in increased savings. Going forward, the working group plans to conduct additional outreach to maximize participation in future cooperative bids.



Lessons Learned and Recommendations

Securing a Committed Host Agency: The main difficulty in implementing the internal audit consortium was securing an office or agency to host the initiative. Due to conflicts of interest, school districts in Nassau County are prohibited from soliciting internal audit services from the Nassau County BOCES.⁹ The Nassau County Comptroller's Office initially agreed to act as host and solicitor of proposals, an arrangement under which the County Comptroller would only be responsible for retaining the audit firm and providing high-level management of the contract. Billing and supervision of services would have fallen to participating districts. However, partially due to changes in administration resulting from the November 2009 elections, delays resulted. Although initially scheduled to be released in 2010, the Internal Audit RFP was released in April 2011. While the Working Group did communicate with newly elected officials during times of transition, the initiative still incurred delays. However, without this aggressive communication strategy the initiative likely would have faced additional delays and may have not been implemented. Other school districts working with multiple levels of government for comparable cooperative services should prepare for and develop a plan for administration changes so that obstacles to initiative implementation may be mitigated.

Quantifying Savings: The number of school districts and varying internal audit services made it difficult to estimate savings. Given these difficulties, the Audit Working Group employed a conservative approach to estimating savings achieved by school districts utilizing the RFP. Although only five school districts confirmed they utilized pricing within the Internal Audit RFP, surveyed business officials indicated that they were able to leverage savings with existing vendors based on the RFP pricing. This method of indirect savings, although not easily quantified, is significant. Also, it should be noted that the five school districts that utilized the pricing in the RFP realized year-over-year savings of 26 percent. As more school districts continue to utilize the RFP, these savings may in fact increase as well.

One other method towards increasing participation and quantifying savings would be the promotion of "volume" discounts. At the request of the Audit Working Group, vendors agreed to provide prices based on a sliding scale of total districts utilizing a firm's services. In other words, the higher the volume based on a predetermined indicator such as number of schools utilizing the same firm for similar services, the lower the price to districts. Due to the participation level of this first-year initiative, this discounting was not realized but should be a key consideration for future RFPs and should be included in all professional services RFPs to maximize potential savings.

Working with State Agencies on Best Practices: A secondary objective of the Internal Audit consortium, aside from cost savings, is to assure best practices in internal audit services through the advice of the State Comptroller. The Group drafted correspondence to the State Comptroller's Division of Local Government and School Accountability, requesting:

- ✓ A list of best practices for school internal audits;
- ✓ The universe of key systems and processes with the greatest risk to districts; and
- ✓ A checklist for committees to use in evaluating internal audit proposals.

Due to transition within the State and Working Group, no information was subsequently provided. Future audit consortiums should examine continued outreach to the State. One possible solution to transition and attrition related issues is to reach out to the State Education Department and the Board

⁹ This regulation does not prohibit school districts in Nassau County from soliciting services from an adjacent BOCES (i.e. Eastern Suffolk BOCES) or the county. In response to this need, Nassau County established a Shared Services Office dedicated to initiatives currently being pursued by the Cooperative.



of Regents. Although there is transition within these groups as well, they are governing bodies which remain constant in policies and mission. By regularly reporting to the Regents, the Working Group will gain visibility and prominence. This may also have a residual effect of increasing participation among school districts and opportunities for “cross pollination” with other Counties in New York.



Prototype Modifications

Many of the above-described implementation steps and challenges will be common to all internal audit consortiums. However, modifications may be made to accommodate for unique school district considerations that are not present in Nassau County:

With the involvement of a BOCES or County office: An Inter-municipal Agreement among participating school districts may be set-up, with an ad-hoc Working Group or Steering Committee guiding the RFP selection and vendor administration processes. It should be noted that BOCES cannot host these services for component districts due to a conflict of interest that may arise from hosting an RFP for services which it already provides. However, a neighboring BOCES may be a viable option.

In coordination with municipalities: The Nassau Audit Consortium was not extended to municipalities, as the internal audit function is a State requirement unique to school districts. However, other contractual services may be bid out or solicited for proposals with the involvement of municipalities. For example, the Nassau Purchasing Group participated in a cooperative natural gas bid led by the County with participation from school districts, BOCES, and other municipalities, as well as a RESCUE building survey services RFP. As with all cooperative initiatives, communication is vital between the working groups, school districts, the County, and BOCES. By increasing coordination and “cross-pollination” of ideas, additional savings and initiatives may be realized.

Spanning a Multi-County Geographic Area: The Nassau Audit Group involved participants only from County school districts. The combined enrollment of districts and the availability of local firms to respond to the RFP presented enough of a cumulative effect to only involve school districts in the county boundaries. However, areas with low populations and rural counties may not be able to involve enough school districts to effectively capitalize on combined purchasing power. Also, the availability of firms from which to competitively award a bid or proposal may be limited in suburban or rural areas. In these instances, school districts may form consortiums that span a multi-county area or otherwise wide geographic territory. Many contractual services that are bid or solicited for proposals are common to all state school districts.

Scope of Services in RFP: Feedback from school districts has revealed that the RFP for internal audit services in 2011-12 may have been too narrow in its focus or too broad. The Nassau Audit Group should consider structuring an RFP in the future that allows for a buffet style list of services and pricing, where school districts are able to select services that they need and those that they do not. As there are 56 school districts in Nassau County, there will undoubtedly be a broad range of issues. Some, if not most, of these issues and challenges will be unique to each district. While it will be difficult to structure an RFP that specifically meets the needs of 56 varying school districts, going forward, the Working Group should try to include feedback received from the school districts from the first-year RFP and solicit additional feedback prior to the next RFP release. Refining the RFP will likely lead to increased participation.

Increase Outreach to Potential Firms, Participation Among Districts: According to a survey conducted by school business officials, over forty firms and individuals were retained by school districts for internal, external, and claims auditing services in 2008-09. However, only nine firms responded to the 2011-12 bid for internal audit services. An ideal situation would be higher participation by school districts in Nassau County combined with increased number of responses from potential firms in Nassau. This would allow for the best selection and pricing for services to school districts.



In line with this recommendation, the Cooperative should actively promote the use of the RFP in future years. One of the key reasons why many school districts did not utilize the RFP was that they were already obligated through a prior contract with a vendor. By continuously reminding school business officials of the advantages to cooperative purchasing and bidding, schools may be able to join the cooperative in future years, or leverage savings through their current vendors via the RFP, as many school districts reported for 2011-12.

Appendix A: 2006-07, 2007-08, and 2009-10 Internal Audit Survey Respondents

Responses Received From ¹⁰	2010 Enrollment	Responses Received From:	2010 Enrollment
Bellmore Union Free School District	1,191	Massapequa Union Free School District	8,132
Bellmore-Merrick Central High School District	6,086	Mineola Union Free School District	2,717
Bethpage Union Free School District	3,082	New Hyde Park-Garden City Park Union Free School District	1,676
Carle Place Union Free School District	1,462	North Bellmore Union Free School District	2,199
East Williston Union Free School District	1,798	North Merrick Union Free School District	1,314
Farmingdale Union Free School District	6,263	North Shore Central School District	2,866
Floral Park-Bellerose Union Free School District	1,608	Oyster Bay-East Norwich Central School District	1,671
Franklin Square Union Free School District	1,958	Plainedge Union Free School District	3,451
Freeport Union Free School District	6,532	Plainview-Old Bethpage Central School District	5,097
Garden City Union Free School District	4,175	Port Washington Union Free School District	5,148
Glen Cove City School District	3,039	Rockville Centre Union Free School District	3,545
Great Neck Union Free School District	6,538	Roosevelt Union Free School District	2,816
Herricks Union Free School District	4,099	Roslyn Union Free School District	3,403
Hewlett-Woodmere Union Free School District	3,105	Seaford Union Free School District	2,567
Hicksville Union Free School District	5,465	Sewanhaka Central High School District	8,449
Island Trees Union Free School District	2,574	Valley Stream 13 Union Free School District	2,156
Lawrence Union Free School District	3,092	Valley Stream 24 Union Free School District	1,079
Levittown Union Free School District	7,760	Valley Stream 30 Union Free School District	1,423
Locust Valley Central School District	2,233	Valley Stream Central High School District	4,602
Lynbrook Union Free School District	2,949	Wantagh Union Free School District	3,602
Malverne Union Free School District	1,700	West Hempstead Union Free School District	2,285
Manhasset Union Free School District	3,112		
		Total Enrollment	150,019
		Percentage of Nassau County Enrollment	72.49%

¹⁰ All 56 school districts in Nassau responded to the 2008-09 Survey.



Appendix B: Audit Working Group Meeting Notes

The following notes were compiled over the course of the Audit Working Groups meetings. At each meeting of the Audit Working Group, attendance was taken and future meetings were determined.

Meeting Date: September 21, 2009

Location:

Attendees:

- **School Business Officials:** Joseph Dragone
- **School Superintendents:** Herb Brown; Jack Bierwirth
- **School Board Members:** Mary Jo O’Hagan
- **Nassau County:** Aline Khatchadourian (County Comptroller’s Office)
- **PFM:** Dottie Johnson, Robert Fiato (via teleconference)

I. Significant issues discussed:

a. Grant administration:

- i. **The role of BOCES:** As BOCES is the lead applicant for the 21st Century Demonstration Project Grant, the reports developed in the audit function will be submitted through BOCES to the Department of State
- ii. Allocation of grant funds will be generated by the Department of State, paid to BOCES, and then flow down to the Audit Committee
- iii. **Budget:** The Scope of Services provided to DOS states that \$175,000 is to be allocated to the audit function, but further specification beyond that was not immediately available.
 1. **ACTION ITEM:** the group will need to develop a budget, by identifying the use of the funds. It is expected that there will be some shifting of funds among the Working Groups, based on specific needs and proposed uses.
- iv. **Work Plan:** The Work Plan audit function with the Department of State reads: *Develop the unique school internal audit function competencies and processes within the County Comptroller’s Office.* This should this be modified to better reflect the role of this committee. PFM will work to identify the current costs of the audit function and opportunities for savings, rather than actually develop new audit processes. The cooperative RFP for an auditor should focus on developing competencies and processes, and the award may reflect in part on a firm’s competency in these areas.
 1. **ACTION ITEM:** Modify the bullet in question. This could be a modification as work progresses, based on the Working Group’s determination, since current language has already been submitted to the Department of State.
- v. **BOCES Board Meeting (Sept. 22) :** Everyone is in agreement regarding the information on the audit function slide to be presented at the BOCES Board Meeting on Sept. 22; however, it must be made explicit in the presentation that auditing is a responsibility of the districts and the County, not BOCES, and hence



BOCES will not administer any changes to the audit function resulting from the 21st Century Demonstration Grant

1. Dottie Johnson will be representing the Audit Working Group at the BOCES Board Meeting, since no working group members are able to attend.]

b. Audit function research and analysis:

- i. School district baselines: School districts have been experiencing a wide range of costs for their internal audit services.
- ii. Generating Savings: Districts spend \$25,000 to \$60,000 on internal audit services, most being billed per hour. The goal is to achieve a lower per hour billing rate.
- iii. Mandated Services: Because the law and OSC guidance has not been explicit, many districts have been receiving and paying for a full internal risk assessment every year, which may be unnecessary.
- iv. Establishing consistency: A major goal of this grant is to make sure that similar requirements for services are in place. The State Comptroller's input will be necessary to achieve this.
- v. Collaboration: In addition to providing district savings, the goal of the grant is to ensure that recommendations for best practices are shared across all 56 school districts in the County.

c. RFP for internal audit services:

- i. Timeline: The RFP, which seeks a consultant to perform various internal audit tasks and functions, will likely be issued in January or February.
- ii. Participating districts: An outstanding question is how does a firm respond to the RFP without having a sense of how many school districts will be involved? Initially, 8-10 districts responded to an email saying they were interested in participating.
 1. **ACTION ITEM: another email must be sent to school districts explaining that this initiative is getting off the ground, so we can provide firms who respond to the RFP with an idea of the scale of the project.**
- iii. Modifications: The award could go to one firm, two firms, etc. All ideas which improve services and reduce costs are on the table.
 1. **ACTION ITEM: Comments will be solicited at the next Audit Committee meeting (see end of these meeting minutes for schedule) in regards to the structure and content of the RFP. Hit "reply all" to the most recent email and send your comments to all Audit Committee members.**

d. Clarifying State Comptroller guidelines:

- i. Sound Practices: The State Comptroller should have expectations published on its website with respect to internal audit practices, and publicize "sound practices" that go beyond simple regulation and statutory laws.
 1. This committee may want to write a letter to the OSC and request publication of sound audit practices.



2. The combination of the Comptroller's Office in Nassau County, which has a great reputation in New York State, and school districts in the County saying "help us to be better" would be meaningful.
 3. As the group starts to define what it believes to be best or sound practices, it would be opportune to ask to work with the OSC's audit branch on best practices advisory.
 4. This would be a great opportunity to expand a prototype to all districts throughout the State
- ii. Assistance with RFP: Expectations of a firm to perform internal audit services will be clearly laid out in the RFP
1. The OSC may or may not be able to offer some insight into our specifications in the RFP
 2. In either case, a meeting with OSC will be useful to discuss best practices.
 - a. ***ACTION ITEM***: Dottie will contact the State Comptroller's office to arrange for a representative to join a future audit committee meeting and discuss the notion of developing sound audit practices (see end of these meeting minutes for schedule). A formal letter may follow that meeting.
- e. **Communication and outreach**:
- i. Generating buy-in: The internal audit function is supervised by an audit committee that is unique to each school district. We must generate understanding and gain buy-in through these critical audiences, especially when we focus on enticing districts to participate in new audit initiatives.
 1. ***ACTION ITEM***: in general, the people on this committee need to take these ideas to their boards to gain immediate buy-in from districts participating in working group. A canvas/separate survey or email to all districts will be necessary to assess overall interest and potential buy-in.

II. **Schedule of future meetings:**

a. **Wednesday, October 7**

- i. Time: 4:30 PM
- ii. Location: Comptroller's Office Conference Room, 2nd Floor, 2400 Old Country Road, Mineola
- iii. Purpose: Follow-up on RFP; discuss next steps

b. **Wednesday, October 14**

- i. Time: 3:00 PM
- ii. Location: Conference Room 3, Robert E. Lupinskie Center for Curriculum, Instruction and Technology, 1 Merrick Avenue, Westbury
- iii. Purpose: Discussion with representative from State Comptroller's Office



Meeting Date: October 7, 2009

Location: Nassau County Comptroller's Office, Mineola, New York

Attendees:

- **School Board Members:** Mary Jo O'Hagan (NSSBA); Maryanne Lehrer (NSSBA); Amy Beyer (North Shore)
- **Superintendents:** Jack Bierwirth (Herricks); Herb Brown (Oceanside)
- **Business officials:** Joe Dragone (Roslyn); Anthony Cedrone (Carle Place);
- **County officials:** Aline Khatchadourian (County Comptroller's Office)
- **PFM:** Dorothy Johnson, Robert Fiato

I. **Administrative:** Corrections to minutes from 9/21 working group meeting: Add Anthony Cedrone and Christine Grucci to attendees list.

A. **ACTION ITEM: PFM will update and circulate revised minutes from 9/21 meeting.**

II. **RFP**

A. **Participating Districts:** The RFP should state that between "X and Y" districts will participate in the audit consortium. The initiative/consortium will be raised at the next superintendents meeting to assess a range of interested districts.

1. **ACTION ITEM: Herb Brown will solicit interest at the superintendents meeting on October 21.**

B. **Solicitation of bids:** The RFP should be sent to a wider range of accounting firms than those already used by many school districts in the County, for greater competition.

1. **Pricing:** Firms will be asked to present prices based on district budget size (e.g., 0-\$30 million, \$30 million-\$70 million, etc.), and based on the likely number of school districts likely to participate in the consortium. (e.g., 20 – 30 districts).

2. **Structure:** The agreement that the audit firm commits to will be between the firm and an inter-municipal agreement (IMA) that lists the participating districts.

3. **Interviews and selection:** The working group will act as the interview and screening committee for firms responding to the RFP. The final selected firm will also have to meet with respective school boards.

4. **Timeline:** The working group needs to gain a sense as soon as possible of interest from participating districts to assess district/school board willingness to make accommodations and prevent external/internal overlap once the consortium is in place.

a. Late October: Present audit consortium initiative and RFP to districts and secure commitments

b. November: Issue RFP

c. December: Review RFP bids and interview finalists

5. **ACTION ITEM: Working group members should email to Aline any proposed changes or feedback on the draft RFP that was circulated at the 9/21 meeting. Aline will circulate a revised version of the RFP.**

III. **Baseline data**

A. **Methodology:** The Office of the State Comptroller does not provide the level of detail needed to assess district audit expenditures. Therefore, a survey will be necessary to gather data and perform quantitative analyses.



B. Survey structure: The survey will be very simple, with the goal of facilitating a quick turnaround. Data will be gathered for the 06-07, 07-08 and 08-09 school years, and estimated indicators for the 09-10 school year. The only questions on the survey will ask respondents to provide for each school year:

1. District enrollment
2. Total district budget expenditures
3. Hourly billing rate and total spending on claims audit function
4. Hourly billing rate and total spending on internal audit function
5. Hourly billing rate and total spending on external audit function
6. Audit firms used in the current school year

C. Distribution: Joe and Anthony will distribute the finalized survey to districts.

1. **ACTION ITEM:** PFM will develop a survey template in Excel and circulate it to the working group.

IV. Upcoming meeting with representative from Office of the State Comptroller

A. A representative from the Office of the State Comptroller (OSC) will attend our next meeting on 10/14 and will also attend and participate in the Steering Committee meeting which immediately follows the working group meeting.

B. Goals: Facilitating a relationship with the OSC will gain the Comptroller's "buy-in" early in the process and expand our understanding of what factors the OSC believes should be emphasized in the audit process. This knowledge will be crucial to sharing with districts in the consortium and the audit firm which wins the contract, lowering overall audit costs and ultimately expanding the initiative to a statewide prototype.

1. **ACTION ITEM:** Working group members should send to Dottie Johnson a listing of questions or concerns to discuss with the OSC representative at the next meeting.

V. Working group budget

A. The work plan specifies \$150,000 from the NYS 21st Century Demonstration Grant dedicated to the audit function; total depends upon group work plan and authorized uses.

B. Potential ideas discussed for expanded funding included presentations to all districts participating in the new audit consortium, an in-depth analysis of OSC audit regulations and best practices, and training for district audit committees.

C. Upcoming working group meeting: Wednesday, October 14 at 3:00 p.m. in the County Comptroller's Office. As stated, a representative from the OSC will be in attendance. The Grant Steering Committee meets at 4:00 p.m. immediately following the audit working group meeting.



Meeting Date: October 14, 2009

Location: Nassau County Comptroller's Office, Mineola, NY

Attendees:

- **School Board Members:** Mary Jo O'Hagan (NSSBA); Maryanne Lehrer (NSSBA); Amy Beyer (North Shore)
- **Superintendents:** Jack Bierwirth (Herricks); Herb Brown (Oceanside)
- **Business officials:** Joe Dragone (Roslyn); Anthony Cedrone (Carle Place);
- **County officials:** Aline Khatchadourian (County Comptroller's Office)
- **Office of the State Comptroller:** Joe Ruggiero
- **PFM:** Dorothy Johnson, Robert Fiato

I. Discussion with State Comptroller Representative Joe Ruggiero

A. Best practices: Identification of best or sound internal audit practices from the Office of the State Comptroller would be helpful in:

1. Specifying requirements for audit services to be solicited in the Request for Proposal, to be issued by the working group in November or December to provide services for a consortium of an estimated 15-20 Nassau County school districts;
2. Providing evidence for strengthened operations as the basis for recruiting more school districts into the consortium;
3. Building the foundation for turning the upcoming Nassau County consortium into a statewide model for audit service collaboration;
4. Establishing broad parameters for all district internal audits – whether participating in the audit consortium or not – and finalizing a baseline of audit services and standards for assessing auditor performance.

B. Working group goals:

1. Enable districts to get needed audit services that will meet OSC expectations at the best possible price;
2. Establishment of a standardized baseline of required internal audit services. School boards receive a wide range of bids for vastly different services, and currently have no way of determining which are essential services and which are optional. The group's recent survey showed a range of costs from \$5,000 to \$72,000 for these services.
3. Require audit wellness training as part of new school board member training.
4. Receiving OSC guidance on most high risk areas for districts to focus their increased vigilance.

C. Timing: Receiving a listing of best practices from the OSC would be ideal in November as the RFP is being finalized, but could also be useful in December or January when the firm selection process is underway.

D. Outstanding questions regarding OSC internal audit oversight:

1. When the Office of the State Comptroller audits school districts, do they examine and consider data from reports of the internal auditors?
2. Are any areas "off-limits" in OSC audits (such as hours of classroom instruction, etc.)?



E. Joe Ruggiero

1. The State Comptroller wants to be as supportive as possible of this effort.
2. The OSC is doing a roll up of issues identified in the office's first round of school district audits.
3. The Office is interested to hear about the internal audit process that did not work, and suggestions for getting OSC concerns to districts as efficiently as possible.

II. Upcoming Meeting

- A. October 21, 5:00 pm, County Comptroller's Office (240 Old Country Road, Mineola) will focus on finalizing the draft RFP.
- B. School districts' interest in the audit consortium will be assessed at the next superintendent's meeting, which shortly precedes the next working group meeting.



Meeting Date: October 28, 2009

Location: Nassau County Comptroller's Office, Mineola, NY

Attendees:

- **School Board Members:** Mary Jo O'Hagan (NSSBA); Maryanne Lehrer (NSSBA)
- **Superintendents:** Jack Bierwirth (Herricks); Herb Brown (Oceanside)
- **Business Officials:** Christine Grucci (Merrick)
- **Nassau County:** Aline Khatchadourian (County Comptroller's Office)
- **PFM:** Dorothy Johnson; Robert Fiato; Brad Friedman
- **Significant issues discussed**

- I. **Baseline:** Audit expenditures for one year have been gathered from all 56 Nassau County school districts to begin to establish baseline internal audit costs and to estimate potential cost savings from participating in a consortium.
 - a. **OSC Data:** Available figures from the Office of the State Comptroller indicate a rise audit spending by school districts from \$1.53 billion in 2003 to \$3.39 billion in 2006, though questions persist regarding the validity and reliability of the OSC data and exactly which services are included in reported totals.
 - b. **Survey results:** Joe Dragone received a 100% response rate from county school districts to his audit survey. Results indicated that \$5.88 million was expended on audit functions in the 2008-09 school year, of which \$2 million was from internal audit.
 - c. It was agreed that unless the integrity of the OSC data could be further explained and guaranteed, the working group, with guidance from Joe and other business officials, should conduct a more expansive survey regarding internal audit expenditures, soliciting data from the 2007-08 school year and projections for the current school year, to supplement the 2008-09 figures from the first survey)
 - i. **ACTION ITEM: A meeting with district business officials will be scheduled for Tuesday 11/3 (time TBD) to discuss follow-up collection of survey data and possible further analysis of OSC data**



-
- I. RFP**
- a. **Participation:** Approximately 35 school districts have agreed to consider participation in the collaborative requisition of internal audit services
 - b. **Review and updates:** The group discussed a number of updates and modifications to the RFP
 - i. **ACTION ITEM: Aline will update and re-circulate a revised RFP**
 - c. **Outreach and advertising:** The RFP will be posted on the web. Other publicity options discussed included Newsday and regional media, the NYS Contract Reporter, and specialized audit journals.
 - d. **Advertising expenses:** It is unclear whether the grant budget money may be used for advertising purposes to solicit the highest possible RFP response rate
 - i. **ACTION ITEM: The grant requirements and procedures will be analyzed to determine whether funds may be used for RFP advertising purposes**
 - ii. **ACTION ITEM: All working group members are requested to brainstorm and research possibilities for advertising the RFP, and bring suggestions to the next meeting**
- II. OSC Request for Guidance:** A letter is being drafted regarding the working group's request to the Office of the State Comptroller for internal audit best practices and guidance
- a. **ACTION ITEM: A letter will be circulated to working group members to review and comment on the letter regarding OSC guidance**
- III. Next meeting: Wednesday, November 4, 2009**
- a. **Time:** 4:30 PM
 - b. **Location:** County Comptroller's Office
 - c. **ACTION ITEM: PFM will email a meeting reminder and request**



Meeting Date: November 10, 2009

Location:

Attendees:

- **School Board Members:** Maryanne Lehrer (NSSBA)
- **Superintendents:** Jack Bierwirth (Herricks)
- **Business Officials:** Joe Dragone (Roslyn); Amy Beyer (North Shore Schools); Anthony Cedrone (Carle Place)
- **Nassau County:** Aline Khatchadourian (County Comptroller's Office)
- **PFM:** Robert Fiato

I. Significant issues discussed

a. **RFP:** The RFP is ready to be issued based on the changes discussed at the last meeting, but the political uncertainty may alter the County's ability to host the initiative and the Legislature's approval of a contract

i. **ACTION ITEM:** Aline will email an updated version of the RFP to the working group

b. **OSC Letter:** Modifications were discussed and agreed to regarding the letter to the Comptroller requesting guidance on audit best practices; the letter will be submitted for the Comptroller's signature in the coming weeks

i. **ACTION ITEM:** PFM will circulate the finalized OSC letter to the working group

II. Next meeting: To be determined

a. **ACTION ITEM:** PFM and Aline will finalize and communicate upcoming meeting details



Meeting Date: December 3, 2009

Location: Nassau County Comptroller's Office, Mineola, NY

Attendees:

- **School Board Members:** Maryanne Lehrer (NSSBA); Amy Beyer (North Shore Schools)
- **Superintendents:** Herb Brown (Oceanside)
- **Business Officials:** Joe Dragone (Roslyn); Anthony Cedrone (Carle Place)
- **Nassau County:** Aline Khatchadourian (County Comptroller's Office)
- **PFM:** Robert Fiato

I. Significant Issues Discussed

- a. **RFP:** The only issue delaying the RFP is which office will host the initiative. The outgoing County Comptroller's office has discussed the initiative with the incoming Comptroller in hopes of gaining the new administration's buy-in and issuing the RFP with the County Comptroller remaining as the host and solicitor of proposals.
 - i. **ACTION ITEM:** A briefing will be prepared for Working Group members for submission to the Steering Committee and potentially the new County Comptroller explaining the desire of the Group to continue the initiative with the Comptroller as host
 - ii. **ACTION ITEM:** Aline will discuss the unresolved RFP issues with Bob Hanna (Nassau BOCES)
- b. **OSC Letter:** The letter to the State Comptroller has been submitted and referred to the appropriate officials in the OSC
- c. **Working Group:** Herb Brown will act as new chair of the Audit Working Group

II. Next Meeting: To be determined

- a. **ACTION ITEM:** Meeting details will be finalized and communicated after the 12/9 Steering Committee meeting.