

EAST SIDE UNION HIGH SCHOOL DISTRICT

Minutes of Meeting

Approved

Board Audit Committee

December 11, 2013

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

The meeting was called to order at 6 PM by Chair Nguyen. Present were: Chair Nguyen, Vice Chair Carrasco, Member Berg and Member Juchau. Member Reinke was absent (excused).

Staff members in attendance were:

- *Marcus Battle*
- *Karen Poon*
- *Kelly Kwong*
- *Linda da Silva*
- *Andre Bell*

Presenter:

- *Leonard Danna, External Auditor - VTD*

2. Introductions

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 were no items under this section.

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 comments.

6. Approval of Minutes

Action: Minutes from the September 5, 2013, meeting will be presented for approval.

Motion by Vice Chair Carrasco, second by Member Juchau.

Vote: 4/0, Member Reinke absent

Chair / Vice Chair

7. Discussion/Action: Updates - Chair Nguyen and Vice Chair Carrasco

No updates were made under this item.

Senior Manager of Internal Controls

8. Discussion/Action: Status on Senior Manager of Internal Controls' Work Plan and Findings

Kelly Kwong, Senior Manager of Internal Controls, provided the Committee an update on the items on her Work Plan:

ASB training and development (key focus)

FCMAT is being used as the guide. Meetings with School Finance Clerks continue on a bi-monthly basis. The next meeting will be held in February. The location of the meeting rotates and will be next at Santa Teresa High School. As recommended by the Audit Committee, training sessions are being expanded to include Principals, APAs, APEDs, Activities Directors, Athletic Directors and Finance Clerks. It is mandatory that persons in these positions attend the training.

Four ASB training sessions were hosted at four different sites in order to provide all participants the ability to attend the training at a location that was near their place of work. There were a total of 73 attendees at the training, 56 employees and 17 students. Senior Manager of Internal Controls Kelly Kwong provided the training, along with the assistance of representatives from the Business Office. Make up sessions are being held in order to train staff that were unable to attend the sessions.

Bond Programs

Kelly Kwong continues to support management on all bond-related matters.

Assistance was provided with the reorganization cost analysis that will be discussed at the Board Meeting of December 12, 2013.

Lease/Use of Facilities

Preliminary reviews have been made and a discussion has been held with three sites. Meetings with other sites are in the process of being scheduled in order to obtain a wider representation. District oversight continues in this area. Information is currently in preliminary stages and a complete report will be provided at a future meeting.

Expenditure (Expense) Reports

Kelly will be waiting until the end of the fiscal year to present the report as a fiscal year end report.

Purchase/Credit Cards

Kelly will be waiting until the end of the fiscal year to present the report as a fiscal year end report.

Other

Support to management is being provided as requested.

9. Discussion/Action: Cash Handling and ASB Debit Balances

Kelly Kwong, Senior Manager of Internal Controls, may present findings and recommendations for action related to cash handling and ASB debit balances at school sites. In addition, the Committee will be discussing best practices for cash handling and ASB debit balances

With the trainings, there is more awareness and staff are calling and asking questions. The debit balances are old and historical; each school currently has a positive cash balance. The balances are between \$100,000 and \$400,000.

The FCMAT guide is a zero-budget balance, which is being encouraged with the sites by Karen Poon, Director of Finance. Any carry over balance at the end of the year would need to be made in writing to the Business Office.

Karen Poon indicated that there are a few debit balances left, but that the sites are gradually eliminating them. The Business Office is monitoring this item.

10. 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, which was approved at the August 30, 2011, Board meeting.

Report #19 was filed on September 22, 2013. Fact finding was conducted and Legal Counsel assisted in the investigation. On September 23, a response was posted in the system to the reporter. As of today, the reporter has not checked back into the system to receive the response/report. Report #19 is now closed.

In October, 2013, the Business Office published the availability of the Fraud, Waste and Abuse Hotline in their Newsletter that was sent to staff -- a reminder that this is a tool available for anonymous reporting.

11. Discussion/Action: School Connected Organizations

Kelly Kwong, Senior Manager of Internal Controls, will present a draft of best practices/guidelines associated for School Connected Organizations, including current policies.

School Connected Organizations (SCOs) are not part of the East Side Union High School District's financial obligations. They are a separate entity, such as athletics boosters or PTA. They are required to obtain their own tax identification number, separate from the District's number, and require their own Bylaws. The Administrative Bulletin (presented as attachment #11), issued in October, 2012, is a tool to provide guidance to SCOs. Noted in the bulletin is that SCOs are requested to provide the District SCO information on an annual basis (application

and renewal form). This will help to keep the district informed on the status of SCOs. The form is due annually on September 30 to the District. Kelly Kwong has attended some SCO meetings and has provided training on the form.

Not all SCOs are in compliance with all required forms and some SCOs have not submitted any documentation. Kelly has been following up with the site Principal(s) to inform them of the missing forms.

The SCO policy update will be discussed at a future meeting.

Discussion was held regarding facility use by SCOs and adhering to current Board Policy on facilities usage. Item will be discussed at a future meeting.

External Auditor

- 12. Discussion/Action: Student Records Retention** - Joyce Peters, External Auditor, will provide an audit update to the Committee.

Leonard Danna, External Auditor for VTD, presented an external audit update on the District on behalf of Joyce Peters who was unable to attend due to a calendar conflict.

The final reviews have been completed. VTD is waiting to hear back from Director of Finance Karen Poon on the corrective action plan to be proposed by the District in response to a finding. The finding is a State compliance issue in the area of School Accountability Report Card (SARC) reporting, which deals with the inspection of facilities. The information on the SARCs did not match what was listed in the Facilities Inspection Tool (FIT) Forms. It was noted that there may be a time lag on when the SARCs are published and when the FIT forms are submitted; the information did not make it from the FITs to the SARCs. In order to comply with law, this will be a fairly easy fix.

A Federal single audit was conducted. There is an unqualified report on the financial statements and an unqualified report on the Federal audit procedures. What this means is that certain Federal Programs are tested as required by the Federal Single Audit Act. The general idea is that money is spent for the intended purpose. There were no issues with respect to the Federal compliance issues. The School Accountability Report Cards was one of the items tested. There were no financial audit adjustments made. Once Karen Poon's corrective action plan on the SARCs is received, the report will be finalized and mailed to the State for compliance with the December 5 deadline.

The Facilities Department has modified their internal controls to ensure that the information on the FITs is included in the SARCs.

Superintendent / Associate Superintendent of Business Services

- 13. Bond Performance Audit** - Associate Superintendent Battle will present information on the Bond performance audit.

On June 27, 2013, the Board of Trustees awarded a contract to Total School Solutions to perform a Prop 39 audit of the Measure G and Measure E Bond Programs. This audit was more intensive than the standard audit that is performed by VTD.

The highlights on the positive aspects of the audit were:

- *The District showed great Bond revenue management*
- *Diligence in taxpayer obligations to debt restructuring activities*
- *Ability to leverage Bond funds through aggressive pursuit of State grant funds under the School Facilities Program*
- *Response to issues raised in the 2010 FCMAT Extraordinary Audit have been addressed*
- *Development of Bond Program project scopes, budgets, and schedules*
- *Faithful execution by the CBOC in terms of their duties and responsibilities to the Bond Program*

Some of the weaknesses observed in the Programs are:

- *Excess staffing attributable to some duplication of work effort*
- *Financial management discrepancies*
- *District's approach to change orders*

There were 33 recommendations in the Audit Report. The Board recommended that the Board Audit Committee assume responsibility for review of follow up actions. To summarize what has occurred to-date, the District organized an internal workgroup comprised of the SGI Program management staff, Senior Manager of Internal Controls, Associate Superintendent of Business Services, Director of Finance, Director of Facilities, and Capital Purchasing Manager to determine functional responsibilities for recommendations. Each responsible party was asked to develop specific action steps to address the recommendations and to determine due dates for implementation. All recommendations were vetted and agreed upon by the workgroup in collaboration with the District's Senior Manager of Internal Controls to ensure transparency, responsiveness, and accountability. To-date, 12 of those recommendations have been implemented. Eighteen of the recommendations are still in

process and three of the recommendations were reviewed with no action required. The workgroup was provided with a matrix of the 33 recommendations. A copy of the report/matrix was provided to the Audit Committee.

The matrix identifies the responsible party for each recommendation. Many of the responsibilities fall under the Capital Accounting Department. The matrix also lists the due date for the implementation of each item and status of each item. Page three on the matrix has an item noted in red. This item is in reference to change orders that the Board asked administration to present and obtain direct input from the Audit Committee. Most of the recommendations are operational.

On the financial discrepancy, there were two different accounting systems used, the District's QCC system and the Bond Program system used by SGI, Primavera. There was a time lag of information between QCC and Primavera. When the auditors pulled the information on a particular date, the information did not match between the two systems. It was approximately a 3-4 week lag in information. The data had to be directly input into Primavera. The District is in the process of providing a system that has real-time information where data that is directly uploaded into QCC is also uploaded to a system that can provide financial reports to CBOC that will reflect the information that is in the District's financial management system that does not require any duplicate data entry which create any opportunities for error. There are reports that cannot be generated in QCC for the Bond Program, whereas, Primavera allowed the ability to generate customized reports, but there is a lot of data entry required in Primavera in order to generate these reports. That is one of the recommendations that the District is working to correct.

Linda da Silva, Director of Facilities, made a presentation to the Committee regarding a preliminary plan in terms of changes that the District is planning to recommend to change order approval process.

The Bond Performance Auditor recommended that the District discontinue using the practice of including an allowance in the construction contract and to, instead, delegate authority to administration. By doing so, the District would eliminate the misconceptions and challenges associated with the process, expedite the authorization of change orders, minimize time spent in obtaining District and Board approval on change orders prior to the execution of work, reduce the turnaround time for review, approval, and authorization of execution and payment of those construction change orders, demonstrate that the Board recognizes the urgent nature of school construction work, and that the expeditious handling of construction change orders plays an important role on the success of cost effective construction contracts. Further, the delegation and authorization should be done in compliance with California Education Code sections 17604-17606, which basically states, "...the delegation and power may be limited as

to time, money, or subject matter and no contracts may pursuant to delegation and authorization shall be valid or constitute an enforceable obligation, unless, and until, those have been approved or ratified by the Board...” Lastly, determine the amounts of change orders to be approved by designees.

The Bond Performance Auditor recommended that the designees could include the Superintendent, Associate Superintendent, Director of Facilities, Assistant Director of Facilities, District Architect, and Senior Contract Manager. The delegations should be renewed annually to ensure that timely adjustments to details are made according to the changing needs of the Bond Programs.

Reasons why delegation of authority over contracts, change orders and notices of completion should be granted:

- *It has become routine in recurring business matters*
- *Leads to efficiency of operations*
- *Timeliness on these matters is in the District’s best interest*

The proposal includes:

- *Delegation of authority for the Superintendent and/or designee to enter into contracts for equipment, materials, supplies, and non-construction services not exceeding the limit set in Public Contract Code 20111.*

In February, 2013, the Board adopted CUPCCAA, which changes a little of the nuance in Public Contract Code 20111. Instead of limiting public works construction award to \$15,000, it allows the Associate Superintendent to award contracts up to \$175,000.

- *Delegate authority to the Superintendent and/or designee to execute change orders to contracts not exceeding 10% of the original contract value.*
- *Delegate authority to the Superintendent and/or designee to execute final Notices of Completion for public works contracts.*

Clarifications to the delegations would be per the Education Code. None of those transactions under those delegations of authority would be valid until ratified by the Board of Trustees. Authorizing language would be included in Board Policy and Administrative Regulation that specify that these delegated approvals would be within the Board approved budget and pursuant to Education Code and Public Contract Code.

Next steps to considering the delegation of authority would be to have legal review of Board Policy #3312 Contracts, which will be completed in approximately January 2014. There will also be a review by Superintendent's Council and Cabinet. Then, a return to the Audit Committee and then take all questions and recommended revisions on the policy for refinement and present to the Board for first reading in the Spring with a second reading and adoption to follow at a subsequent Board Meeting. The Administrative Regulation will be developed and submitted during the same time for review and approval by Superintendent's Council and Cabinet.

Audit Committee Business

14. Discussion/Action Future Meetings

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

The next meeting will be held on March 12, 2014, at 6 PM in Superintendent's/Board's Conference Room of the East Side Union High School District.

15. Superintendent Communications/Comments

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

No item(s) to report under this section

16. 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.

No items reported under this section

17. Future Agenda Items

Items for future discussion:

Bruce Berg, Member

A request was made for a preliminary report on the District's progress towards putting together an LCAP plan before the end of the school year. It was indicated by Associate Superintendent Battle and Director of Finance Poon that a report may not be available by the next meeting, but the District would be able to provide an update.

Lan Nguyen, Chair

All standing items will remain on the agenda as recurring items.

Kelly Kwong, Senior Manager of Internal Controls and Marcus Battle, Associate Superintendent of Business Services

School-Connected Organizations with relation to the use of facilities will be on the next meeting agenda for discussion.

18. Adjournment

Chair Nguyen adjourned the meeting at 7:42 p.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Magdalena Carrasco', with a stylized, cursive script.

Magdalena Carrasco, Board Audit Committee Chair