

**TUSD Audit Committee**

**MEMORANDUM**

**October 1, 2014**

**To: TUSD Governing Board**

**From: Tom House, Audit Committee Chair**



**Re: Semi-Annual Report to the Governing Report**

- 1. Audit Committee Meetings.** We continue to schedule monthly meetings (except for July), generally on the fourth Friday of the month from 2 pm to 4 pm. (During the winter holiday periods, meetings are scheduled for the third Friday of the month.) We did not meet during the months of June, July and August due to vacations and the sudden and unfortunate resignation of former Audit Committee Chair – Robert O’Toole. We are pleased to note that applications are being accepted to fill the current vacancy, and look forward to working with the Governing Board’s choice to fill the opening. As always, we encourage all Governing Board members, as well as the TUSD Superintendent, to attend and participate in as many meetings as they can.
- 2. Internal Auditor Position.** The Audit Committee is disappointed in the Governing Board’s inaction to-date in establishing an Internal Auditor function, despite several recommendations to do so by the Audit Committee and other parties (including the Gibson Consulting Group in its Operational Efficiency Audit), and having the support of a majority, if not totality, of Governing Board members. The Audit Committee, in its written recommendation to the Governing Board, dated March 4, 2013, stated “The Audit Committee recommends that the Internal Audit Staff report directly to the Governing Board...” While we recognize the difference of opinion over dual reporting authority (a la TUSD Lead Legal Counsel Tolleson) versus single entity reporting (a la Director of Staff Services Wallace), we do not take a position in that particular debate. We do, however, strongly urge that this matter be resolved as soon as possible, as our original recommendation stands.
- 3. Audit Committee Role in the Selection of Outside Auditors.** The TUSD Governing Board Audit Committee Charter contains very direct language concerning the Audit Committee’s role in the selection of outside auditors, to wit (among other things):

The Audit Committee oversees *TUSD’s* engagement of any independent accountants for the purpose of preparing or issuing an independent audit report or performing other independent audit, review, or attest services. The Governing Board, acting on the recommendations of the Audit Committee, makes all final decisions concerning the appointment, compensation, and retention of such accountants. All accountants thus engaged report directly to the Audit Committee, which oversees their work and evaluates their performance.

And yet, with the most recent outside auditor selection process (occurring about a year ago), the Audit Committee had just one of its members allowed to participate, being restricted in this regard by overriding (evidently) TUSD Procurement Policy. We have sought TUSD Lead Legal Counsel (or outside legal) guidance on this matter, but have received none. The Audit Committee strongly recommends that the Governing Board direct Lead Legal Counsel to advise us in this matter, so that compliance with Governing Board policy can be ensured. (Note that, in its letter to Lead Legal Counsel Tolleson, dated February 26, 2014, the law firm of Udall Shumway stated, "... the Governing Board (can) authorize the District's attorney to advise the (Audit) Committee...") In summary, either the Audit Committee must be allowed to follow the dictates of its charter, or the charter must change.

- 4. Budget Deficit.** At its regularly scheduled meeting of September 26, 2014, the Audit Committee spoke briefly with Chief Financial Officer Soto about the \$15 million budget deficit projected for academic year 2015/16. While structural deficits (of which this one may be partially the result of the current year's budget) should come to light during the annual budget process, and whether this a worst case projection or not, the Audit Committee agrees that the timing of this projection is somewhat opportune in that it allows time to address any possible deficit well before the start of the new year. We recognize that Superintendent Sanchez plans to seek outside expert financial analysis to study this matter. Whether performed by outside assistance or in-house staff, we certainly support a thorough and speedy understanding of the analysis provided by former Deputy Superintendent of Operations Awwad.
- 5. Enterprise Resource Plan Update.** At its regularly scheduled meeting of September 26, 2014, the Audit Committee spoke at length with Director of Project Management Morrison and CFO Soto about the implementation status of the newly acquired Enterprise Resource Plan (ERP). Director Morrison provided us with copies of the detailed plan and walked us through it. The Audit Committee was encouraged to see this level of documented planning detail. We had a number of specific follow-up questions about standard concerns relative to implementing a complex financial system (e.g., questions about parallel system testing, possible changes to the software code itself, the need for automatically produced monthly budget projections, etc.) for both Director Morrison and CFO Soto, all of which were patiently answered. We have asked that Director Morrison provide us with some cost information at our next meeting, and have also asked that he attend all future (monthly) meetings of the Audit Committee to brief us on ERP implementation status as it unfolds.