

EAST SIDE UNION HIGH SCHOOL DISTRICT

Minutes of Meeting

Approved

Board Audit Committee

August 23, 2016

6:00 PM

East Side Union High School District

Education Center

Superintendent's Conference Room

830 Capitol Avenue, San Jose, CA 95133-1398

1. Call to Order /Roll Call

The meeting was called to order at 6:03 PM by Chair Pattie Cortese.

Committee members present for roll call:

Chair Cortese, Member Berg, Member Juchau, Member Reinke, and Alternate Member Stephens

Vice Chair Van Le arrived at 6:15 PM.

Staff present:

- *Chris Funk*
- *Marcus Battle*
- *Kelly Kwong*
- *Karen Poon*
- *Mary Guillen*

Presenter present:

- *Joyce Peters, External Auditor – VTD*
- *Jeff Nigro, CPA, CFE, Partner at Nigro & Nigro, LLP, PC*

Audience present:

- *Micheal Reed*

2. Introductions

Chair Cortese extended a welcome to members of the Audit Committee and audience. Committee Members and members of the audience introduce themselves.

3. Adopt Agenda

Items 9 and 14 were heard after item 7.

4. Special Order of Business

Individuals may be permitted to present an item out of order on the agenda to accommodate their schedules.

5. Public Comments

Members of the public may address the Audit Committee on any subject not on the agenda; however, provisions of the Brown Act (Government Code 54954.2(a) and 54954.3) preclude any action. As a unagendized item, no response is required from the Audit Committee or district staff and no action can be taken; however, the Board may instruct the Chair to agendize the item for a future meeting.

There were no public speakers.

6. Approval of Minutes

Minutes from the April 4, 2016, meeting will be presented for approval.

Motion by Member Reinke, second by Member Juchau, to approve the Board Audit Committee Minutes of April 4, 2016, as presented.

Vote: 5/0; motion carries

Vice Chair Le absent; Alternate Member Stephens voting

Chair / Vice Chair

7. Discussion/Action: Updates

Pattie Cortese, Chair, and Van Le, Vice Chair, will provide update.

There were no updates presented under this item.

Senior Manager of Internal Controls

8. Discussion/Action: Cash Handling and Associated Student Body (ASB)

Kelly Kwong, Senior Manager of Internal Controls, will provide an update on ASB matters.

Kelly Kwong, Senior Manager of Internal Controls, shared with the Committee that schools are using ASB Works an online system effective July 1, 2016.

9. Discussion/Action: ASB Loss Not Covered by Insurance

Kelly Kwong, Senior Manager of Internal Controls, and Micheal Reed, Activities Director Piedmont Hills High School, will report on previous monetary loss in ASB that was not covered by insurance.

Kelly Kwong indicated that Piedmont Hills ASB had a previous year negative ASB equity account balance. For fiscal year 2015-16, it is now a positive equity balance. There are still some unidentifiable assets still on the books that need to be written off. The origination of those items is \$27,000 dated prior to 1999, over 17 years old. There are no records prior to that date. It is not material to the overall financial statement; the external auditor, VTD, will not put a recommendation to this item.

Administration has made a recommendation to take care of the item. Mr. Reed has a concern with the decision made by administration. Staff met with Mr. Reed and explained the rationale. Mr. Reed made a request with the Board to discuss this item at the Audit Committee meeting.

The recommendation made by Internal Audit and Business Services was to write-off the balance with Piedmont Hills High School ASB funds. Mr. Reed requested that Business Services assist with the write-off. They do not want the amount applied to ASB funds, but to be taken out of general fund. Administration indicated that they would not support Mr. Reed's request and that each site operates independently. There has been no past practice of Business Services assisting the sites. Other sites, over time, have corrected inherited balance errors. There has been no precedent for Business Services to assist the school sites.

The step taken for a write-off is that the asset is a debit and will be credited.

Micheal Reed, Piedmont Hills Activities Director, presented his concerns to the Audit Committee. He indicated that the entries were made years ago by adults and were phony entries. Their practice was illegal and circumvented the practice of the Associated Student Body at Piedmont Hills High School. ASB has no say in this and they are out \$23,819.07. The students had no say in this expense and, by law, they are supposed to have a say as to how ASB funds are used. Students are going to suffer the loss and always be at a negative balance. He indicated the funds were stolen from students at Piedmont Hills High School. He has been on this issue for approximately five years and will not be letting go of the issue until it is resolved to the benefits of the students at Piedmont Hills High School and that they are treated fairly.

Superintendent Funk will have this item brought back at the next Audit Committee and will report the direction taken by staff.

10. Discussion/Action: Fraud, Waste and Abuse Hotline

Kelly Kwong, Senior Manager of Internal Controls, will report on the status of the Fraud, Waste and Abuse Hotline.

Kelly Kwong reported that the system is still active. A report was made. It is a personnel-related matter and has been referred to Associate Superintendent of Human Resources Cari Vaeth for investigation.

11. Discussion/Action: Internal Audit Reports

Kelly Kwong, Senior Manager of Internal Controls, will present the internal audit reports.

Kelly Kwong presented the three reports to the Committee.

A. FY17-01 Facilities Rental: Custodial Hours Audit Report

The suggestion on this report was to see if a deposit could be made. Findings indicate that it is an operational decision. For safety and security reasons a staff person needs to be on the site. The two recommendations are:

- *Clear communication and oversight*
- *Customer value*

Business Services has started the development of guidelines.

B. FY17-02 Facilities Rental: Revenue versus Cost Audit Report

Facilities rental management, by Facilitron, are now in place. The Board Policy will be updated, including a rental cost analysis.

C. FY17-03 Staff Time Charged to Bond Audit Report

The PARS Forms were reviewed for year 2015-2016. All persons were in line with the allocations, except the Senior Manager of Internal Controls. Her work is based on the annual Audit Work Plan and allocation needs to be reviewed annually.

12. Discussion/Action: Proposed Annual Audit Work Plan

Kelly Kwong, Senior Manager of Internal Controls, will present the Proposed Annual Audit Work Plan for 2016-17.

Kelly Kwong presented the proposed 2016-2017 Audit Work Plan for recommendations on the audit areas.

Member Jon Reinke asked about the percentage worked on each area.

Kelly Kwong will review the Work Plan with Associate Superintendent Battle

External Auditor

13. Discussion/Action: Annual Audit 2015-16

Joyce Peters, Partner at Vavrinek, Trine, Day & Co., LLP, will present an update from interim testing.

Joyce Peters, External Auditor, does not have any written reports to present because there are no findings from the interim testing. They audited internal controls, compliance of State and Federal Programs. The financial statement had a minor correction – a duplicate student count, but it had no impact. Final testing will be performed in September.

Superintendent / Associate Superintendent of Business Services

14. Discussion/Action: Payroll Department Operational Efficiency and Comparative Staffing Review

Marcus Battle, Associate Superintendent of Business Services, and Jeff Nigro, CPA, CFE, Partner at Nigro & Nigro, LLP, PC, will present the external report Payroll Department Operational Efficiency and Comparative Staffing Review and provide a summary presentation.

The review was made due to the number of issues with payroll at the beginning of the work year last year. Issues include dues not being deducted, timelines of dues deductions, communication between Human Resources and Payroll, time it took to process/issue retro checks, and the system currently being used. The audit was requested to determine areas of suggested improvement.

Jeff Nigro, Nigro & Nigro, presented the external report “Payroll Department Operational Efficiency and Comparative Staffing Review.” Three days of on-site interviews were

performed. The review included processes and procedures; and documents. A survey of comparable California districts was performed. Major findings in the report:

- *Restructuring of Payroll Department*
- *Restructuring of Human Resources Department*
- *Poor communication between departments*
- *Processes are antiquated and outdated; can be automated*

Major recommendations:

- *Restructuring of Payroll Department to have a Payroll Manager/Supervisor*
- *Employee benefits area should be handled in Human Resources or separately in Risk Management*
- *Consider increased staffing in Human Resources*
- *More frequent meeting between Human Resources and Payroll Departments*
- *Written policies and procedures*
- *Payroll cycle and deadlines: Recommendation to work with IT Department to increase flexibility between departments*
- *Automate timecard reporting*
- *Internal audits of employee data by Internal Audit*
- *Website portal for employees to access forms*
- *Substitute calling system has a lot of functionality not currently being used by Human Resources; utilize system to its fullest capacity*
- *Standardize resignation forms*
- *Standardize absence reporting forms*
- *Provide annual training to all employees*

General concepts of internal controls include a separation of duties, cross training of staff and timely reconciliations.

A sample of 60 employees from two different months were pulled (all types -- full-time, part-time, hourly, substitute, classified, certificated, management) were reviewed. No exceptions were found.

Associate Superintendent Battle stated that a number of changes have already taken place.

- *Restructuring in Payroll Department*
- *Restructuring in Human Resources; increased staffing in Human Resources*
- *Meetings between Business Services, Payroll, Human Resources and IT Departments have begun and will occur on a monthly basis*

All recommendations are being reviewed. The District is currently looking at a new financial management system.

Audit Committee Business

15. Discussion/Action: Future Meetings

Audit Committee will schedule the next meeting for November or December of 2016.

The next Board Audit Committee will be held on November 29, 2016, at 6:00 PM in the ESUHSD Superintendent's Conference Room.

16. Superintendent Communications/Comments

- Chris D. Funk, Superintendent
- Marcus Battle, Associate Superintendent of Business Services

17. Audit Committee Member Comments

Individual Audit Committee members may report on programs, conferences, meetings attended and/or items of interest to the public. An Audit Committee member may wish to express a concern or observation about a topic not appearing on the agenda, or request items to be scheduled on a future agenda.

18. Future Agenda Items

The following items were requested for placement on a future agenda:

Item	Date	Submitted By
<i>List of Prequalified Vendors, to include how many are minority owned and how many are women owned</i>	<i>Tentative date: November 29, 2016</i>	<i>Chair</i>

Calendared from prior meetings:

Item	Date	Submitted By
<i>Appoint Subcommittee to review Charter (Dan Juchau will review and make recommendations)</i>	<i>Fall (annually)</i>	<i>Chair</i>

19. Adjournment

Chair Cortese adjourned the meeting at 7:53 PM.

Respectfully submitted,



*Pattie Cortese
Board Audit Committee Chair*