

EAST SIDE UNION HIGH SCHOOL DISTRICT

Minutes of Meeting

APPROVED

Board Audit Committee

December 11, 2010

9:00 a.m.

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

Chair Biehl called the meeting to order at 9:04 a.m. Present were Member Berg, Member Juchau, and Member Neighbors. Vice Chair Nguyen arrived at 9:24 a.m. Alternate Member Resch was absent (excused absence).

Staff members in attendance were:

- *Dan Moser*
- *Ian Marsh*
- *Karen Poon*
- *Mary Guillen*

Presenter:

- *Ahmad Gharaibeh, External Auditor*

Members of the public in attendance were:

- *Bill Masching*
- *Lance Jackson*
- *Bob Nuñez*
- *Jon Reinke*
- *Ruben Dominguez*

2. Introduction

Persons present at the meeting introduced themselves.

3. Adopt Agenda

There were no changes to the agenda.

4. Special Order of Business

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

There was no change to the order of items on the agenda.

5. Public Comments

There were no comments from the public.

6. Approval of Minutes

Action: Minutes from the October 9, 2010, meeting will be presented for approval.

Motion by Member Berg, second by Member Neighbors to approve the minutes of October 9, 2010, as presented.

Vote: 4/0, Vice Chair Nguyen absent

7. Discussion/Action: Follow-Up of the 2008/09 East Side Union High School District Audit Finding: ASB Cash Collections and Disbursements

Ahmad Gharaibeh, External Auditor, will update the Committee on his follow-up to ASB cash collections and disbursements issues identified in the 2008/09 external audit.

External Auditor Gharaibeh reported that the finding was repeated in the audit report this year. The same internal control issues were found. It was also noted that there are some use of facilities revenues being deposited into ASB funds, which needs to be segregated. This is an issue the District would have to follow up by going back to the sites to determine how much money they are collecting in terms of cash collections for use of facilities, including transmittals back to the District. The finding will be repeated this year

8. Discussion/Action: Proposed Scope of 2009/10 East Side Union High School District Audit

Ahmad Gharaibeh, External Auditor, will report on the status of the 2009/10 external audit.

External Auditor Gharaibeh stated that in 2010, there would be a repeat of the finding related to ASB funds. As discussed at the previous meeting, there is also an item related to internal controls, which is a review and match of the accounts payable checks back to

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invoices on an invoice-by-invoice basis. In addition, there are a couple of compliance items related to Title I and Special Education eligibility. Some exceptions were noted where samples were tested. About 5% to 10% of that sample came up with an exception through the documentation of eligibility for a student to receive Title I or Special Education services.

For Title I, there are some East Side schools that are full targeted assistance as opposed to school-wide. In other words, when you receive a Federal program and you are school-wide, all students at that site are eligible to receive services that are funded in the Federal programs. When it is a targeted assistance site, there are target specific students. This is in relation to Title I where some of the students in targeted assistance sites were not properly documented as to their eligibility. They are supposed to be low income students with low scores. The audit came up with a sample of 40 and out of that 40, 5% to 10% of that sample came up as an exception.

As mitigation to that for the upcoming year, East Side did apply to the State to convert all the school sites --starting July 1, 2010, all the schools to school-wide. There is no corrective action the District would have to do because all students are eligible for Title I services. Nevertheless, the finding will still be reported in the current year.

The audit has been completed. There are a few audit adjustments. One is the building fund in relation to a legal response received from East Side's attorney regarding a breach of contract. If there is a judgment from a judge, it is required that the amounts be recorded as a liability on the financial statements. The District is in the opinion that the amount should be charged to the Bond fund and VTD is in agreement with that conclusion. That particular adjustment was recorded to the Bond fund. This was an expense that was incurred in operation of the Bond fund. It is East Side Union High School District's responsibility to justify to the public whether this is an allowable expense or not. They came to us and asked us they are going to charge it to the Bond fund. "Are you as auditors (VTD) okay with that?" VTD is providing the District justification that, "Yes, you can charge that to the Bond fund." It is East Side's call.

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VTD did ask the question of whether insurance would cover this or not and it does not. The attorney fees and litigation related to that particular case is not covered by insurance.

Superintendent Moser stated that the first \$25,000 was covered through the JPA. The incident took place in 2008. A large part had to deal with the exercise of the contract. Those areas have been reviewed and also the District's diligence to those matters.

Chair Biehl indicated that it would be helpful to have an opinion from District's Counsel relating to this issue and that it be prepared prior to the January 12 CBOC meeting.

External Auditor Gharaibeh also indicated that there was duplication in the general fund in the amount of \$305,000 that was found in the financial statements.

VTD is conducting an audit of the Bond funds. Invoices are being reviewed, particularly in three major contracts. On a couple of contracts, it was asserted that they are higher than industry standards. A third contract, in particular, VTD reviewed invoices that are being charged and submitted to the District frequently. The invoices were reviewed and VTD noted there was a change in management at East Side in terms of the Bond fund where one manager was reviewing the invoices and allowing most of them, if not all of them. A subsequent manager at East Side has been reviewing the invoices and disallowing a portion of the invoices. When VTD reviewed the contract, the definition of what can or cannot be charged to the District in relation to a project management type of contract is that they are using the words "reasonable charges." The words "reasonable charges" to VTD is vague and does not specifically what is and is not allowed and that is causing the discrepancy in the approval of the invoices between one management East Side employee who is saying they are not reasonable and a previous manager at East Side who is saying they are reasonable. An example would be water charges, communication charges and transportation charges. We actually have a concern over that – as to why these invoices are being approved in a particular way under previous management and being approved in a different way under different management. Under new management, the charges are less than what it used to be charged under the previous invoices of the previous methodology. This is still being looked into, but from VTD's perspective, the District should dig deeper into this and appointment someone who has a specialty in construction. VTD are accountants, not construction specialists.

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For someone to determine if this is a normal charge, a person who specializes in this area is needed to contract with to review those particular three contracts. That is a decision the District would have to make. VTD is holding off the audit until a decision has been made as it relates to those particular three contracts. VTD is recommending that someone who knows how these things work, take a look at these contracts. VTD is holding off the audit report until they receive a decision from the District as to whether “yes” these are reasonable charges or “no” these are not reasonable charges.

Member Juchau asked what is the amount of invoices that have been rejected.

External Auditor Gharaibeh indicated that the dollar amount is unknown because it started within the last three to four months, but 2% to 10% of invoices submitted are disallowed.

Chair Biehl indicated that it is imperative that the Board and administration eventually take a look at the contracts.

Superintendent Moser indicated that the issue has been brought forward for the Auditor to review. The issue will be brought to the Board for further discussion.

Chair Biehl indicated that Total School Solutions reviewed the Measure G Bond Program. He asked attendee Bob Nuñez if he recalls in the scope of Total School Solutions’ study and if they looked at construction management and inspection contracts.

Mr. Nuñez indicated that they looked at the specific contract to the point where they thought it served the District. They did not find any exceptions.

There was further discussion by the Committee on the draft audit report. Chair Biehl indicated that in January both the audit report and the Internal Auditor’s work plan, which will include how District is going to follow up on the external audit findings, will be presented to the Board of Trustees.

Member Juchau commented that the Silver Creek modernization does not have the Silver Creek Theater Arts Building listed.

External Auditor Gharaibeh indicated that these are signed contracts, which are purchase orders.

Mr. Jackson, representing Bob Bush for SGI, indicated that the number is not reflected because the project has not started for costs to accumulate against the budget. Mr. Jackson will have Mr. Bush respond to the Audit Committee through Chair Biehl.

Member Berg shared his concern in the area of Special Education, specifically being out of compliance with IEPs and what can the District do to resolve the issue in a timely manner.

Superintendent Moser indicated that the factor is how to resolve the issue and that these are two issues. One is the management of people to do their work and the other is what resources are needed to catch up. This is not only being monitored by the Auditor, but also by the State.

Chair Biehl will place this item on the agenda as a recurring item for discussion by the Committee.

9. Discussion/Action: FCMAT Report: Update the Status of All Actions Taken in Response to the FCMAT Report Recommendations

Dan Moser, Superintendent, will review all actions taken by the Board and the Administration in response to the recommendations included in the FCMAT Report.

Superintendent Moser indicated that in mid November he and Associate Superintendent Jerry Kurr attended the quarterly meeting with staff of the Santa Clara County Office of Education for the oversight of the FCMAT report. At that meeting, the new Business CFO was in attendance. The District informed him of the progress by East Side. The end result is that the District will meet one more time with SCCOE staff in late February. What will be provided is all the documentation of all the processes that East Side has completed this year. This would include the job description of the Internal Auditor. The meeting is to provide a paper trail of East Side's progress. The District will also provide the Board policies it has put together in the area of Business Services, including Administration Regulations. This is all very important since the County is still making the decision on the

status of East Side -- that was in question as presented by County Superintendent Weis to the District. Specifically, if the District would remain independent or if there would be some other action that will be recommended.

We have an Internal Auditor on board, which was the major portion of the concern. We still need to resolve the policy that deals with vacation.

Our next meeting at SCCOE would be a good opportunity to introduce Internal Auditor Ian Marsh.

10. Discussion/Action: FCMAT Report: Contracted Services, FCMAT Recommendation #6 to the Board: Restore the Internal Audit Function, including Funding for an Internal Auditor Position, and Operate this Function according to Industry Standards. Issues referred to the Audit Committee for Advice per Board action on February 9, 2010

Ian Marsh, Internal Auditor, will report on activities since starting on the job November 22, 2010.

Chair Biehl shared with the Committee that Internal Auditor Ian Marsh is officially on board with East Side and has an office. Mr. Marsh is conducting research and review.

11. Discussion/Action: Development of Audit Work Plan

Ian Marsh will report on the development of an Audit Work Plan and the timeline for Board approval.

Internal Auditor Marsh indicated that he has met with a number of key staff to obtain a basic understanding as to what they perceive as major control issues in the District.

Internal Auditor explained his work plan to the Committee:

Attendance Reporting

The District recently converted to new software because SASI was no longer supported by the vendor. There are some issues with the attendance reporting in the new system. He plans to visit school sites and make his own assessment. His review will be to make sure that absences are being properly documented. As for the Independent Study Program, he will be reviewing the reporting of both short-term and long-term independent study to make

sure that they are fully compliant. In the area of truancy, Internal Auditor Marsh attended a couple of SARB sessions at the District Office. His interest is in the revenue. This is a significant issue.

School Site Cash Handling

At the schools sites, there is significant student body activity. This is an area where it is easy to be noncompliant. The dollar amounts might not be huge, but there have been exceptions to these kinds of things. He will be reviewing this area. Also, school sites have revolving cash. He will be looking into that area. For athletic events, it is incumbent to make sure it is handled appropriately, including the security aspects. The rental of facilities will be reviewed. The authority to open bank accounts will be looked into. Sometimes bank accounts are opened without the District's knowledge. There will also be a review of bank reconciliations.

FCMAT Special Audit

As discussed earlier on the agenda, he will be working on this item.

Facilities, Measure E Bond

A review of expenditures will be conducted. On competitive bidding, he needs to make sure the district is fully compliant with statutory requirements. There will be a review of procedures in the area of change orders to ensure that the revised procedures are appropriate.

Procurement

This will be reviewed to make sure the District is in compliance with statute.

Redevelopment Income

There is a possibility that the District may be entitled to additional redevelopment income under AB1290.

Independent Accountants

The Internal Auditor will be the liaison between VTD and staff.

Staff Training

It is important to properly equip staff to ensure that they are properly trained in cash handling and recording attendance.

Special Projects

The Internal Auditor would like the flexibility to address issues with senior management as they arise. In the area of data analysis, the use of ACL software is proposed to help identify anomalous situations.

Chair Biehl asked Internal Auditor Marsh to provide more detail in his work plan to the Board of Trustees.

12. Discussion/Action: FCMAT Report: Bond Funds – Contracted Services, FCMAT Recommendation #2 to the District: Consider a Review of All Invoices Charged to Measure G and Measure E Funds to Determine that Project Costs were Properly Allocated to Each Bond Program. Issue referred to Audit Committee for Advice per Board action on February 9, 2010.

Dan Moser, Superintendent, will update the Committee on the action taken by the administration and the Board since our last meeting.

Superintendent Moser indicated that this has not been huge topic of conversation by SCCOE because the District has been assuring the County that they have been following through on this particular request. It has been the District's concern to maintain transparency.

Chair Biehl stated that the External Auditor has reviewed this issue and has identified some issues he thought required some additional study and that administration is looking into it. He asked Internal Auditor Marsh if numbers three and four in his work plan and number twelve on the Audit Committee agenda all overlap.

Internal Auditor Marsh indicated that item twelve is covered in his draft work plan. He will inquire as to what work has already been done so that it is not duplicated.

Chair Biehl will leave this item on the agenda for further discussion by the Committee. He asked Superintendent Moser if it was possible to have a plan ready to share with CBOC at their January meeting.

Superintendent Moser responded with a “yes.”

13. Discussion/Action: E-RATE Reimbursement for 2008

Superintendent Dan Moser will brief the Committee on the current status of the E-RATE reimbursement.

Superintendent Moser shared with the Committee that they have not received additional information on E-Rate. The District is still providing information as requested. The amount in dispute is \$1 million.

Chair Biehl will keep this item on the agenda for further discussion by the Committee.

14. Discussion/Action: Audit Committee Appointment

Frank Biehl will review the terms of the Audit Committee Members and the procedures for appointment.

Chair Biehl reviewed the adopted Charter rules with the Committee. The Board at their Organizational Meeting of December 16, 2010, will make two appointments to the Committee. A Chair and a Vice Chair will be members of the Committee. Appointments of public members are also to be made, but the reality is that typically it is done a month later because their terms do not start until February. There is one public member whose term is up because he drew the short straw, Dan Juchau. The alternate member is also a one-year term. The other persons are on two-year terms.

Chair Biehl recommended that a press release be issued which advertises the opportunity to apply and that the current members be encouraged to apply.

It was also mentioned that Member Neighbors has been elected to the Berryessa School Board. The status of Member Neighbors to continue serving on the Audit Committee will

be checked with District Counsel to make sure it does not create a conflict for serving on the Audit Committee. The Charter states that a member cannot be involved with an agency that has any type of a contract with the District.

Member Juchau asked that Counsel's findings/opinion be attached to the Charter. Chair Biehl concurred with Member Juchau and will report to the Committee Counsel's opinion.

15. Discussion/Action: Establish Next Meeting Date

Chair Biehl stated that he will not be able to determine the date of the next Audit Committee meeting until the Board conducts their December 16 Annual Organization meeting to appoint Chair and Vice Chair to the Audit Committee. Thereafter, Committee will be polled.

Chair Biehl asked if Saturdays are a good day for the Committee to meet. The majority agreed that Saturdays are a good day to meet. After some discussion with the External Auditor, it was recommended that the Committee meet in late April. A meeting will also be scheduled in late February or early March. There will be two meetings of the Audit Committee scheduled.

Chair Biehl will add to the agenda the Charter for review by the Committee.

16. Superintendent Communications/Comments

- Associate Superintendent of Business Services and Administration, Jerry Kurr
On behalf of Jerry Kurr, Director Karen Poon indicated there was nothing to report.
- Superintendent, Dan Moser

Superintendent Moser indicated that the next 30-40 days will reveal the next chapter in the budget, which is almost impossible to speculate. Yesterday he and other Superintendents attended a meeting hosted by the Silicon Valley Education Foundation. There were two speakers. One speaker was from Stanford and is tied

very closely to Governor Brown. He gave his perspective the budget and tried to assure those in attendance that Governor Brown has now a very different perspective on education from his first time through after having tried to run two charters. He has some experience on the challenges of having to run a school, challenges of running a school with difficult populations. That changed his perspective quite a bit.

The other speaker was more on the national perspective in working with Obama just to get a chronology of the changes and the changes that are still to continue. From the Federal perspective, they were looking at the seven districts in the state that have become the progressives. That's Sanger, Sacramento, L.A., San Francisco, Long Beach, Fresno and Clovis. They have very different dynamics than the rest of the State.

17. Audit Committee Member Comments

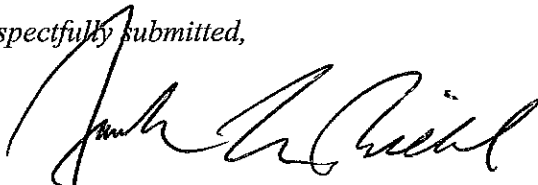
Individual Audit Committee Members may report on programs, conferences, meetings attended and/or items of interest to the public. An Audit Committee Member may wish to express a concern or observation about a topic not appearing on the agenda or request items to be scheduled on a future agenda.

Vice Chair Nguyen stated that the Audit Committee has done a lot of great work. The Committee continues to advise the Board about audits. A lot of good will come out of the efforts by the Committee.

18. Adjournment

Chair Biehl adjourned the meeting at 11:00 a.m.

Respectfully submitted,



Frank Biehl, Board Audit Committee Chair