

AGENDA
Board Audit Committee
6:00 PM
August 28, 2012
Superintendent's Conference Room
East Side Union High School District Education Center
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) 347-5010. Notification 72 hours prior to the Regular 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 3, 2012, meeting will be presented for approval.

Internal Auditor

7. **Discussion/Action:** Updates by Chair Nguyen and Vice Chair Martinez-Roach

8. **Discussion/Action:** Response from Administration to Internal Auditor's Report – Superintendent Funk and Associate Superintendent Battle

External Auditor

9. **Discussion/Action: Update by External Auditor regarding East Side Union High School District**
Ahmad Gharaibeh, External Auditor, will provide an audit update to the Committee.

Audit Committee Business

10. **Discussion/Action: Future Meetings**

Under this item the Audit Committee may schedule future meeting dates and times.

11. Superintendent Communications/Comments

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

12. 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.

13. Adjournment

EAST SIDE UNION HIGH SCHOOL DISTRICT

Minutes of Meeting

Item #6

Unapproved

Board Audit Committee

April 3, 2012

6:30 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 by Chair Nguyen at 6:34 p.m. Present were Vice Chair Martinez-Roach, Member Juchau, and Member Reinke. Member Berg arrived at 7:10 PM

Staff members in attendance were:

- *Dan Moser*
- *Ian Marsh*
- *Marcus Battle*
- *Mary Guillen*

Presenters:

- *Ian Marsh, Internal Auditor*
- *Ahmad Gharaibeh, External Auditor*

Members of the public in attendance were:

- *Bill Masching*

2. Introductions

Persons present at the meeting introduced themselves.

3. Adopt Agenda

Motion by Vice Chair Martinez-Roach, second by Member Juchau, to adopt the agenda as presented.

Vote: 4/0, Member Berg absent

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.

None

6. Approval of Minutes

Action: Minutes from the November 19, 2011, meeting will be presented for approval.

Motion by Member Reinke, second by Member Juchau, to approve the minutes as presented.

Vote: 4/0, Member Berg absent

Internal Auditor Work Plan

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

Ian Marsh, Internal Auditor, will review action taken by the Administration in response to the recommendations included in the FCMAT report.

Internal Auditor Marsh discussed his review of the professional services contracts, which requires a Conflict of Interest Statement to be on file by each vendor. Based on his sampling of files, he found this area to be compliant.

There was discussion regarding the possibility of amending Board Policy 3600 to allow exceptions for vendors who are not able to sign a Conflict of Interest Statement.

Vice Chair Martinez-Roach indicated that the District needs to be compliant with the law and requested a list of vendors, if any, that do not have a signed Conflict of Interest Statement on file.

8. Discussion: Facilities Development Measure G & E General Obligation Bond Funds
Ian Marsh, Internal Auditor, may present an update on his reviews of Measure G & E General Obligation Bond Funds

Internal Auditor Marsh indicated that he has been reviewing the last two years' billings from SGI and all seem to be properly supported. There is review and approval of the invoices by District staff. There are a few billable expenses that have been challenge and some expenses were not paid by the District.

Internal Marsh indicated that there was a question about whether the District or SGI has primary responsibility to capture, store and retrieve Measure G and Measure E records. The amended contract with SGI addresses in more detail SGI's responsibility under this area. OPSC recommends records retention for seven (7) years.

Another issue is the use of subconsultants. Under the new contract, SGI is required to submit for written approval by the District the use of subconsultants.

Internal Auditor Marsh fully supports the changes in the SGI contract.

9. Discussion/Action: Attendance Reporting

Ian Marsh, Internal Auditor, may present findings and recommendations for action related to policies and administrative regulations for attendance reporting at school sites.

Internal Auditor Marsh visited Overfelt, Independence and Foothill High Schools to review their attendance. The attendance report is to be run before the end of third period and at the end of the school day. When a teacher forgets to report attendance, this results in the Attendance Secretary manually entering attendance. VTD's audit of Independence High School indicated that the school was not generating attendance reports. As a result, Internal Auditor Marsh and Attendance Accounting Manager Nadia Davis will be meeting with staff at Independence for a software training/review, including a review of timelines for compliance of documents/reporting requirements.

The Saturday school program was also discussed. For compliance/validation, Manager Nadia Davis reports all reports received from the sites.

10. Discussion/Action: Cash Handling

Ian Marsh, Internal Auditor, may present findings and recommendations for action related to policies and procedures for cash handling at school sites.

Internal Auditor Marsh reviewed the cash handling at Foothill, Overfelt and Independence High Schools.

At Yerba Buena, there were a few reporting issues. Deposits were being made at infrequent intervals. Sites should deposit on a weekly basis. There are a couple of large debit balances in student body funds that staff is working to resolve. One is in the amount of \$45,000. There is also an amount of \$15,800 in the AP testing fund that staff did not claim reimbursement for students who fall under free and reduced meals. Staff will come up with a solution and Internal Auditor Marsh will report back at the next meeting.

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

Ian Marsh, Internal Auditor, will report on the status of the Fraud, Waste and Abuse Hotline, which was approved at the August 30, 2011, Board meeting.

Over the last reporting period there have been a total of seven reports made to the Fraud, Waste, and Abuse Hotline. Due to confidentiality, the reports filed could not be shared in detail with the Committee.

12. Discussion/Action: Inventory of Fixed Assets; Information Technology Equipment Additions and Disposals

Ian Marsh, Internal Auditor, will report on District procedures for the tagging and recording of fixed asset additions and retirements, with an emphasis on Information Technology equipment.

Internal Auditor Marsh reviewed the tagging procedures in the Warehouse and found that they are doing a good job there. It was suggested that items purchased with Federal dollars be identified with a distinctive tag. External Auditor Ahmad Gharaibeh indicated that having equipment funded by a Federal grant is extremely rare.

Item to remain on agenda for further discussion at the next meeting, specifically the compliance/validation of inventory of fixed assets.

Internal Auditor Marsh indicated that Board Member Biehl had a question about disposal of items. The District is using three different vendors; one is eBay. He has a report to share with the Chair and Vice Chair and, once reviewed, will present to the Committee for action.

Item, specifically a report to be presented by Internal Auditor Marsh, to remain on agenda for further discussion/action at the next meeting.

13. Discussion/Action: Other Items and Possible Additions to Internal Auditor Work Plan

Ian Marsh, Internal Auditor, will report on other items brought to his attention. Members of the Audit Committee or the public may also make suggestions at this time.

Possible work plan additions include records retention procedures, controls over the purchase and usage of diesel and petrol, and guidelines for Booster Groups.

Internal Auditor Marsh and Kirsten King, Director of Instruction, visited Latino College Preparatory Academy (LCPA) to perform an inventory of District equipment provided to LCPA. There were 21 laptops identified by tag number not being used and on shelves. There were another 20-25 computers being used by students and teachers. Class was in session; it would have been disruptive to go in the classroom to inventory the equipment. There is reasonable assurance that the computers provided to LCPA are at that location and are tagged, which matched the items transferred on the list.

In the "other" area, he has looked into the area of records retention. The areas of facilities development, special education, and finance are suggested areas where records retention could be important. It is believed that there is no specific Board Policy or Administrative Regulation relative to this area. CASBO has a guide on records retention that we could use as a template.

Special Education records are mainly on paper and they have run out of space to store their records. Some records are stored in a locked storage container in the back of the District. There is concern about the container itself, such as lighting, no heat, difficult for staff to locate documents, and not very well protected from the elements. This may serve as a good reason for scanning records, storing them digitally, and having a process to retrieve records.

This item will be kept on the agenda for further discussion at the next meeting.

External Auditor

14. Discussion/Action: Update by External Auditor regarding East Side Union High School District

Ahmad Gharaibeh, External Auditor, will provide an audit update to the Committee.

External Auditor Gharaibeh mentioned that the audit is split into three phases. During the phase of the site testing, they test the student body accounts, cash collections procedures, and test attendance. At interim phase, they come back and do the District Office audit for compliance mainly at a Federal and State perspective. The final part of the audit is to finalize numbers. They have only been at two sites. They plan to go out to test additional sites. One site tested was a continuation school. They do not handle very much cash. Another site visited was a site Mr. Marsh had visited. At this site, there is a time lag when cash is being collected and the time it is being deposited into the bank account. VTD would like to have the sites make their deposits on a weekly basis. They will be back to perform the interim audit and more site testing.

District Administration/Superintendent

15. Discussion/Action: School Site Cash Handling

Dan Moser, Superintendent, will present a recommended administrative regulation for the handling of cash at school sites.

At the last meeting, Superintendent Moser presented to the Committee a proposed Board Policy and Administrative Regulation on cash handling. At the last Board meeting, a proposed Board Policy was presented to the Board of Trustees for first reading. It will be presented to the Board for a second reading and adoption at their next meeting. With regard to the Administrative Regulation on cash handling, this AR is still under review.

16. Discussion/Action: Legal Expenditures

Dan Moser, Superintendent, will present a recommended administrative regulation related to authorization of legal expenditures.

Superintendent Moser presented a draft Administrative Regulation on legal expenditures to the Committee. Superintendent Moser and Internal Auditor Marsh met and had some differences on the proposed Administrative Regulation. The draft was also shared with the District's Legal Counsel. Number 3.5 was reworded to state, "Any subcontracting of legal serve shall be approved..."

17. Discussion/Action: Conflict of Interest

Dan Moser, Superintendent, will present information regarding the conflict of interest statement it relates to Board Policy 3600.

Middle of page, paragraph four, discusses gifts. The end result of this is a proposed Board Policy #3315, which makes it clear that no District employee or Governing Board Member shall accept personal gifts. The proposed policy also talks about the exception - what is called "promotional goodies." One example is stationary supplies.

Member Berg asked about solicitation for campaign contributions.

Superintendent Moser indicated that campaign contributions fall under the regulations of the FPPC.

Audit Committee Business

18. Discussion/Action Future Meetings

Under this item the Audit Committee may schedule future meeting dates and times.

A tentative meeting date was scheduled for June 9, 2012, at 9 AM in the Superintendent's Conference Room of the District Office.

19. Superintendent Communications/Comments

- Superintendent Dan Moser
- Associate Superintendent of Business Services Marcus Battle

There were no comments under this section.

20. 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.

None

21. Adjournment

Chair Nguyen adjourned the meeting at 9:00 p.m.

Respectfully submitted,

Lan Nguyen, Board Audit Committee Chair

EAST SIDE UNION HIGH SCHOOL DISTRICT

Superintendent's Response to Internal Auditor Report of June 22, 2012

The following is a response from the administration to a report provided to the Board on June 22, 2012. The response was first reported in the Superintendent's Weekly Board Update of July 6, 2012.

I. Internal Audit

As you know, our former Auditor submitted a final audit report to the Board on June 22nd. I have met with the Associate Superintendent of Business Services and the Director of Finance to review the findings that dispute and/or address the concerns identified in the audit. The following is the district's response to concerns that were identified:

Facilities: Response to questions 3, 5, 8, 9 and 13

Question 3: Charges of \$176,000 by SGI to retrieve records in anticipation of OPSC audits
We have language in our contract with SGI that requires them to retain all manner of physical project records as required. There has been no increase in SGI staff nor any overtime incurred, and no increase in labor or associated fees beyond what would have been incurred by the district to maintain these records.

Question 5: The classification of most SGI consultants as managers is well within the industry norms. This was the subject of extensive research conducted for and reported out to the CBOC in 2010.

Question 8: The use of subcontractors by SGI was discontinued in 2010. The district approves all subcontractors.

Question 9: Subcontractors were not used during the subject period and the district hires subcontractors.

Question 13: We use handwritten signature for approval. A stamp is certainly an option that can be pursued but is not required.

Attendance: Response to questions 1, 2, and 7

Questions 1, 2, and 7: These issues have been resolved with the hiring of the Manager of Attendance. Attendance and Accounting has had a clean bill of health for the past six years.

Cash/ASB Response to questions 1-7

Questions 1, 5, 8: Due to the transition between Superintendents, it was decided that the new Superintendent would review the draft cash handling Administrative Regulation. Board Policy 3314.4 was adopted on April 19, 2012.

Questions 2, 4: Clearing accounts and principal revolving accounts have been implemented.
3 ASB accounts are reconciled monthly. End of the year reconciliations are completed in the District Accounting Office.

Questions 6, 7 & ASB Inventories: Regular “Finance Clerk” workshops are held by the Accounting staff to address ASB issues and regulations. The inventories were part of the Auditor’s work goal that never got addressed. **The External Auditors have visited all of the issues listed above and there were no findings.**

Information Technology

AMS did not fully perform on the deliverables identified under contract. This was identified three months ago. There is a plan in place to fulfill all work that was not completed.

Fixed Assets

At the June 21st Board meeting, the district awarded a contract to the vendor firm CPRS. The inventory process is underway with the goal to complete a fixed asset inventory every two years.

Diesel, Gasoline Purchasing and Usage Report

The findings in the audit report shed light on the following two areas: drivers were not systematically logging their fuel usage in a complete and timely way and the depot was not secured and could be vulnerable to misuse. The district team met three months ago and contracted with Gas Boy Card Lock System that will ensure proper accountability and reporting of gas usage and prevent misuse. This system will be in place by the start of the school year.