

EAST SIDE UNION HIGH SCHOOL DISTRICT

Minutes of Meeting

Approved

Board Audit Committee

August 25 2015

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 6:00 PM by Chair Frank Biehl.

Committee member present for roll call:

Chair Biehl, Vice Chair Cortese, Member Berg, Member Juchau, Member Reinke and Alternate Member Stephens.

Staff present:

- *Chris Funk*
- *Marcus Battle*
- *Kelly Kwong*
- *Karen Poon*
- *Andre Bell*
- *Julie Kasberger*
- *Mary Guillen*

Presenter present:

- *Joyce Peters, External Auditor - VTD*

2. Introductions

Chair Biehl extended a welcome to the Audit Committee. Committee Members and members of the audience introduce

3. Adopt Agenda

The agenda was adopted as presented.

4. Special Order of Business

Individuals may be permitted to present an item out of order on the agenda to accommodate their schedules.

There was no special order of business.

5. Public Comments

Members of the public may address the Audit Committee on any subject not on the agenda; however, provisions of the Brown Act (Government Code 54954.2(a) and 54954.3) preclude any action. As a unagendized item, no response is required from the Audit Committee or district staff and no action can be taken; however, the Board may instruct the Chair to agendize the item for a future meeting.

There were no public speakers.

6. Approval of Minutes

Action: Minutes from the March 24, 2015, meeting will be presented for approval.

Amend page 4 of the minutes, GASB 68, to state, "This is a reporting mandate, not a funding mandate."

Motion by Member Reinke, second by Member Berg, to approve the Board Audit Committee Minutes of March 24, 2015, as amended.

Vote: 5/0

Chair / Vice Chair

- 7. Discussion/Action: Updates** - Frank Biehl, Chair, and Patti Cortese, Vice Chair, will provide updates to the Committee as necessary.

No updates were presented under this item.

Senior Manager of Internal Controls

- 8. Discussion/Action: Cash Handling and Associated Student Body (ASB)**

Kelly Kwong, Senior Manager of Internal Controls, will provide an update.

Kelly Kwong, Senior Manager of Internal Controls, shared with the Committee that training and support continues for all the sites. There are new student leaders and advisors that are

being trained, as has been done in year one and two. Year one was mandatory for specific positions: Principals, Associate Principals, Activities Directors, Athletic Directors and School Finance Clerks. Year two, called Phase 2 Training, was a training given to club advisors, students and coaches. Phase one and two training are now complete. Prior to the external audit, Kelly goes out to the sites and administers a pre-audit. As for the external audit, things are going well during the District's external audits.

Due to a change in software, ASB Works, on July 1, 2015, training on how to use the software is being provided to the School-Finance Clerks. ASB Works is a web-based system. For clarification, training administered by Kelly Kwong is compliance-based and a directive to those that seek reimbursement for incurred expenses. Training administered through Karen Poon's office is considered operational training, which is from a user's perspective. Site administration now has the ability with ASB Works to go online to view the entries. Trainings at the sites are occurring during lunchtime, which is restricted to a ½ hour of training time.

Members of the Committee asked questions regarding the security features of the web-based software. Karen Poon addressed the security concerns.

Chair Biehl asked that an item be placed on the next Audit Committee agenda. There is an ASB cash handling matter that deals with FCMAT regulations. Specifically, when an ASB organization raises money that is going to be donated to a group outside of the District. A specific example is an Interact Club that raises money, deposits it in an ASB fund and, then, they cannot get it out of the account due to a State law and FCMAT regulations. He indicated that there should be a way to work around the issue by providing proper procedures. It was requested that a report be provided at the next meeting as to what can be done to deal with the issue and what training is necessary.

9. 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.

Two cases were filed, case #18 and case #19 by the same individual. It was a personnel-related matter. There was a lot of correspondence regarding these cases. The matters now being handled by Human Resources.

10. Discussion/Action: Internal Audit Reports

Kelly Kwong, Senior Manager of Internal Controls, will present two internal audit reports

A. FY16-01 Facility Use Audit Report

Kelly Kwong met with five school sites and interviewed District Office personnel. The results of those meetings are documented in the FY 16-01 Facility Use Audit Report. She has been working with Business Services on the recommendations.

Members of the Committee commented that the report is great and very comprehensive, but will the summary and conclusions become formal policy, rules regulations or administrative bulletin that can be enforced or measured. It is important enough that it should be formalized.

Superintendent Funk indicated that Associate Superintendent Battle is working on a process to make this an internal, in-house procedure at the District level where all the facilities use reservations will be handled through the District Office. The calendar will be maintained, fees will be consistently applied, and there will be a better sense of how much revenue is coming in.

Associate Superintendent Battle shared with the Committee that he is currently working with a vendor on an automated system that will integrate the facility use across the District to one system. Our customers will be able to access the information online. They will be able to view the site calendars. They will need to set up a profile. If they are a nonprofit, the system is tied into the IRS, which will be able to identify nonprofit organizations. Those applying for facilities use will be appropriately categorized and they will be given the correct rental pricing. The sites, if they have any special requirements, such as security, will be able to indicate such specifications. The system is web-based and will be centralized at the District Office. There will be a management person overseeing the facilities use reservation system and process.

Member Reinke indicated that the IRS does not know about nonprofits, they know about tax exempt organizations, which is a very important difference. There are many school-related organizations that are nonprofits, but not tax exempt. If the District is going to charge market rates to tax exempt organizations, there will be many school-related organizations that will need to go through the 501(c)(3) process. He asked that the District Office be careful about that distinction.

Marcus Battle indicated that the organizations would be appropriately categorized.

Kelly Kwong indicated that the District has a Board Policy and Administration Regulation regarding School-Connected Organizations, which requires organizations to get annual approval by the Board. Those that have already been approved by the Board are tax exempt organizations. The concern is for those organizations that are not on our school campuses, such as those groups that are not affiliated with the District or the high schools.

Member Berg questioned the 50% fee and if anyone has read the Civic Center Act.

Chair Biehl indicated that, when the Board Policy and Administrative Regulation was developed, it was in the context of the Civic Center Act and was reviewed by District's Legal Counsel. The District/sites are permitted to recover its operating costs. For the market base, the District/sites are able to recover their long-term costs, such as maintenance of the property. This also includes the cost of custodial support.

Chair Biehl asked that this item be brought back at the next Audit Committee Meeting for administration to report on the progress of facilities use, including a review of the Board Policies and Administrative Regulations on facilities use.

Chair Biehl suggested defining neighborhood groups and treating them with the same standard as a youth nonprofit organization. He asked that administration seek feedback from the sites and make a recommendation.

Vice Chair Cortese asked that the recommendation have a customer service feel to it.

B. FY16-02 Child Nutrition Services Audit Report

Kelly Kwong conducted an audit review of the Child Nutrition Services Program as a result of net loss in the Program.

Chair Biehl indicated that a consultant was hired to conduct an assessment of the Child Nutrition Services Program. The report provided by Kelly is better than the consultant's report. It is very detailed, specific, and provides recommendations; whereas, the consultant's report was very general.

Member Berg likes the report, including that there are accountability pieces in the report. His only question, "Is the District still contracting with an outside firm for vending services?"

Director Julie Kasberger stated that food vending, such as chips and jerky, is strictly internal. Drinks are not. Pepsi is bringing in water and Gatorade. The District does not have staff to service those machines.

Member Juchau asked if the report is going to be formalized into an Administrative Bulletin.

Chair Biehl would like to keep the item on the agenda and have administration report back at the next meeting on the progress made on the recommendations as noted in the report. The item will appear under the administration's section of the agenda.

Julie Kasberger indicated that an action plan has been put together for each of the recommendations. Many of the recommended items are in the process of being implemented and that there are timelines to phase in the recommendations.

Kelly Kwong shared with the Committee the difference between A and B categories in the report. Items in category "A" indicates that the item is critical enough that it requires follow up by Kelly. Items in category "B" are not material enough that follow up is optional. From a report back perspective, follow up will be done only on category "A" items.

11. Discussion/Action: Proposed Annual Audit Work Plan

Kelly Kwong, Senior Manager of Internal Controls, will present the Proposed Annual Audit Work Plan for 2015-16

Chair Biehl shared with the Committee that Kelly Kwong's contract requires that she provide on an annual basis a proposed Work Plan for approval by the Board of Trustees. It was felt that it would be best that the draft plan be presented first to the Audit Committee for their review before submission to the Board for approval.

Kelly indicated that items 1 through 6 in the Work Plan are new items. Item 7 are ongoing/continuous items.

Item 1: Staff Time Charged to Bond

There will be an assessment/audit of the allocation of individual's time charged to the Bond Program versus general fund. This will be based on what is submitted in the PARS Reports.

Item 2: Timeliness of Payables

This is not only payment to vendors, but also includes employee reimbursements. Business Services issues payment on a weekly basis. A “walk-thru” will be done on the payment process. Measures will be made on where there are possible delays.

Item 3: Facilities Rentals

An analysis will be made on this item in order to understand the revenue versus the cost. As the District is charging outside users for facilities use, an assessment on what is the actual cost with the facility rentals will be made.

Chair Biehl mentioned that sometimes a Custodian is required with a facilities use request, such as the opening of a room/building and/or for a weekend event. His concern is use of custodial time and fairness on what the organization is being charged. Another concern is the condition of the school fields after it has been used by an outside group. The fields are not always cleaned up after they have been used. He asked if organizations are being charged for custodial support and is the custodial work being done or are they being charged and the work is not being done. His concern is appropriate use of custodial time, while being paid for being on the site, as well as the facilities being cleaned after use by an outside organization. He would like to take a look at this, including if the right amount for custodial support is being charged in the rental agreement and are the funds being appropriately allocated. He also discussed the possibility of a cleaning deposit as part of the rental agreement. The District Office takes 15% from facilities use rentals for administrative costs. The remaining 85% goes back to the site. He is asking if that is the appropriate ratio and are long-term costs being covered. Once this is assessed, Board Policy and Administrative Regulation will be reviewed. He is advocating a gathering of information in order to address potential policy issues.

Item 4: Facilities Rental

(This was discussed under item 3.)

Item 5: Facility Work Orders

A review of the turnaround time for facility work orders will be conducted, including the timeliness of completion, which will be from an internal customer satisfaction perspective.

Chair Biehl indicated that the assessment would include:

- *How many requests are there?*
- *How long does it take to respond?*
- *What are the standards we are trying to meet?*
- *Is there a need for additional personnel/staffing?*

Superintendent Funk indicated that the District's work order system has the ability to pull the requested information.

Alternate Member Stephens asked that there be a mechanism in place where a person can check on the status of their request.

Item 6: Artificial Turf Maintenance

This item will be reviewed for a better understanding of the District's plan with artificial turf maintenance and how it is measured against industry standards, including if the schools are maximizing the life use of the artificial turf.

Ongoing projects:

A. Fraud, Waste and Abuse Hotline

- *Kelly continues to inform persons that information is available on the District's website on how to access the hotline.*

B. ASB

- *Training is ongoing for the ASB.*

C. School-Connected Organizations

- *The School-Connected Organizations are reviewed on an annual basis.*

Chair Biehl asked that more detail be provided under the ongoing projects section. If the Work Plan is ready, it can be placed on the September Board agenda for approval by the Board of Trustees. Also to be included in the Work Plan is any item that develops from the District's external audit.

External Auditor

12. Discussion/Action: Annual Audit 2014-15

Joyce Peters, Partner at Vavrinek, Trine, Day & Co., LLP, will present an update.

External Auditor Joyce Peters informed the Committee that the external audit was completed this past June. Many of the issues were resolved during the audit. There is one item still pending. It is the Adult Education audit, which will occur in the beginning of September 2015. The plan is to review their cash receivables system. A report will be provided to the Committee once the audit has been conducted.

Joyce also mentioned that a financial audit will be performed in October, which will then conclude the entire audit. This should be concluded in time to report out to by the next Audit Committee Meeting.

This year the GASB 68 is a little different. In the past, the District has not recorded this number because the State has been able to extract the numbers, but the amount has always been entered in the audit report. It increases the revenue on behalf of what the State pays for the District and it debits payroll benefits. It is a wash for reporting purpose.

With GASB 68, they now want the District to record the amount in the general fund. This year, the behalf payment is \$5.5 million. It is a debit. The District increases its payroll benefit by \$5.5 million and it increases the State's grant by \$5.5 million. It is a wash. Since it will have to start being included in the District's general fund, it may have a slight impact on the available reserve calculation because it is 3% of the District's total expenditures. The District's expenditures will now increase by \$5.5 million. Some of the MOE calculations will be affected.

Chair Biehl asked, for clarification, if the District will have to record that particular amount and show that as part of the District's reserve.

Karen Poon stated that the reserve is based on general fund total expenditures. The District's expenditures will be increased by \$5.5 million, which will now be calculated in the general fund reserve percentage. The expenditure will be increased proportionately by \$5.5 million. The revenue is covered because it will be a wash.

Frank Biehl clarified that the District will have to increase its reserve by 3% of \$5.5 million.

Karen Poon affirmed the statement.

Superintendent / Associate Superintendent of Business Services

13. Discussion/Action: Child Nutrition Services

Marcus Battle, Associate Superintendent of Business Services, and Julie Kasberger, Director of General Services, will present the National School Lunch and Breakfast Program Administrative Review.

Julie Kasberger, Director of General Services, made a presentation to the Committee regarding the recent ESUHSD National School Lunch and Breakfast Program Administrative Review. The audit will occur every three years. Child Nutrition Services was notified in September, 2014, that there would be an administrative review/audit of the District's National School Lunch and Breakfast Program. The State and Federal government comes and reviews very specific areas of the program to ensure the District is in compliance. They want to ensure that the District is appropriately spending taxpayers'

dollars. There are five areas that are reviewed: meal accessibility and reimbursement; meal pattern and nutrient quality; resource management; general program areas (signage posted, civil rights adhered to, training, multiple languages for all documentation), and the summer seamless option (community feeding).

The District did very well this year. In the 28 years that Julie has been working in the field of child nutrition services, she has never had an audit where they have not had at least one finding on a meal application. East Side did not have one error on any of the 263 applications that were reviewed.

The three sites audited were Piedmont Hills, Yerba Buena and Wm. C. Overfelt High Schools. The staff at those sites did an incredible job, not only being prepared for the audit, but also answering the questions. Each day that the auditors returned from the sites, they were very impressed with the sites. The method used to select the sites for the audit, required the District to complete "pre-work" paperwork. The responses submitted by the District, determined the sites selected for the audit.

The review is a 54 page pre-test that must first be submitted electronically to the State and eight weeks in advance of the review date. During the audit, the auditors were stationed in the Lounge Conference Room. They were scheduled to be here for the entire week, but completed their entire audit in three days. The audit included a review of the Child Nutrition Services Program meal applications purchasing materials, sites and records.

East Side, because it is a large school district, operates with multiple federally funded program with the Supper Program. As a result of the District's Supper Program, there was also a comprehensive review that was administered. The Child Nutrition Services Program's financial records were audited. Every single PAR report was evaluated. They wanted to ensure that there was no comingling of federal dollars. They also wanted to ensure that no unauthorized purchased were made with the federal funds, as well as use of equipment solely for the purpose of Child Nutrition Services Program-related needs. The auditor was amazed by the review. As a result, there were no findings in the comprehensive review.

Pattie Cortese requested that Julie make a presentation to the Board of Trustees on the audit review. Superintendent Funk will ensure that the item is placed on the Board meeting agenda for a presentation to the Board of Trustees.

14. Discussion/Action: Fixed Asset Audit

Marcus Battle, Associate Superintendent of Business Services, and Andre Bell, Director of Purchasing and Capital Accounting, will present the results of the fixed asset audit performed by CPRS Fixed Asset and Inventory Solutions 2014-15 and the status of the recommendations in a matrix.

The District had, this past spring, a fixed asset audit performed by CPRS Fixed Asset and Inventory Solutions. The last audit was performed two years ago.

Assistant Director Andre Bell shared with the Committee what is being done to address the recommendations made in the audit. Based on the audit, there were six recommendations to improve fixed assets inventory. His office has been working with administration to address the recommendations and should be able to comply with the recommendations in the audit by March, 2016.

The recommendations are:

- *Develop a clear disposal process of assets*
 - *A review of the Administrative Regulation has been made, which will be amended for clarity on how to properly dispose assets.*
- *Develop a system to track portable assets, such as laptops, iPads*
 - *The District will be putting out an RFP for an asset management system, including a process/procedure when an employee leaves the District, notification is provided to Human Resources on items assigned to the employee, which must be collected prior to their departure from the District.*
- *Develop a system to assign assets to actual locations within a site*
 - *The new system allows assets to be assigned to a site, as well as room. The District will be able to run a report to determine how many assets are assigned to a particular room.*
- *Restructure the category and type library in the database to allow for more specificity on the list of assets*
 - *The new system allows for a larger list of asset categories. Assets will be categorized by type, model and manufacturer.*
- *Recommend assigning an employee to manage the fixed assets management system*
 - *The District hired a new Warehouse Specialist on August 24, 2015. The Specialist will perform 50% of his duties on the new Asset Management System.*

- *Move to a new fixed assets management system*
 - *The District is planning to solicit a Request for Proposal for an assessment management system. The proposal will be completed in September, 2015. The recommendation for a new system will be presented to the Board for approval at their October, 2015, Board Meeting. Once approved, the target date for system implementation is scheduled for March, 2016.*

Alternate Member Stephens asked if there is a way to relate problem tickets to asset items, such as laptops and iPads.

Andre Bell will check if the new system will be able able to integrate with the IT work order system in terms of the number of tickets submitted on a specific asset.

Member Reinke indicated that it would be useful information to have the ability to pull up problem tickets with a particular type of asset, such as a Dell computer.

It was asked if there is a possibility of theft with the asset inventory system.

Andre explained that one person receives the item and another person tags the item. It is not the same person performing both functions.

Audit Committee Business

15. Discussion/Action: Audit Committee Charter

Dan Juchau, Member, will present the Audit Committee Charter for review.

Member Dan Juchau presented the latest draft of the Audit Committee Charter. The changes that were previously discussed at the March, 2015, Audit Committee meeting have been included in the current draft.

Motion by Member Berg, second by Member Juchau, to accept the proposed draft revisions to the Audit Committee Charter.

Vote: 5/0

16. Discussion/Action Future Meetings

Audit Committee will schedule the next meeting dates and time.

The next meeting will be held on December 8, 2015, at 6 PM in Superintendent's/Board's Conference Room of the East Side Union High School District.

Vice Chair Cortese asked if it is possible to schedule more than just one meeting out.

The following future meeting dates were set by the Audit Committee:

- *March 22, 2016, at 6 PM – ESUHSD*
- *August 23, 2016, at 6 PM - ESUHSD*

17. Superintendent Communications/Comments

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

Marcus Battle reported that Moss Adams has been selected to perform the Bond Program audit. The initial kick-off meeting will be held in the next 1-2 weeks.

18. Audit Committee Member Comments

Individual Audit Committee members may report on programs, conferences, meetings attended and/or items of interest to the public. An Audit Committee member may wish to express a concern or observation about a topic not appearing on the agenda, or request items to be scheduled on a future agenda.

Jon Reinke commented that, every time he attends an Audit Committee meeting, he is impressed with the level of professionalism by staff. "Our students deserve no less than that, and they are being well served."

Chair Biehl commented that he is impressed with the work of the Committee, as well as the work by staff. "We are setting the standard for other districts, including the Santa Clara County Office of Education."

19. Future Agenda Items

The following items were requested for placement on a future agenda:

Item	Date	Requested By
<i>ASB Fundraising & Donating to Outside Group – Accessing ASB Funds</i> <ul style="list-style-type: none"><i>• What can be done?</i><i>• What is the necessary training?</i>	<i>December 2015</i>	<i>Frank Biehl</i>
<i>(to be listed under administration)</i> <i>Discussion/Action: Progress/Update on Internal Audit Reports</i> <ul style="list-style-type: none"><i>A. FY16-01 Facility Use Audit Report</i><i>B. FY16-02 Child Nutrition Services Audit Report</i>	<i>December 2015</i>	<i>Frank Biehl</i>

Calendared from prior meetings:

Item	Date	Requested By
<i>Appoint Subcommittee to review Charter</i>	<i>Fall (annually)</i>	<i>Frank Biehl</i>

20. Adjournment

Chair Biehl adjourned the meeting at 8:09 PM.

Respectfully submitted,



Frank Biehl
Board Audit Committee Chair