

**AGENDA**  
**Board Audit Committee**  
9:00 AM  
April 16, 2011  
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) 347-5011. 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:** Chairman Frank Biehl will announce newly appointed or reappointed members.
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 .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.*
6. **Report:** Counsel opinion re: Does the Charter permit a school Board member from a feeder school district to sit on the Audit Committee?
7. **Approval of Minutes**  
**Action:** Minutes from the December 11, 2010 meeting will be presented for approval.
8. **Discussion/Action: FCMAT Report: Update the status of all actions taken in response to the FCMAT Report recommendations**  
Ian Marsh and Hardy Childers, will review all actions taken by the Board and the Administration in response to the recommendations included in the FCMAT Report.
9. **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 actions taken by the administration and the Board since our last meeting.
10. **Discussion/Action: Measure G & E General Obligation Bond Fund Performance Audit Reports for Fiscal Year Ended June 30, 2010**  
Ahmad Gharaibeh, External Auditor will brief the committee on each report's findings.
11. **Discussion/Action: Audit Work Plan Report**  
Ian Marsh will report on the status of projects included in the Audit Work Plan.

12. **Discussion/Action: 2009/10 East Side Union High School District Audit**  
Ahmad Gharaibeh, External Auditor, will report on the status of the 2009/10 external audit.
13. **Discussion/Action: E-RATE Reimbursement for 2008**  
Superintendent Dan Moser will brief the committee on the current status of the E-RATE reimbursement.
14. **Discussion/Action: Status of Special Education IEP's**  
Superintendent Moser will report on the status of the District's efforts to comply with Individual Education Plan (IEP) requirements for Special Education students.
15. **Discussion/Action: Establish Next Meeting Date**
16. **Superintendent Communications/Comments**
  - Interim Associate Superintendent of Business Services, Hardy Childers
  - Superintendent, Dan Moser
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. **Adjournment**

FEB 04/11/11

**REHON & ROBERTS , APC**  
**MEMORANDUM**

**TO: Frank Biehl, Chair, and Patricia Martinez-Roach, Vice Chair  
District Audit Committee**

**FROM: Rogelio M. Ruiz, Esq.**

**DATE: April 12, 2011**

**CC: Dan Moser, Superintendent; Ian Marsh, Internal Auditor**

**RE: District Audit Committee; Review/Analysis of Potential Conflict Issue**

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Mr. David Neighbors is currently a sitting member of the District's Audit Committee. In November 2010, Mr. Neighbors was elected to the Governing Board of the Berryessa Union Elementary School District ("BUSD") and he is now a sitting elected member of that school board. A question has arisen as to whether or not Mr. Neighbors' membership on the BUSD Board raises an actual or potential conflict of interest which now prohibits Mr. Neighbors from continuing his appointment to the Audit Committee.

Article III of ESUHSD's Audit Committee Charter provides in part:

"The following individuals cannot serve on the Audit Committee:

- a) Any person who, within the two years prior to appointment, has been an employee of the ESUHSD or sold goods or services to the ESUHSD,
- b) *Anyone who, within the past two years, owns or has a direct and material interest in an entity, or who holds a leadership position in any entity, which provides substantial goods or services to the ESUHSD pursuant to purchase order or contract (either individually or under a fictitious business name),*
- c) A close or immediate family member of anyone who would be prohibited from serving on the Audit Committee under a) through b) above. The term "close or immediate family member" includes parent, sibling, nondependent child, spouse or domestic partner, or dependent (whether or not related),  
Exceptions are as follows:
  - d) An individual who would otherwise be excluded may serve if, after full disclosure to the Board, the potential conflict of interest is not material,
  - e) Any member who develops a conflict of interest while on the Audit Committee must disclose such conflict. The other Audit Committee members at the next meeting shall, by majority vote, make a recommendation to the Board. The Board shall decide whether or not to remove and replace the affected member. Should a vacancy occur, the Board will

**REHON & ROBERTS, APC**  
**MEMORANDUM**

notify the public of the opening, accept applications and appoint an individual to serve the balance of the vacated term.” (Emphasis added.)

I have inquired with ESUHSD’s Business Services to determine whether BUSD provides or has provided substantial goods or services to ESUHSD at any time during the current school year pursuant to a purchase order or contract. Business Services has confirmed to me that no such contracts have been entered into a purchase orders opened or approved this year pursuant to which BUSD has provided any goods or services to ESUHSD. Occasionally, ESUHSD does provide transportation services to BUSD schools (field trips, etc.) but since ESUHSD is providing the services to BUSD, the conflict of interest provisions quoted above are not implicated.

Based on the terms of the Audit Committee Charter and the above information, there is not a conflict of interest under the Charter which precludes Mr. Neighbors’ continued service on the Audit Committee. However, the District should continue to monitor this relationship if and when in the future any contractual arrangements with BUSD are being contemplated by the ESUHSD.

Please feel free to share a copy of this memo with Mr. Neighbors and/or the other public members of the Audit Committee if you wish.

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# EAST SIDE UNION HIGH SCHOOL DISTRICT

## Minutes of Meeting

### Unapproved

#### 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 enormous 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,*

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*Frank Biehl, Board Audit Committee Chair*

#	<b>CONTRACTED SERVICES</b>			
	<b>Finding</b>	<b>FCMAT Recommendation to ESUHSD Board</b>	<b>District Response as of 3/29/11</b>	<b>SCCOE COMMENTS</b>
1	1	Amend Administrative Regulation 3323 to require informal bids for all service contracts of more than \$ 5,000 with no maximum limit	District provided SCCOE with copies of Administrative Regulation 3311 "Business & Non-Instructional Operations. Subject: Bids."	<b>Fully Compliant.</b> Bidding process addressed in AR 3311
2	2	Amend Administrative Regulation 3323 to clarify that informal bids are required when consulting service contracts are otherwise exempt from bidding per Government Code 56030.		Consulting Services contracts otherwise exempt from bidding per Government Code 56030 was not addressed in AR 3311.
3	3	Enforce Administrative Regulation 3323 regarding utilization of informal bids.		<b>Fully Compliant.</b> Bidding process addressed in AR 3311
4	4	Include specific details on contract approvals in minutes of board meetings.	Practice implemented with March Board Minutes.	<b>Fully Compliant.</b> Spreadsheet attachments to minutes listing Contractor, Reviewer, Period, Amount, & Purpose.
5	5	Require evidence that conflict-of-interest statement has been submitted for every consultant contract being considered for approval as required by Board Policy 3600	District provided blank Conflict of Interest Statement form.	Upon request for completed samples, we were notified that this is new. Requested once from consultant who hasn't returned it as they are consulting with their legal counsel. <b>Please advise if this was developed by an attorney and submit completed forms when received.</b>
6	6	Restore the internal audit function, including funding for an internal auditor position, and operate this function according to industry standards.	Ian Marsh became new Internal Auditor in November 2010. He provided 2010-11 Work Plan at on-site visit.	<b>Fully Compliant.</b> 2010-11 work plan & status provided and reviewed.
7	7	Establish board policy providing guidance to the staff in circumstances where contracted services can be billed to the district by consultants and other service providers.	District provided SCCOE with copies of Administrative Regulation 3311 "Business & Non-Instructional Operations. Subject: Bids."	<b>Fully Compliant.</b> Addressed in AR 3311.
8	1	Submit all contract extensions for board approval per policy 3312	Administrative Directive issued 3/1/10.	<b>Contract extensions not covered in AR 3311.</b>
9	2	Submit purchase orders for all consulting services contracts to the governing board for approval.	Administrative Directive issued 3/1/10.	<b>Fully Compliant.</b> Consulting POs being approved by Board as evident in Board Minutes on District website (reviewed 2/22) detailing Contractor, Period, Amount, & Purpose.
10	3	Submit to the Board for approval all purchase orders adjustments that do not otherwise meet the criteria of board policy 3314	Administrative Directive issued 3/1/10.	<b>Fully Compliant.</b> PO Change orders being approved by Board as evident in Board Minutes on District website

<b>CONTRACTED SERVICES cont.</b>			
<b>Finding</b>	<b>FCMAT Recommendation to ESUHSD Board</b>	<b>District Response as of 3/29/11</b>	<b>SCCOE COMMENTS</b>
<b>11</b>	4 Require all vendors to provide detailed invoices that include specific dates and hours per day of service, detailed by the professional providing the service.	Contract Services PO report provided from which Emma chose a sample of 13 Purchase Orders and requested copies of invoices and supporting documentation from Karen in advance. Documents were provided on-site.	<b>Sample Fully Compliant.</b>
	5 Refrain from utilizing contract provisions that provide for equal payment installments if they do not require itemized invoices with the same detail included in recommendation number four.		
<b>12</b>	6 Review the process utilized to hire the consultant whose payments were made under the purchase order of a different consultant and determine whether these services were authorized.	11/16 response: Administration to identify subject consultant and within the next 60 days investigate facts and circumstances surrounding the subject payments. Administration will report back to the Board on its findings and recommendations. District still cannot pinpoint the vendor.	<b>No report on findings provided to SCCOE regarding District investigation of circumstances surrounding the vendor paid under purchase order of different consultant. No determination of whether services were authorized has been made (or not communicated with SCCOE). District still cannot pinpoint the vendor. Ian Marsh asked Jim Ceretta at FCMAT but he did not provide any information.</b>

<b>BOND FUNDS - CONTRACTED SERVICES</b>				
	<b>Finding</b>	<b>FCMAT Recommendation to ESUHSD Board</b>	<b>District Response as of 3/29/11</b>	<b>SCCOE COMMENTS</b>
<b>14</b>	1	Require all vendors provide detailed invoices that include specific dates and hours per day of service, detailed by the person providing the service, with the underlying facility project identified with each charge.	Administrative Directive issued 3/1/10.	<b>Not compliant.</b> This was discussed in detail with FCMAT; Dan Moser & Jerry Kurr were present. In a sample of 14 contracts from 2007-2010 encumbered against Bond Funds, all but 2 consultants provided sufficient details on their invoices. Of the 2010-11 sample, 1 invoice lacked sufficient detail. Blach Construction - "School Name Title IX Constructability Review" with no details as to how amount was calculated, dates, etc.
<b>15</b>	2	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.	Draft of VTD audit report for the fiscal year ended 6/30/10 was provided.	<b>Substantially Compliant.</b> <u>DRAFT</u> Audit verified that funds were expended for the purposes specified in Measure E and the funds held in the Bond Fund were used for salaries of administrators only to the extent they perform administrative oversight work on construction projects. In all significant respects, ESUHSD has properly accounted for the expenditures in the Bond Fund and that such expenditures were made for authorized Bond projects. The only recommendation is to amend the contract language going forward to be more specific with the nature and amount of reimbursable expenses such as travel, per diem, communication such as cell phone and internet, food and beverage. <b>Please provide copy of final performance audit report on Measure E General Obligation Bond Fund.</b>
<b>16</b>	3	Fund from other sources any inappropriate expenditures identified as a result of the review per recommendation number two	See immediately preceding recommended response. Remedy to follow outcome of #2 above.	N/A as the DRAFT audit was clean.

<b>SUPERINTENDENT'S VACATION</b>			
<b>Finding</b>	<b>FCMAT Recommendation to ESUHSD Board</b>	<b>District Response as of 3/29/11</b>	<b>SCCOE COMMENTS</b>
17	1 Adopt policy and regulations to require periodic vacations to be taken by all staff that accrue this leave, and implement procedures to periodically confirm vacations are taken.	Superintendent & Associate Superintendent contracts provided.	<b>Fully Compliant.</b> Superintendent & Associate Superintendent contracts provided. Vacation policy covered in Item 7 of both agreements and include the FCMAT Recommendations.
	18		
19	3 Establish board regulations regarding the basis for calculation of administrator daily rates to be utilized for vacation payout calculations.		
20	4 Review all board policy regulations and contracts for administrators and modify if necessary to establish clear language identifying required annual days of paid service, paid holidays, accrued vacation, sick leave and other leaves for members of management.		
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## East Side Union High School District

### Internal Audit

#### Work Status – April 11, 2011

Following is the status of completion of items in Internal Audit's approved work plan:

1. Facilities Development – I met separately with Rogelio Ruiz, Jon Reinke, June Rono and Kathy Lanford to discuss current procedures and Internal Control issues. I also read prior audit reports involving facilities, including a review by Total School Solutions in 2008, to help identify Internal Control weaknesses.

Ongoing, I shall be reviewing and reporting on Measures E and G Bond expenditures, and whether those expenditures are consistent with the issuing documentation.

2. School Site Cash Handling – Internal Audit's major emphasis has been on reviewing Associated Student Body procedures at Andrew Hill, Evergreen Valley, Santa Teresa and Silver Creek. I also reviewed, where applicable, cash collections at athletic events, Principal's discretionary accounts, petty cash, income from facility rentals, the authority of staff to open bank accounts and bank reconciliation procedures.

Internal Control issues include:

- Bank reconciliations are not always prepared monthly. At one site, the last reconciliation was prepared as of June 30, 2010.
- Trial Balances, Income Statements and Balance Sheets are not always prepared monthly.
- Long outstanding deposits. While deposits should clear within 1-2 business days, at two sites, Internal Audit noted deposits which had not cleared in several months. I am following up these items.
- Stale-dated outstanding checks. At one site, Internal Audit noted checks which have been outstanding since 2007.
- Receipts are not always deposited promptly and intact. Bank deposits should be fully supported by underlying detail.
- Non-compliant food sales as ASB fund-raisers. Sites may sell food and beverage items which do not meet state or district nutritional or calorie requirements. At one site, food and beverage items are being sold in direct competition with the school's Child Nutrition program.
- Authorized account signature cards are not on file at the sites.
- One Bank Clerk, after training, is unable to use Blue Bear Tracks software as intended.
- Unsupported reconciliation items were noted at one site.

- At several sites, Trial Balances showed unexplained ASB debit fund balances.
  - ASB expenditures are not always supported by Student Council resolutions.
  - At one site, Internal Audit noted use of a debit card to purchase items from Amazon and make payments to PayPal. The district use of debit cards attached to checking accounts should be minimized.
  - At one site, there was confusion whether receipts were district or non-district funds, resulting in posting errors.
  - Procedures for the rental of district facilities should be centralized. At one site, receipts from rentals were deposited in a Principal's discretionary bank account.
3. Attendance Reporting – In preparation for interim audit work by Vavrinek, Trine, Day & Co. for FY 2010-11, I visited Pegasus, Santa Teresa and Silver Creek sites with Raj Villivalam, Attendance Accounting Manager, and Nadia Davis, Attendance Accounting Specialist. Staff issued a memo for each which summarized the exceptions noted. When I review attendance procedures at the above sites, I shall evaluate whether recommended corrective action has been taken. Internal Control issues include:
- Weekly Attendance Registers were not always printed, signed and dated.
  - Weekly Attendance Registers at one site were signed and dated prior to the date of the report.
  - Single period attendance is not always documented.
  - Make-up attendance is not always posted in Infinite Campus software.
  - At one site, the attendance register for students who were tardy then sent to the office, showed “in house suspension.”
4. E-Rate – I met with Raj Villivalam and Donna Bertrand, Contract Administration Coordinator, to discuss why the district has had on-going difficulty obtaining payments under this program. I shall not duplicate work already done, but independently evaluate possible the reasons for delays.
5. FCMAT Special Audit – Internal Audit responded to item #6, restoring the Internal Audit function, providing copies of the Internal Audit Charter, Work Plan and a sample report (draft Andrew Hill Review of ASB Procedures) to Jenina Salcedo from the SCCOE. I also responded to items #15 and 16, district review of Measures G and E Bond Funds. Dan Moser, Hardy Childers and I shall meet with SCCOE staff on May 4 to wrap up this work.
6. Procurement – I have met several times with Donna Bertrand to discuss district procedures and various Internal Control Issues, such as the purchase of a photocopier

using Measure E or G bond money, and small-dollar purchases by school site staff. Procurement will be a future audit.

7. Legal – I have met several times with Rogelio Ruiz, mostly to discuss facility development issues and certain confidential matters. In the future, Internal Audit will review policies and procedures for the review and approval of legal invoices.

8. Independent Accountants – I consulted with Vavrinek, Trine, Day & Co’s audit engagement partner, Ahmad Gharaibeh, on various technical issues, and reviewed VTD’s draft audit reports.

9. Special Projects – topics addressed by Internal Audit include:

<b>Date</b>	<b>Met/ Discussed with</b>	<b>Topic</b>
2/11/11	Cari Vaeth	Purchasing procedures for teachers in CTE programs.
2/11/11	Karen Poon, Florence Eng (SJUSD)	Discussed whether, when Charter Schools sponsored by ESUHSD apply to renew, they must submit separate financial statements.
2/14/11	Catherine Giammona	FCMAT finding re documentation of leaves and sick leaves.
2/14/11	Alan Bicho, SCC Grand Jury	Status of corrective action taken in response to FCMAT Extraordinary Audit.
2/22/11	Donna Bertrand	General purchasing and bidding procedures, purchases of instructional supplies, authority of staff to obligate the district.
2/23/11	Dan Moser	SCCOE with Ken Shelton, Nimrat Johal, Dan Moser and Hardy Childers, to discuss status of corrective action re FCMAT report.
2/24/11	Helen Wu	Information Technology - discuss read-only versus update access in QSS software.
2/24/11	Julie Kasberger, General Services	Non-compliant food and beverage sales at school sites.
2/24/11	Alan Bicho	Follow-up SCCOE meeting re FCMAT report.
3/10/11	Karen Poon	Follow-up VTD’s Internal Control comments in audited financial statements, FY 2008-09, 2009-10.
3/11/11	Karen Poon	Draft response to VTD comment re Accounts Payable.
3/11/11	June Rono, Facilities	Various Internal Control issues in facilities development, status pending and on-going litigation.
3/14/11	Karen Poon, Helen Wu, Vida Branner	QSS system access: update vs. read-only. IT agreed to limit system access based on employee position.
3/21/11	Betty Banderas	Carnival at Andrew Hill. Discuss authority of Principals to sign contracts.
3/25/11	Rogelio Ruiz	Bidding procedures in Facilities.
3/25/11	Karen Poon	Use of Amex card to pay certain vendors and earn rebates.
3/28/11	Lisa McCurdy	Andrew Hill – Discussed use of district’s tax-ID by boosters.

Date	Met/ Discussed with	Topic
3/28/11	Cari Vaeth	Carryover categorical fund balances; cash collections by teacher for adult school book purchases.
3/30/11	Lisa McCurdy	ASB presentation by Internal Audit to Leadership class.
3/31/11	Virginia Yenton	Evergreen Valley – discussed ASB cash transfer between checking and CD accounts; Pepsi fund accounts.

10. Redevelopment Income – I shall discuss with Dante Gumucio from Public Economics, Inc., whether the ESUHSD might be entitled to additional pass-through revenues.

11. Staff Training

- On January 18, 2011, I met in the district office with Finance Clerks from Evergreen, Independence, James Lick, Mt. Pleasant, Piedmont Hills, Santa Teresa, Silver Creek and WC Overfelt to discuss district ASB procedures and common Internal Control issues.
- I made arrangements for site and district office staff to attend ASB training, to be provided by FCMAT at San Jose USD on April 20. Attendance by Bank Clerks and Activity Directors is mandatory, and 25 confirmed.

East Side Union High School District

Internal Audit

Draft Work Plan FY 2010-12, with Justifications

<b>Audit Topic</b>	<b>Audit Justification</b>	<b>Estimated Weeks</b>	<b>Additional Resources</b>	<b>Gen. Fund (GF) Bond Fund (BF)</b>	<b>Target Start Date</b>	<b>Target End Date</b>
1. Facilities development; Measure E, G Bonds	Reduce risk of fraud, waste and abuse	10	Consultant with major experience in project management and construction procedures – est. cost \$25k - \$50k.	BF	Open	Open
2. School Site Cash Handling	Reduce risk of fraud, waste and abuse	22		GF	Current	3/31/11
3. Attendance Reporting	Help ensure accuracy in reporting, apportionment revenues are maximized	22		GF	4/4/11	6/10/11
4. E-Rate	Ensure district is compliant with statute; determine cause reimbursement delay	2		GF	2/14/11	2/28/11
5. FCMAT Special Audit	Ensure district has made recommended changes in Internal Controls	2		GF	3/1/11	3/15/11
6. Procurement	Ensure district is compliant with statute and Board policies	4		GF	3/16/11	4/13/11
7. Legal	Ensure district has appropriate procedures to review claims against it; provide assurance that legal billings are justified	3		GF	4/14/11	5/6/11
8. Liaison to Independent Accountants	Ensure resources are provided to expedite external audits	3		GF	Open	Open

<b>Audit Topic</b>	<b>Audit Justification</b>	<b>Estimated Weeks</b>	<b>Additional Resources</b>	<b>Gen. Fund (GF) Bond Fund (BF)</b>	<b>Target Start Date</b>	<b>Target End Date</b>
9. Special Projects – data analysis	Reduce risk of errors, fraud, waste and abuse	6	Hire consultant from ACL; renew software license. Estimated cost \$10k.	GF	Open	Open
10. Redevelopment Income	Ensure AB 1290 pass through revenues are maximized	1	Hire consultant, Dante Gumucio, from Public Economics, Inc. Estimated cost \$15k.	GF	Open	Open
11. Staff Training – ASB, Attendance Reporting	Reduce risk of fraud, waste and abuse. Help ensure apportionment revenues are maximized.	0	Hire Michelle Plumbtree, FCMAT for one day's ASB training. Estimated cost \$1k.	GF	Open	Open
<b>Total</b>		<b>75</b>	<b>Estimated consultant cost = \$51k - \$76k</b>			