

MEETING AGENDA
Board Audit Committee
6:00 PM

September 12, 2017
East Side Union High School District - Education Center
Superintendent's Conference Room
830 North Capitol Avenue
San Jose, CA 95133-1398

In compliance with the Americans with Disabilities Act, if you need special assistance, disability-related modifications or accommodations, including auxiliary aids or services, in order to participate in the public meeting of the Audit Committee, please contact the office of the District Superintendent at (408) 347-5011. Notification 72 hours prior to the Special Meeting will enable the District to make reasonable arrangements to ensure accommodation and accessibility to this meeting. Upon request, the District shall also make available this agenda and all other public records associated with this meeting in appropriate alternative formats for persons with a disability.

1. **Call to Order/Roll Call**
2. **Introductions**
3. **Adopt Agenda**
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 an unagendized item, no response is required from the Audit Committee or district staff and no action can be taken; however, the Committee may instruct the Chair to agendize the item for a future meeting.
6. **Approval of Minutes**
Action: Minutes from the April 4, 2017, meeting will be presented for approval.

External Auditor

7. **Discussion/Action: Annual Audit 2016-17**
Joyce Peters, Partner at Vavrinek, Trine, Day & Co., LLP, will provide an update from the interim testing.

Chair / Vice Chair

8. **Discussion/Action: Updates**
Pattie Cortese, Chair, and Lan Nguyen, Vice Chair, will provide updates, if any.

Superintendent / Associate Superintendent of Business Services

9. **Discussion/Action: Child Nutrition Services Audit Report**
Marcus Battle, Associate Superintendent of Business Services, and Julie Kasberger, Director of General Services, will present a progress update on the recommendations from the Child Nutrition Services Audit Report FY16-02 dated August 21, 2015, originally presented to the Audit Committee on August 25, 2015, with an update on December 7, 2015. A presentation will also be given about the Point of Sale System for ala carte.

10. **Discussion/Action: New Administrative Bulletin ASB Ticket Control Log**
Marcus Battle, Associate Superintendent of Business Services, and Silvia Pelayo, Director of Finance, will present the new Administrative Bulletin No. 014 Associated Student Body (ASB) Ticket Control Log.

Senior Manager of Internal Controls

11. **Discussion/Action: Cash Handling and Associated Student Body (ASB)**
Kelly Kwong, Senior Manager of Internal Controls, will provide an update on ASB matters.
12. **Discussion/Action: School Connected Organizations**
Kelly Kwong, Senior Manager of Internal Controls, will provide an update on School Connected Organizations.
13. **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.
14. **Discussion/Action: Internal Audit Reports**
Kelly Kwong, Senior Manager of Internal Controls, will present the internal audit reports
- A. FY17-1 Bond Fund: Expenditure and Payment Procedures Audit Report
 - B. FY17-2 Bond Fund: Conflict of Interest Audit Report
 - C. FY17-3 Employee Other Reimbursement Audit Report
 - D. FY17-4 Payroll Operational Review Follow-up Audit Report
 - E. FY17-5 Credit Cards Audit Report
 - F. FY17-6 Employee Travel and Conference Audit Report
 - G. FY17-7 Employee Car Allowance and Mileage Reimbursement Audit Report
15. **Discussion/Action: Proposed Annual Audit Work Plan**
Kelly Kwong, Senior Manager of Internal Controls, will present the Proposed Annual Audit Work Plan for 2017-18.

Audit Committee Business

16. **Discussion/Action: Future Meetings**
Audit Committee next meeting is scheduled for 6 pm Tuesday December 5, 2017.
17. **Superintendent Communications/Comments**
- Chris D. Funk, Superintendent
 - Marcus Battle, Associate Superintendent of Business Services
18. **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.
19. **Future Agenda Items**
20. **Adjournment**

EAST SIDE UNION HIGH SCHOOL DISTRICT

Minutes of Meeting

Unapproved

Item: 6

Board Audit Committee

April 4, 2017

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

Chair Pattie Cortese called the meeting to order at 6:00 PM.

Committee members present for roll call:

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

Staff present:

- *Chris D. Funk*
- *Marcus Battle*
- *Kelly Kwong*
- *Karen Poon*
- *Andre Bell*
- *Mary Guillen*

Presenter present:

- *Joyce Peters, External Auditor – VTD*

2. Introductions

Chair Cortese extended a welcome to current, reappointed and newly appointed members of the Audit Committee.

- *Board Member Pattie Cortese – Previously served as Chair and is newly appointed as Chair*
- *Board Member Lan Nguyen – Newly appointed Vice Chair*
- *Dan Juchau – Reappointed Member*
- *Bruce Berg – Continuing Member*
- *Jon Reinke – Continuing Member*
- *Frank Stephens – Reappointed Alternate Member*

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 special order of business.

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 November 29, 2016, meeting will be presented for approval.

Motion by Member Reinke, second by Member Berg, to approve the Board Audit Committee Minutes of November 29, 2016, as presented.

Vote: 5/0; motion carries

External Auditor

7. Discussion/Action: Annual Audit 2016-17

Joyce Peters, Partner at Vavrinek, Trine, Day & Co., LLP, will present the 2016-17 engagement letters and the scope of work to be performed for the annual financial audit and the bond audit reports. Also, the results from the recent school site testing will be provided.

Joyce Peters, External Auditor, shared with the Committee the 2016-2017 engagement letters. She asked the Committee to review the engagement and provide Associate Superintendent Battle their input on the letter.

There was discussion on creating an Administrative Bulletin that would address the

control/accountability of tickets disseminated at events. A draft will be presented to the Committee.

There was also discussion regarding the Child Nutrition Services point-of-service stations. There was a request to take a look at point of sales.

Associate Superintendent Battle shared with the Committee that VTD was selected for a one-year contract with East Side Union High School District, with 4 one-year extensions, a total of five years.

8. Disc Discussion/Action: New Governmental Accounting and Auditing Standards

Joyce Peters, Partner at Vavrinek, Trine, Day & Co., LLP, will present the new governmental accounting and auditing standards GASB Statement No. 72 Fair Measurement.

Joyce Peters, External Auditor, shared with the Committee the new governmental accounting and auditing standards, GASB 72 – 85. She provided a summary of each and clarified questions asked by the Committee.

Chair / Vice Chair

9. Discussion/Action: Board Policy 3460 Financial Reports and Accountability; Board Audit Committee and Senior Manager of Internal Controls

Pattie Cortese, Chair, and Lan Nguyen, Vice Chair, will present the revised Board Policy 3460 Financial Reports and Accountability; Board Audit Committee and Senior Manager of Internal Controls, approved by the Board on February 16, 2017.

A draft of Board Policy #3460 Financial Reports and Accountability was shared with the Committee. The draft is being presented to the Board of Trustees at their next meeting for a third reading and adoption.

There was no action taken by the Committee on this item. It was presented for their information only.

10. Discussion/Action: Updates

Pattie Cortese, Chair, and Lan Nguyen, Vice Chair, will provide updates.

There were no updates presented under this item.

Senior Manager of Internal Controls

11. 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 the sites audited are Andrew Hill, Oak Grove and Yerba Buena. The sites have requested training on cash handling and ASB.

12. Discussion /Action: School Connected Organizations

Kelly Kwong, Senior Manager of Internal Controls, will provide an update on School Connected Organization matters.

Board Policy requires School Connected Organizations, such as boosters, to apply annually. All new, first time organizations are submitted to the Board for approval. The Senior Manager of Internal Controls works on the renewals every year.

Recently, one of the boosters was suspended. The matter of Silver Creek Athletics Booster was presented to the Board on March 23, 2017; thus, resulting in a suspension. Business Services administration is kept up on the progress of her work with the school connected organizations. Also monitored, for liability purposes, are the insurance renewals for the school connected organizations. All insurance on the boosters is current.

13. 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.

Five reports have been received since the last Audit Committee meeting. One is an Human Resources-related matter; three are the same topic and is confidentially being investigated; one is a student report regarding social media use.

The fraud, waste and abuse hotline is up for renewal. The Audit Committee highly recommends the renewal of the fraud, waste and abuse hotline.

Superintendent / Associate Superintendent of Business Services

14. Discussion/Action: Facility Work Order Process Audit Report - Final Remediation

Marcus Battle, Associate Superintendent of Business Services, and Julio Lucas, Interim Director of Capital Planning and Design, will report on the final resolution of the Facility

Work Order Process Audit Report (FY16-05) dated March 25, 2016, which was initially presented to the Audit Committee on April 4, 2016, under Item 10B.

Interim Director Julio Lucas last reported to the Committee on the facility work order process on April 4, 2016. At the conclusion of his presentation in April, Audit Committee Vice Chair Lan Nguyen requested a presentation to the Board of Trustees on the ticket tracking of items.

15. Discussion/Action: Bond Performance Audit Report – Final Remediation

Marcus Battle, Associate Superintendent of Business Services, and Andre Bell, Director of Purchasing and Capital Accounting, will report on the final resolution of the Bond Performance Audit performed by Moss Adams, LLP. Audit report was initially presented to the Audit Committee on December 7, 2015, under Item 11, and a status update was provided on April 4, 2016, under Item 14.

Andre Bell, Director of Purchasing and Capital Accounting, last reported to the Committee on April 4, 2016, that there were 13 audit findings by Moss Adams, LLP.

The Committee was informed that the District would be making a presentation on the Facilities Master Plan to the Board at their May 4 Study Session. Thereafter, AEDIS Architects would present the proposed Facilities Master Plan to the Board of Trustees for adoption on May 10.

Audit Committee Business

16. Discussion/Action: Future Meetings

Audit Committee will schedule the next meeting date and time.

The next Board Audit Committee will be held on August 29, 2017, at 6:00 PM in the ESUHSD Superintendent's Conference Room.

Additional dates set by the Committee are as follows:

- *December 5, 2017, at 6 PM*
- *March 27, 2018, at 6 PM*
- *March 27, 2018, at 6 PM*
- *April 3 will remain as an option if March 27 does not work out*

After some discussion, it was agreed that only the agenda would be printed for the Audit Committee Meetings. All supporting documents will not be printed, but will be viewed in advance of the scheduled Audit Committee meeting.

17. Superintendent Communications/Comments

- Chris D. Funk, Superintendent

➤ *Superintendent Funk informed the Committee that supporting documents will be provided to the Audit Committee in advance of their meeting.*

- Marcus Battle, Associate Superintendent of Business Services

➤ *Associate Superintendent Battle announced the following:*

- *This will be Karen's last meeting with the Audit Committee. She will be retiring in June. Director of Finance interviews will be conducted in the near future. The District would like to invite a member of the Audit Committee to serve on the interview panel. The goal is to hire the recommended candidate by June 1.*
- *There is an RFPQ out regarding a program management company to manage Measure Z. The District is inviting a member of the Audit Committee to serve on the score panel and interview panel (based on scoring). The top two will be presented to Superintendent's Counsel, which will result in a final recommendation by Superintendent's Counsel to the Board of Trustees.*

Applications are due April 14. April 17 – 24 review proposals and notify finalists on April 25; interviews held on May 3.

Member Reinke and Alternate Member Stephens indicated an interested in being part of the score and/or interview panel.

18. 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.

19. Future Agenda Items

Recurring calendar item:

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

20. Adjournment

Chair Cortese adjourned the meeting at 8:00 PM.

Respectfully submitted,

*Pattie Cortese
Board Audit Committee Chair*

Item: 9A

Child Nutrition Services Audit Report (FY16-02) - Update

Child Nutrition Services (CNS) received an Internal Audit review during 2015. The following nine audit observations and recommendations were noted. This is an update and timeline for these findings.

		Implemented	In Process	Under Review	Pass
1.	Lack of detailed budgets by site with monthly comparison to actual results		X		
2.	Lack of district sponsored inventory management system		X		
3.	Lack of competitive bid and contract pricing	X			
4.	Lack of automated payroll system with positive confirmation		X		
5.	Lack of point of sales system for ala carte items		X		
6.	Need to automate and analyze production plan and results			X	
7.	Lack of segregation of duties with vending machines		X		
8.	Lack of timely data entry for daily meal count and deposit reconciliation		X		
9.	Implement structured format for free and reduced lunch application collection	X			
	Total	2	6	1	0
		22%	67%	11%	0%

Item: 9B

Point of Sales System for Ala Carte Items

PRESENTED TO ESUHSD AUDIT COMMITTEE

SEPTEMBER 12, 2017



To Cover Tonight

- What is Point of Service (POS)
- Phase 1 POS Installation – Reimbursable Lines
- Phase 2 POS Installation – Ala Carte Lines
- Overview of Ala Carte Program
- Ala Carte Locations
- Expected Obstacles - Advantages
- Questions

What is Point of Service (POS)

- Computerized accountability system – “Cash Register”
 - Captures meals served by eligibility
 - Cash collected for item sold
 - Reconcile meals to cash

Phase 1 Installation – Reimbursable Lines

- Phase 1 installation completed August 2016
- Terminals installed on all reimbursable meal lines
 - Cafeterias
 - Serving Windows
 - Auxiliary Kitchens
 - Salad Bars
 - Charter Programs
- Reimbursable meal information consolidated to district totals
- Point of service system directly connected to student information system

Phase 2 POS Installation – Ala Carte Lines

- Phase 2 installation – September 2017
- Terminals installed on all ala carte lines
 - Cafeteria ala carte lines
 - Ala Carte serving windows
 - Additional Ala Carte serving areas
 - Mobile carts
- Ala Carte sales information and reconciliation of money
- Phase 2 has ALL points of service in the CNS program equipped with a terminal

Ala Carte Overview

- Additional foods and beverages outside the reimbursable meal
- Additional points of service and food choices
- Opportunity for student work experience
- \$800,000 income annually

Ala Carte Locations

Ala Carte Terminals		
Anderw Hill	4	2 pos in 2 additional serving areas
Calero	2	2 inside serving windows
Evergreen	8	4 pos in 2 serving areas in kitchen
Foothill	0	Under construction
Independence	12	4 pos in 3 outside serving areas (Villas)
James Lick	2	2 mobile carts
Mt Pleasant	6	2 mobile carts & 4 in additional serving area
Piedmont Hills	6	4 inside, 1 salad bar & 1 mobile cart,
Oak Grove	5	4 next to kitchen & 1 mobile cart
Santa Teresa	4	3 inside kitchen & 1 mobile cart
Silver Creek	12	8 inside, 3 in additional serving area & 1 mobile cart
WC Overfelt	3	3 mobile carts
Yerba Buena	2	2 mobile cart
Total	66	

Expected Challenges - Advantages

CHALLENGES

- “New system”
- Terminal Accountability
- Reconciliation of multiple POS
- Initially - count money
- Counting product between service

ADVANTAGES

- Ultimately - “Cashless” system
- Terminal Accountability
- Increase speed of line
- Parent can review purchases
- Inventory control



Questions



ADMINISTRATIVE BULLETIN

East Side Union High School District

No. 014

Effective Date: 05/02/17

Business Services Division – Finance
Reference Board Policy 3452 Student Activity Funds
Associated Student Body (ASB) Prenumbered Tickets

Item: 10A

A. PURPOSE

Internal controls for cash handling discourage theft of ASB funds and protect those who handle the cash. Internal controls not only protect against fraud but also help prevent honest errors and act as a defense for the innocent when fraud or errors do occur. It's important to be able to tie all proceeds to the specific fundraiser from which they were generated and to ensure that all proceeds from an event are properly turned in and accounted for.

B. RESPONSIBILITY

Principal should ensure that the ASB Advisor and students understand that their fundraiser will not be approved unless cash control procedures have been established for the event. The ASB Advisor is responsible for ensuring that the procedures are followed from the time the fundraising event begins and cash and checks are collected to when it's given to the Finance Clerk for deposit into the ASB bank account.

C. PRENUMBERED TICKETS

The cash control procedure of prenumbered tickets allows for the reconciliation between money collected and the fundraiser sales records. Prenumbered tickets are commonly used for dances, athletic events and festivals.

1. STORAGE AND SAFEKEEPING

The Finance Clerk is responsible for storing prenumbered tickets in a locked and secured place. Only the Finance Clerk and the Principal or designee should have access to the inventory of ticket rolls

2. TICKET MASTER CONTROL LOG aka *Ticket Inventory Form*

The Finance Clerk must maintain a record of the number of rolls of tickets in inventory and the beginning and ending ticket numbers on each ticket roll. Each time the tickets are issued, *Ticket Inventory Form* records each

- a. fundraising event
- b. fundraising date
- c. ASB Advisor
- d. beginning ticket number used and
- e. ending ticket number when the roll is returned to the Finance Clerk.

The ticket master control log must be maintained and updated for all used and unused tickets. Every ticket roll must be fully accounted for with a listing of events and dates for each sequence of tickets used and agreed to unused ticket numbers.

3. PROCEDURES

- a. **SALE:** One person collects the money and issues the prenumbered ticket as proof of purchase. A second person collects the prenumbered ticket when the person enters the event.
 - i. For events that have different prices, different colored tickets should be used for each price. Students must account for each roll of tickets separately, but they may use the same *Report of Ticket Sales Form and ASB Cash Count Form*.
- b. **RECORDING EXPECTATION:** At the end of the fundraising event, the total number of tickets issued is counted and recorded on the *Report of Ticket Sales Form*. A second person should count the tickets that were collected to verify the accuracy of the count.
- c. **COUNT CASH:** At the end of the fundraising event, at least two people should independently count the cash and checks collected. The *ASB Cash Count Form* should be completed to note each cash denomination and the total to be deposited.
- d. **RECONCILIATION:** If the number of tickets sold does not equal the amount of cash collected, the students and ASB Club Advisor should determine the reason for the cash overage or shortage immediately after the event.
- e. **STORAGE:** At the end of the event, the ASB Advisor should securely store the
 - i. money
 - ii. *Report of Ticket Sales Form*
 - iii. *ASB Cash Count Form*
 - iv. unsold tickets

Each school must follow after-hours cash security procedures in accordance with *Administrative Bulletin No. 02 Cash Handling* so that money is stored in a locked bag in the school safe until the money can be counted and verified by the Finance Clerk.
- f. **DEPOSIT:** The ASB Advisor should ensure the Finance Clerks counts the money and provides a receipt the next school day. Total money counted should agree with the *Report of Ticket Sales Form and ASB Cash Count Form* with differences investigated immediately.

Reference:

Board Policy No. 3452 Student Activity Funds

Administrative Bulletin No. 02 Cash Handling

Fiscal Crisis and Management Assistance Team (FCMAT), *Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference, Chapter 13 Cash Receipt Management and Procedures.*



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Item: 14A

Date: September 7, 2017
To: Marcus Battle, Associate Superintendent of Business Services
From: Kelly Kwong, Senior Manager of Internal Controls
Subject: Bond Fund: Expenditure and Payment Procedures Audit Report (FY17-1)

EXECUTIVE SUMMARY

Purpose

To review the bond fund expenditure and payment procedures and to provide recommendations for process improvements.

Background / Procedures

The District implemented several recommendations from the bond performance audits by Moss Adams, LLP in 2015 and Total School Solutions in 2013. In 2013, several responsibilities were moved from the external Program Manager to District staff. The District implemented California Financial Services, a construction financial management system, and Echo Sign, an electronic invoice approval system, for more transparency and accurate accounting.

Invoices are processed in two flows: Contractors and all other vendors. On August 22, 2017, Internal Audit performed a process walk through using two samples and followed the documented guides:

1. Capital Invoice and Payment Application Electronic Signature Approval Procedure
2. Capital Accounting Public Works Service Invoice Procedure

Auditor's Summary and Conclusion

During the process walk through, the Capital Accounting Manager realized that the Senior Project Manager's approval was not required on payments to Contractors; whereas, it is required for all other vendors. Effective August 23, 2017, the Senior Project Manager's approval is now required on payments to Contractors. The process is now standardized for all vendors including Contractors.

Industry practice is for Construction Managers to perform duties on behalf of the District. Internal Audit encourages the District to continue to work closely with the Construction Managers and to engage vendors and process payments in accordance with policies and procedures.

Distribution:

Superintendent's Council
Julio Lucas, Director of Construction, Maintenance and Facilities
Janice Unger, Director of Capital Accounting and Purchasing

East Side Union High School District Board of Trustees

Frank Biehl, President J. Manuel Herrera, Vice President Pattie Cortese, Clerk Lan Nguyen, Member Van T. Le, Member
Chris D. Funk, Superintendent

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Item: 14B

Date: September 7, 2017
To: Marcus Battle, Associate Superintendent of Business Services
From: Kelly Kwong, Senior Manager of Internal Controls
Subject: Bond Fund: Conflict of Interest Audit Report (FY17-2)

EXECUTIVE SUMMARY

Purpose:

To review the Conflict of Interest Statements and provide any possible recommendations for improvement.

Background / Procedures

Fiscal Crisis and Management Assistance Team (FCMAT) audit of 2010 suggested that contracted service consultants submit conflict of interest statements in accordance with Board Policy 3600 Consultants.

Internal Audit reviewed bond fund vendor expenditures for 2016-17 and selected 10 vendors (8 high cost contracts and 2 low cost contracts) for review. Either a signed Non-collusion Declaration or Conflict of Interest Statement was provided for contractors and professional service vendors, respectively.

Auditor's Summary and Conclusion

Observations and recommendations were noted as follows:

1. Conflict of Interest Statements should be broader and reviewed for legal compliance
2. Contractors should provide Conflict of Interest Statements

Please refer to the Observations and Recommendations section of this report for a detailed discussion of items identified and Internal Audit's recommendations to address those items.

Distribution:

Superintendent's Council
Julio Lucas, Director of Construction, Maintenance and Facilities
Janice Unger, Director of Capital Accounting and Purchasing

East Side Union High School District Board of Trustees

Frank Biehl, President J. Manuel Herrera, Vice President Pattie Cortese, Clerk Lan Nguyen, Member Van T. Le, Member
Chris D. Funk, Superintendent

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A. Observations and Recommendations

Internal Audit will follow up to determine when management has addressed these items within an agreed time frame.

1. Conflict of Interest Statements Should Be Broader and Reviewed for Legal Compliance

Conflict of Interest Statements currently ask person to certify:

1. Not an employee of the District
2. Have not served as a Board of Trustee in the past year
3. Person and immediate family and any resident in the household is not on the Citizen's Bond Oversight Committee
4. Within the past year, have not given and have not promised any gifts of any kind or commission to any Board of Trustee or District employees

Recommendation

District should review the Fair Political Practice Commission (FPPC) Form 700 and industry standards to ensure that the District's Conflict of Interest Statements are legally compliant. Conflict of Interest Statement should be reasonable so that the District remains competitive.

2. Contractors Should Provide Conflict of Interest Statements

Contractors sign the Non-collusion Declaration, but not a Conflict of Interest Statement. Rationale was that contractors are businesses and not individuals.

Recommendation

Contractors should be asked to sign a Conflict of Interest Statement.



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Item: 14C

Date: September 7, 2017
To: Marcus Battle, Associate Superintendent of Business Services
From: Kelly Kwong, Senior Manager of Internal Controls
Subject: Employee Other Reimbursement Audit Report (FY17-3)

EXECUTIVE SUMMARY

Purpose:

To review the employee Other Reimbursement Request Form and process and provide recommendations for improvement.

Background / Procedures

This is a follow up to the Accounts Payable Timeliness Audit Report (FY16-2), dated March 25, 2016.

Internal Audit reviewed Administrative Regulation #3350 Travel Expenses and Administrative Regulation #3314 Payment for Goods and Services.

Auditor's Summary and Conclusion

Internal Audit has one optional process improvement for management's consideration without Internal Audit's follow up.

Link Policy to Form

Majority of employees obtain the Other Reimbursement Request Form through hard copy or email without leveraging the Intranet. Majority of employees are not aware of the related policies and question the need for a separate pre-approval memo for purchases greater than \$100.

Recommendation

Business Services should link the Other Reimbursement Request Form with the related policies and consider updating the policies for clarity. Policies should be widely accessible and enforced.

Distribution:

Superintendent's Council
Silvia Pelayo, Director of Finance

East Side Union High School District Board of Trustees

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Chris D. Funk, Superintendent

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Item: 14D

Date: September 7, 2017
To: Marcus Battle, Associate Superintendent of Business Services
Cari Vaeth, Associate Superintendent of Human Resources
From: Kelly Kwong, Senior Manager of Internal Controls
Subject: Payroll Operational Review Follow Up Audit Report (FY17-4)

EXECUTIVE SUMMARY

Purpose

To review the status of the recommendations from the *Payroll Department Operational Efficiency and Comparative Staffing Review* by Nigro & Nigro, March 2016.

Background / Procedures

The external consultant’s report was presented to the Board on May 3, 2016, under Item 6.01, and to the Audit Committee on August 23, 2016, under Item 14.

On August 24, 2017, the Associate Superintendent of Business Services and the Associate Superintendent of Human Resources provided Internal Audit with an update on the 29 recommendations.

Auditor’s Summary and Conclusion

The District is making progress on the recommendations provided by the external consultant as follows:

	Implemented	In-Progress	Under Review	Will Not Implement*
A 9 Department Staffing and Structure	3	2	4	0
B 4 Payroll Cycles and Deadlines	2	0	2	0
C 16 Operational Efficiency	0	5	10	1
<u>29</u> Total Recommendations	5	7	16	1
	17%	24%	55%	3%

*Business Services is choosing not to implement the following recommendation since reliance is on Human Resources: *Ensure that the payroll technician contacts the applicable school site or department to verify that all leave, overtime and compensatory time information has been submitted before calculating the final paycheck.*

Distribution: Superintendent’s Council

East Side Union High School District Board of Trustees

Frank Biehl, President | J. Manuel Herrera, Vice President | Pattie Cortese, Clerk | Lan Nguyen, Member | Van T. Le, Member
Chris D. Funk, Superintendent



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Item: 14E

Date: September 7, 2017
To: Pattie Cortese, Audit Committee Chair, and Lan Nguyen, Audit Committee Vice Chair
From: Kelly Kwong, Senior Manager of Internal Controls
Subject: Credit Cards Audit Report (FY17-5)

EXECUTIVE SUMMARY

Objective: To review procedures for the authorization, processing and payment of District credit card transactions.

Scope / Procedures: Internal Audit reviewed a sample of credit card charges made between June 2015 and August 2016 (15 months) and also conducted several interviews in October and November 2016 with credit card users and employees in Purchasing and Accounts Payable to obtain an understanding of the process. Internal Audit reviewed District Administrative Regulation 3305 Credit Cards, approved January 10, 2013. Internal Audit also reviewed credit card policies and procedures by other school districts.

Background: There are five District credit cards. Three cards have been issued to members of the Superintendent's Council (Executive Level) and two have been issued to Purchasing Department employees, specifically Capital Purchasing and General Purchasing. There was approximately \$300K in total credit card charges for the 2015-16 fiscal year.

Auditor's Summary and Conclusion

Key observations and recommendations were noted as follows:

1. Update Administrative Regulation 3305 and post on District website and/or intranet
2. Establish clear procedures for efficiency and consistency

Process improvements were noted as follows:

1. Discontinue sharing credit cards
2. Purchasing versus Accounts Payable Review
3. Maximize program administration options and features
4. Travel and conference
5. Meals

Please refer to the Observations and Process Improvements sections of this report for a detailed discussion of items identified and Internal Auditor's recommendations to address those items.

Distribution:

Superintendent's Council

East Side Union High School District Board of Trustees

Frank Biehl, President

J. Manuel Herrera, Vice President

Pattie Cortese, Clerk

Lan Nguyen, Member

Van T. Le, Member

Chris D. Funk, Superintendent

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A. Observations and Recommendations

Observations and recommendations in this section are highly recommended and Internal Audit will follow up to determine how management has addressed these items within an agreed time frame.

1. Update Administrative Regulation 3305 and Post on District website and/or Intranet

Current credit card practice is not aligned with outdated Administrative Regulation 3305 Credit Cards nor is this Administrative Regulation made accessible to employees. It is not posted on the District's website or the Intranet. The Administrative Regulation also does not distinguish the difference between the use of District credit cards by the Purchasing Department versus the Superintendent's Council cardholders. Other districts have dollar and frequency limits on single, daily and monthly transactions, which the District does not impose. Some districts document consequences for missing receipts and non-compliance to policies. Administrative Regulation 3305 should also be clear about travel and meals and consistent with other District policies and administrative regulations on what is allowed and what documentation and preapprovals are required, if any.

Recommendation

Administrative Regulation 3305 should be updated to align with current practice and to provide guidance and should be posted on the District's website and/or Intranet. Administrative Regulation 3305 should clearly establish what charges are allowed and not allowed, and what transactions require preapprovals. Supporting documentation should be consistent with other policies and administrative regulations, regardless of form of payment.

2. Establish Clear Procedures for Efficiency and Consistency

The lack of an updated and detailed administrative regulation establishing procedures for processing credit card transactions has resulted in inconsistent practices and missing documentation. A few credit card charges lacked supporting documents and there was no affidavit to provide a better understanding of the credit card charge.

There is a lot of paperwork generated and manual duplications. The majority of receipts had a cover sheet as opposed to the industry standard of using a monthly summary sheet. For each credit card charge, the 16-digit account number is hand keyed three different times: first by the credit card user, second by Purchasing to summarize charges, and third by Accounts Payable to enter into the accounting system. This duplication is not efficient and is prone to human error.

Depending on the level of the requestor, some standard procedures are bypassed. Purchasing's review of credit card receipts differs from Accounts Payable's review of employee reimbursement receipts, which should be consistently applied in accordance with policies and procedures.

Recommendation

District should establish procedures and consistently apply and enforce procedures to better protect all individuals. Any exceptions should have escalated approvals or affidavits for transparency. Process should be streamlined to avoid duplicating the same information and efforts should be consolidated and leveraged electronically.

B. Process Improvements and Recommendations

Process improvements in this section are optional and for management's consideration without Internal Audit's follow up.

1. Discontinue Sharing Credit Cards

Executive level cardholders have allowed District employees to use their credit card for District purchases or have made charges for employees who should be using credit cards issued to the Purchasing Department. It is in the cardholder's best interest not to lend out the credit card. Executive level cardholders should direct employees to use the credit cards issued to the Purchasing Department. Frequent users should be issued a credit card with their own name and held responsible for their own purchases with approvals in accordance with documented policies and procedures.

2. Purchasing Versus Accounts Payable Review

The Purchasing Administrative Secretary reviews the supporting documents to ensure that the proper account codes have been charged and to check for compliance with policies and administrative regulations. It should be noted that the Purchasing Administrative Secretary lacks the independence given that the two Purchasing Managers whom she reports to are authorizing the charges. The Accounts Payable Account Clerks, rather than the Purchasing Administrative Secretary, should review the credit card supporting documents for adequacy, completeness and compliance to policies.

3. Maximize Program Administration Options and Features

District has used the same credit card financial institution for many years without investigating other options or maximizing the features. It's unclear if all involved parties are aware that other credit card companies offer rebates for timely payments.

Other financial institutions and various card plans should be researched to determine which is best for the District in terms of possible rebates, on-line view capabilities, ability to download information, perform reconciliations on-line and also to monitor usage more timely and even restrict usage. Program Administrator should ensure cardholders have written policies and procedures and sign a cardholder agreement that informs the cardholder regarding personal liability and any potential impact on the cardholder's credit, if any.

Given the way commerce has changed from issuing purchase orders to more electronic on-line processing, usage should be maximized and all employees should be notified of the available use of the District credit card to save processing time.

4. Travel and Conference

Expenses for travel, conference registrations and hotels should be processed in a manner consistent with District Administrative Regulations 3350 Travel Expenses, especially regarding preapprovals and supporting documentations regardless of the payment method. Support for a few credit card charges for travel and conference were incomplete due to the reliance on the final travel and conference submitted for employee reimbursement.

Purchasing should obtain a separate credit card solely to process travel and conference reservations. Accounts Payable is manually reconciling employee requests for reimbursement against District credit card statements for completeness and accuracy to ensure employees are not claiming for reimbursement when the District actually paid for the expense. District should implement an electronic employee reimbursement system for better accuracy, completeness, transparency and timely approvals.

There have been some timeliness issues on processing requests for travel and conference registration due to various factors. It is not clear if all school sites are aware that they can use the Purchasing credit card for travel and conferences.

5. Meals

Expenses for community and meeting meals should be processed in a manner consistent with District Administrative Regulations 3350 Travel Expenses and 3314 Payment for Goods and Services, especially regarding limits, preapprovals and supporting documentations regardless of the payment method.

Current credit card policy states travel meals are not allowed, however there were a couple of travel meals charged to District cards. Policy should be enforced or revised.



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Item: 14F

Date: September 7, 2017
To: Marcus Battle, Associate Superintendent of Business Services
From: Kelly Kwong, Senior Manager of Internal Controls
Subject: Employee Travel and Conference Audit Report (FY17-6)

EXECUTIVE SUMMARY

Purpose:

To review the employee travel and conference reimbursement request process and provide recommendations for improvement.

Background / Procedures

This is a follow up to the Accounts Payable Timeliness Audit Report (FY16-2) dated March 25, 2016.

Internal Audit reviewed Administrative Regulation 3350 Travel Expenses, effective November 16, 2015 (Travel Policy) and also the Travel and Conference Approval and Expense Claim Form.

Auditor's Summary and Conclusion

Observations and recommendations were noted as follows:

1. Claim form should be updated
2. Travel Policy should be widely accessible

Process improvement was noted as follows:

1. Travel Policy per diem should follow federal government rates

Please refer to the Observations and Recommendations and Process Improvement sections of this report for a detailed discussion of items identified and Internal Audit's recommendations to address those items.

Distribution:

Superintendent's Council
Silvia Pelayo, Director of Finance

East Side Union High School District Board of Trustees

Frank Biehl, President J. Manuel Herrera, Vice President Pattie Cortese, Clerk Lan Nguyen, Member Van T. Le, Member
Chris D. Funk, Superintendent

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A. Observations and Recommendations

Internal Audit will follow up to determine when management has addressed these items within an agreed time frame.

1. Claim Form Should Be Updated

The Travel and Conference Approval and Expense Claim Form on the Intranet has not been updated since 1997 and is slightly different than the version posted on the Internet.

Recommendation

Business Services should update the Travel and Conference Approval and Expense Claim Form. Better yet, an electronic system should be adopted as recommended in the Accounts Payable Timeliness Audit Report (FY16-2), dated March 25, 2016.

2. Travel Policy Should Be Widely Accessible

The guidelines on the back of the Travel and Conference Approval and Expense Claim Form on the Intranet is outdated with no reference to the Travel Policy. Although BoardDocs+* is the official repository, the majority of employees are either not aware or choose not to access the board policy, administrative regulation and administrative bulletin from BoardDocs.

Recommendation

The Travel and Conference Approval and Expense Claim Form should be linked directly to the Travel Policy

B. Process Improvement

Process improvements are for management's consideration without Internal Auditor's follow up.

1. Travel Policy Per Diem Should Follow the Federal Government Rates

The Travel Policy per diem rate is \$63 regardless of travel location. The General Services Administration (GSA) revises the per diem rate annually on October 1st for six different categories based on travel location and date. As an example, the GSA per diem for San Francisco is \$74 and \$64 for Sacramento for travel October 2016 to September 2017. Santa Clara County Office of Education adopted the GSA per diem rates for their travel policy.

Recommendation

District should consider adopting the GSA per diem rates in the District's Travel Policy.



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Item: 14G

Date: September 7, 2017
To: Marcus Battle, Associate Superintendent of Business Services
Cari Vaeth, Associate Superintendent of Human Resources
From: Kelly Kwong, Senior Manager of Internal Controls
Subject: Employee Car Allowance and Mileage Reimbursement Audit Report (FY17-7)

EXECUTIVE SUMMARY

Purpose:

To review the employee mileage reimbursement form and policy and the employee car allowance policy and its recipients and provide recommendations for improvement.

Background / Procedures

Reviewed the following policies:

1. Board Policy 3350 Travel Expenses, November 20, 2014
2. Administrative Bulletin No. 011 Mileage Reimbursement Travel Expense, December 9, 2014

Car allowance is \$150 a month for Directors, Principals and certain personnel based on travel requirements.

Mileage expenses have totaled approximately \$60K for about 200 employees for each of the 2015-16 and 2016-17 years. Highest mileage reimbursement was \$2,996 in 2016-17 and \$2,330 for 2015-16.

Auditor's Summary and Conclusion

Observations and recommendations were noted as follows:

1. Car allowance recipients should be reviewed annually with forms processed timely
2. Mileage Reimbursement Claim Form should be revised

Please refer to the Observations and Recommendations section of this report for a detailed discussion of items identified and Internal Audit's recommendations to address those items.

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A. Observations and Recommendations

Internal Audit will follow up to determine when management has addressed these items within an agreed time frame.

1. Car Allowance Recipients Should Be Reviewed Annually With Forms Processed Timely

Internal Audit provided Human Resources and Payroll with the following recommendation.

Recommendations

Employees should be given the car allowance retroactive to their eligibility date. Human Resources should process employee's change forms timely. Human Resources and/or Payroll should review the car allowance recipients annually to ensure accuracy.

2. Mileage Reimbursement Claim Form Should Be Revised

Current form has employee submitting their total mileage without noting the Internal Revenue Service's mileage rate or calculating the total reimbursement amount. This lacks a preparer and reviewer check. Current form depends on Accounts Payable to prepare the amount without another check.

Recommendation

The form should be revised to require the employee to provide the reimbursement amount so that Accounts Payable can check for accuracy. The implemented recommendation would provide a check and balance.



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Item: 15

**EAST SIDE UNION HIGH SCHOOL DISTRICT
Senior Manager of Internal Controls
Proposed Annual Audit Work Plan
2017-18**

Purpose: For Audit Committee review prior to presenting to the Board of Trustees

1. Bond Fund
2. Principal's Revolving Fund
3. District Clearing Account Fees
 - A. Lost Textbook Fines
 - B. Child Care Program Fees
 - C. Advance Placement Testing Fees
4. Ongoing Projects
 - A. Fraud, Waste and Abuse Hotline
 - B. Associated Student Body (ASB)
 - C. School Connected Organizations
 - D. External Audit Support
 - E. Administration Requests