

EAST SIDE UNION HIGH SCHOOL DISTRICT

Minutes of Meeting

Approved

Board Audit Committee

November 19, 2011

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

The meeting was called to order by Chair Biehl at 9:02 a.m. Present were Vice Chair Martinez-Roach, Member Berg, Member Juchau, Member Neighbors, and Alternate Member Gonzalez.

Staff members in attendance were:

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

Presenters:

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

Members of the public in attendance were:

- *Jon Reinke*
- *Bill Masching*

2. Introductions

Persons present at the meeting introduced themselves.

3. Adopt Agenda

Motion by Member Berg, second by Member Neighbors, to adopt the agenda as presented.

Vote: 5/0

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 .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 September 10, 2011, meeting will be presented for approval.

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

Vote: 5/0

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 all actions taken by the Board and the Administration in response to the recommendations included in the FCMAT Report. He will provide the Committee with a copy of the district's conflict of interest form.

Superintendent Moser indicated that the close out letter issued by the Santa Clara County Office of Education expressed that the district maintains its diligence in following the recommendations from the FCMAT report. The report was orally presented to the County Board of Education. Chair Biehl, Vice Chair Martinez-Roach, and Superintendent Moser attended the meeting at the County Office of Education. They were permitted to provide oral input to the report.

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Internal Auditor Marsh indicated that the audit states that the district failed to obtain or obtained late conflict of interest statements from independent contractors. Board Policy states that independent contractors shall submit a written conflict of interest statement disclosing financial interests as determined necessary by the Superintendent or designee depending on the range of duties to be performed by the consultant. This does give the Superintendent discretionary power. The County Office took the position that they expect to see conflict of interest statements on file for all independent contractors. Item 7c is an updated version of the conflict of interest statement the district is requiring contractors to sign. For contractors performing multiple contracts, it is sufficient to have one conflict of interest statement on file.

Item 7(d)1: Internal Auditor Marsh indicated that the district (Business Office) is putting vendors on notice that, if they are non-compliant in terms of the detail they provide on invoices, they will not be paid.

On October 11, the district's General Counsel gave a 3-4 hour Contract Practices Workshop. Attendance was mandatory for all Principals and many district staff. The workshop covered non-compliance contract issues raised by the County Office.

Discussion was held regarding item number four on Conflict of Interest Statement.

External Auditor Gharaibeh indicated that item number 4 on the Conflict of Interest Statement is filled out by the consultant. He feels that the reporting disclosure is required by the Board and management, not the consultant.

Vice Chair Martinez-Roach requested that the item be tabled for further discussion at the next meeting. She asked that the Conflict of Interest Statement be reviewed by Associate Superintendent Battle and Legal Counsel. She also requested that the district seek an opinion from CSBA or someone who has experience with this type of regulation. The language on the document should be specified on process/reporting requirements for Board Members.

Chair Biehl agrees with Vice Chair Martinez-Roach. The document needs to be reviewed by staff, in consultation with the External Auditor and Legal Counsel. The intent is to stay in conformance with FPPC law.

External Auditor Gharaibeh stated that item four precludes a consultant from disclosing information; the requirement should be to disclose information. He also indicated that it is management's decision as to how much and what threshold should or should not be to

disclose and who discloses it. Board Policy states it is the Superintendent's discretion as to which contractor should be submitting a Conflict of Interest Statement.

The following decisions need to be made:

- 1. Who reports it?*
- 2. Certification of threshold?*
- 3. Not to preclude it*

Chair Biehl indicated that we need to find out what the common practice is and follow that common practice.

Member Neighbors asked if item number five covers an employee who helps to get a contractor approved by the Superintendent and Board and then the employee retires and goes to work for the contractor. If it does not, should it be looked into?

Chair Biehl indicated this item will be brought back at the next meeting for further discussion. It will be placed under Superintendent's section of the agenda titled: Conflict of Interest Statement

8. Discussion/Action: Facilities Development Measure G & E General Obligation Bond Funds

Ian Marsh, Internal Auditor, will present findings and recommendations for action related to policies and administration regulations for the Measure G & E General Bond Obligation Funds.

Internal Auditor Marsh discussed the arson fire at the Foothill High School Library in August 2006. Citing an emergency, the Board approved a design-build, not to exceed \$2.4 million with an established district contractor. Architectural plans approved by DSA specified douglas fir to be used for the framing. For the glued laminated applications, redwood was specified by the architect for exterior trim applications. During construction, the contractor cited concerns over cost and asked if cedar could be substituted for redwood for the exterior applications. It was approved by the architect.

All invoices were reviewed and did not show use of redwood, only douglas fir and cedar. It was concluded that the district was appropriately billed for each type of lumber and that staff and the contractor followed appropriate procedures.

Internal Auditor Marsh will report his findings at the next CBOC meeting.

Internal Auditor Marsh also mentioned the review of the contract with SGI, specifically the section relating to accounting records – program management. “For recordkeeping and audit purposes, the program manager shall keep records of all work performed, invoices prepared and paid for a minimum of three years after contract termination or expiration. On request by the district or any state agency, such records shall be made available within five working days.”

Internal Auditor Marsh indicated that this is a significant issue because Accounts Payable shreds records after four years. OPSC recommends that records be kept for seven years, but it is not mandated.

Superintendent Moser indicated that the district has been very diligent in obtaining the records.

Administration is reviewing a renewal contract with SGI, which includes additional language and records retention is one area of the contract that is being reviewed.

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 is continuing his review of attendance at various sites. This week he visited Foothill and Silver Creek with Attendance Accounting Manager Nadia Davis. There are some ongoing issues, such as a few teachers who fail to take attendance. Weekly attendance registers are not always signed and dated promptly. These issues have been discussed with administration.

Ian will continue to follow up with administration on this area.

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

Ian Marsh, Internal Auditor, will report on the implementation of a Fraud, Waste and Abuse Hotline as approved at the August 30, 2011, Board meeting.

Internal Auditor Marsh shared with the Committee that the fraud, waste and abuse hotline is almost ready to go live. A link to the hotline portal will be placed on the district’s website, which will include a hotline telephone number.

11. Discussion/Action: Other Items and Possible Additions to Internal Auditor's Work Plan

Ian Marsh, Internal Auditor, will report on any other items that he is investigating and present recommendations for additions to the Internal Auditor's work plan. Members of the Audit Committee or the public may also make suggestions at this time. Possible additions to the Internal Auditor's work plan include a review of the district's records retention policies and related administrative regulations.

Chair Biehl suggested that the investigation surrounding retention, access and destruction of records be added as an area to the Internal Auditor's Work Plan, which includes the development of an Administrative Regulation and Board Policy.

Motion by Vice Chair Martinez-Roach, second by Member Berg, to add to the Internal Auditor's Work Plan the investigation surrounding retention, access and destruction of records, including the development of an Administrative Regulation and Board Policy.

Vote: 5/0

Vice Chair Martinez-Roach out of room.

Alternate Member Gonzalez participated in vote due to Vice Chair Martinez-Roach out of room.

Internal Auditor Marsh discussed the use of the district's tax identification number by booster clubs. He indicated that they are independent of the district. It was suggested that a Board Policy and Administrative Regulation be developed regarding booster clubs.

Chair Biehl indicated that this item will not be added to the Internal Auditor's Work Plan, but that administration will follow up and update the Committee on this item.

Internal Auditor Marsh shared with the Committee an ASB presentation he recently made to the Student/Board Relations Committee. The students asked questions and found the information useful.

External Audit

12. Discussion/Action: East Side Union High School District Extended Audit (2009/2010 & 2010/2011)

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

External Auditor Gharaibeh indicated that as of the final phase of the audit, there will be no additions from what was reported at the last meeting. The interim phase of the audit had findings in special education IEPs; ASB monies / lease of facilities in ASB accounts; School Accountability Report Card (SARC) as it relates to William Settlement reporting / evaluation by County Office of Education and what is reported on the website. They are still following up with the district on time certification to Federal Programs; this item has not been finalized. In summary there is a potential of having four findings on the audit:

1. *Special Education IEPs*
2. *Associated Student Body Account (ASB)*
3. *School Accountability Report Card (SARC)*
4. *Time Certification – Federal Programs*

13. Discussion/Action: Leasing of Facilities

Ahmad Gharaibeh, External Auditor, will report on the improper reporting of facilities leasing revenues.

External Auditor Gharaibeh stated that monies collected from lease of facilities were being deposited in ASB accounts. Monies collected from use of facilities are to be separated from ASB funds. During the interim phase of the audit, it was discovered that a school had \$80k - \$90k in their ASB account. When they returned to the site for the final audit, their findings show that the monies were submitted to the district. A bank account was established by the district and central procedures were established by the district. There has been significant progress as it relates to funds collected as a result of facilities use.

District Administration/Superintendent

14. Discussion/Action: Carnival Policies and related Issues

Dan Moser, Superintendent, will report on the status recommended policy and administrative regulation modifications related to “Carnivals” and similar activities on school sites.

Superintendent Moser stated that amended Board Policy 1330 Use of School Facilities was adopted by the Board at their last meeting. The policy covers the permission and process for use of facilities. Carnivals will require approval by the Board of Trustees.

15. Discussion/Action: School Site Cash Handling

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

Superintendent Moser presented the following drafts:

- *Board Policy 3314.4 Clearing Fund*
- *Administrative Regulation 3314.4 Clearing Account*
- *Board Policy 3452 Student Activity Funds*
- *Administrative Regulation 3452 Student Activity Funds*

The Superintendent and Internal Auditor will be meeting to review the draft Board Policies for submission to the Board of Trustees in January for a first reading. They will also meet to review the draft Administrative Regulations for submission to Cabinet for approval.

Item will remain on agenda for further discussion/update.

16. Discussion/Action: Legal Expenditures

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

Superintendent Moser and Internal Auditor Marsh will be meeting to continue reviewing and working on the language for Administrative Regulation 3360 Purchase of Legal Services. Once finalized, it will be presented to Cabinet for approval.

Item will remain on agenda for further discussion/update.

17. 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.

Superintendent Moser provided an update on the status of outstanding IEPs. There are approximately 300 outstanding IEPs. Efforts are being made to continue to reduce the numbers. A year ago, the outstanding IEPs were 700-800. The district has started to go through progressive discipline with staff for not complying with the required submission of IEPs.

Audit Committee Business

18. Discussion/Action: Annual Review of Audit Committee Charter

Chair Frank Biehl will report on the actions the Board took in response to the recommended changes to the Audit Committee Charter.

Chair Biehl indicated that the Audit Charter has gone through two readings. The first reading had suggestions for minor changes to the language in the Charter. Suggestions made were:

- *The notification process for the appointment process for public members be posted at least 30 days prior to appointment date.*
- *If a vacancy among voting members occur, the Board may appoint the alternate public member to serve in the vacant position.*

The Charter was adopted by the Board of Trustees at their November 17, 2011, Board meeting. The revised Charter will be posted on the Audit Committee's website.

19. Discussion/Audit Committee Member Appointment Process

Chair Frank Biehl will review the process for appointing members of the Audit Committee.

Chair Biehl indicated that members, whose two-year terms are expiring soon, are eligible to reapply to serve on the Audit Committee. The term of the alternate member is a one-year term. The Audit Committee Chair and Vice Chair, who are appointed at the December 2011 Board Meeting, will work with the Superintendent's Office to post the vacancy announcement 30 days in advance of the appointment date – January Board Meeting.

20. Discussion/Action Future Meetings

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

A suggestion was made that the next meeting date be scheduled on March 3, 2012. The Chair and Vice Chair, who will be appointed in December, will establish the next meeting date.

21. Superintendent Communications/Comments

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

There were no comments under this section.

22. 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.

Member Neighbors said that this is the last meeting of his appointed term. He stated the following, "It has truly been a pleasure to be involved in this process. At the end of my term, I know that I am leaving this district in very good hands and that people are passionate about serving the children of our community I wish you all well and to carry on with the work that you are doing."

Alternative Member Gonzalez thanked Chair Biehl and Vice Chair Martinez-Roach. The work that the Audit Committee has done is amazing and he hopes that this work will be taken to other school boards across the Country.

Chair Biehl expressed his thanks to the members of the Committee, staff and members of the public who have diligently attended the Audit Committee meetings on Saturday mornings. He stated that significant progress has been made on issues. Everyone has worked cooperatively together to move things forward. This Audit Committee is going to be a State model as to how an audit committee and a district should operate on fiscal policies.

23. Adjournment

Chair Biehl adjourned the meeting at 12:04 p.m.

Respectfully submitted,



Lan Nguyen, Board Audit Committee Chair