

MEETING AGENDA
Board Audit Committee

6:00 PM

August 25, 2015

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 Special Meeting will enable the District to make reasonable arrangements to ensure accommodation and accessibility to this meeting. Upon request, the District shall also make available this agenda and all other public records associated with this meeting in appropriate alternative formats for persons with a disability.

1. Call to Order/Roll Call

2. Introductions

3. Adopt Agenda

4. Special Order of Business

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

5. Public Comments

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

6. Approval of Minutes

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

Chair / Vice Chair

7. Discussion/Action: Updates

Frank Biehl, Chair, and Pattie Cortese, Vice Chair, will provide update.

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.

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.

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

B. FY16-02 Child Nutrition Services Audit Report

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

External Auditor

12. Discussion/Action: Annual Audit 2014-15

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

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.

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.

Audit Committee Business

15. Discussion/Action: Audit Committee Charter

Dan Juchau, Member, will present recommendations for changes to the Audit Committee Charter.

16. Discussion/Action: Future Meetings

Audit Committee will schedule the next meeting date and time.

17. Superintendent Communications/Comments

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

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.

19. Future Agenda Items

20. Adjournment

EAST SIDE UNION HIGH SCHOOL DISTRICT

Minutes of Meeting

Unapproved

Item 6

Board Audit Committee

March 24, 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 6:08 PM by Chair Frank Biehl.

Committee present:

Chair Biehl, Member Berg, Member Juchau, Member Reinke and Alternate Member Stephens. Vice Chair Cortese arrived at 6:11 PM.

Staff present:

- *Chris Funk*
- *Marcus Battle*
- *Juan Cruz*
- *Kelly Kwong*
- *Karen Poon*
- *Mary Guillen*

Presenter present:

- *Joyce Peters, External Auditor - VTD*

2. Introductions

Chair Biehl extended a welcome to the current, reappointed and newly appointed members of the Audit Committee. Persons present introduced themselves.

- *Board Member Frank Biehl – Previously serves as Vice Chair and is the newly appointed Chair*
- *Board Member Pattie Cortese – Newly appointed Vice Chair*
- *Dan Juchau – Reappointed Member*
- *Frank Stephens – Newly appointed Alternate Member*
- *Bruce Berg – Continuing Member*
- *Jon Reinke – Continuing Member*

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.

None

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 Chair may agendize the item for a future meeting.

There were no public speakers.

6. Approval of Minutes

Action: Minutes from the December 2, 2014, meeting will be presented for approval.

Motion by Member Berg, second by Member Juchau, to approve the Board Audit Committee Minutes of December 2, 2014.

Vote: 4/0, Member Cortese abstained because she was not in attendance at the last meeting

Chair / Vice Chair

7. Discussion/Action: Updates - Frank Biehl, Chair, and Pattie 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 and provide a copy of the Internal Control Self-Assessment Questionnaire

Kelly Kwong, Senior Manager of Internal Controls, indicated that the questions in the Self-Assessment Questionnaire mainly came from the External Auditor's Audit Plan and FCMAT's sample questions. The Questionnaire has been launched at four East Side schools. This is a tool that is used to understand where there is a need for development and training areas. As each School Finance Clerk completes the Questionnaire, Internal Auditor Kwong reviews the results with them. Any areas noted as "no" or "don't know" are discussed with them.

Member Juchau suggested that signature lines be added for the Activities Director and Principal to review and sign the Questionnaire. Internal Auditor will work with Business Services to update the form, which will include the two signature lines. .

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.

Since the last update, there have been no reports of fraud, waste and/or abuse. The two years that Internal Auditor Kwong has been with the District, the only report made was in September 2013, which was a personnel-related matter. Internal Auditor Kwong makes sure that persons are informed on the availability of the hotline. A link to the hotline can be found on the District's website and each school's website, specifically their homepage.

External Auditor

10. Discussion/Action: Annual Audit 2014-15

Joyce Peters, Partner at Vavrinek, Trine, Day & Co., LLP, will present the 2014-15 engagement letters and the scope of work to be performed for the overall annual audit and bonds.

The engagement letter issued is a standard letter. Page one of the letter notifies the District the item(s) the external auditor is looking into in detail. The findings will be listed in the audit report, including opinions on the item(s). Page two discusses the objective of the audit. Their objective is to express opinions on the District's financial statement. The State wants the external auditor to review the District's internal controls and, based on the

controls, they will design their audit. Page two also states that the audit is not designed to detect fraud, but if they do come across fraud, it will be reported to the District.

The next area is Management's Responsibility. The external auditor assists the District with the development of creating a draft financial statement. The external auditor also helps with the conversion entry from modified accrual to full accrual. The financial statement is sent to the District for review. Page 5 discusses the fees and how the District is billed, including information on disputes and the mediation process. The letter is substantially the same as last year's letter. It is the standard language as used with other districts.

11. Discussion/Action: New Governmental Accounting and Auditing Standards

Joyce Peters, Partner at Vavrinek, Trine, Day & Co., LLP, will present the two new governmental accounting and auditing standards.

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*
- Audit guidelines on the Local Control and Accountability Plan (LCAP)

GASB 68 has net pension liability and must be recorded. This is a reporting mandate. It does not affect fund accounting. When the District finishes their books at the end of the year for the unaudited actuals, this does not affect the numbers in the unaudited actuals. When the District is working on their audit report, the modified accrual is converted to a full accrual and this number has to be recorded there. The CalSTRS net pension liability is reviewed, \$58.4 billion statewide. The District will share in how the State calculates their share. The District's share is .23%:

.23% multiplied by \$58.4 billion = District's share is \$134 million

This amount is recorded as a District long-term liability in their entity-wide statement. Currently, the District's net assets are less than this amount. Once the amount is recorded, the book is going to be a negative fund balance in net assets. This will show in the balance sheet statement. This is just CalSTRS. CalPERS has not provided the District their report yet. The District may have to pay for CalPERS' report; they will have to request the report.

It was suggested that a footnote be included which explains GASB 68 in their printed financials. It was also suggested to include it in the Management Discussion and Analysis (MD&A).

The page regarding the LCAP discusses, step-by-step, what the external auditing is looking for. Mainly, what they look for is that the Board approved the LCAP based on the timelines. LCAP expenditures are reported in a certain area.

Superintendent / Associate Superintendent of Business Services

12. Discussion/Action: Instructional Minutes

Marcus Battle, Associate Superintendent of Business Services, and Juan Cruz, Associate Superintendent of Instructional Services, will present a summary of instructional minutes by school site.

Juan Cruz, Associate Superintendent, presented information regarding instructional minutes. Instructional minutes may differ due to grade level, which is oftentimes a result of testing. When schools go into testing at their site, they go into a special schedule, and administer their testing by grade level, such as the CAHSEE 10th grade testing that was done in February. Tenth grade students attend testing the first part of the day, when they finish testing, then all other grade levels report to school. It is a short day for the other grade levels and a full day for 10th grade students. PSAT is similar. The same will occur with the Smarter Balanced testing; bell schedules will need to be modified. Testing is counted as instructional minutes as long as there is a teacher supervising the testing. Passing periods are also included in instructional minutes.

Where there is a higher level of instructional minutes, it is due to 7th period at the sites or a reserve for changes in a school's bell schedule for more collaboration or in the event of an emergency where students need to be brought in early. In some cases, the District can ask for a waiver from the State. In the event a waiver is not granted, they use those excess minutes for not going under the bare minimum of 64,800 minutes. Most of our schools are close to 70,000 in instructional minutes.

13. Discussion/Action: Copier Conversion Cost Savings Analysis

Marcus Battle, Associate Superintendent of Business Services, will present the copier conversion cost savings analysis.

The District will be doing a full year analysis, before and after on the copier conversion. Prior to the consolidation, the District generated approximately 32 million printed pieces of paper. With the analysis, dated 03/01/14 to 03/01/15, the District is at 21 million printed pieces of paper. We have been able to reduce our printing by 11.2 million. With the new copiers, a key card must be used in order to print documents and/or copies. This has created more efficiency and has helped to keep copier costs down. In copier/printing cost,

we have saved approximately \$74,000/year and approximately \$58,000 in paper cost; a combined total of \$132,000/year. We are leasing the copier; they will be upgraded in five years.

14. Discussion/Action: Oak Grove High School Band Boosters and Bingo Fundraiser

Marcus Battle, Associate Superintendent of Business Services, will provide an update with legal opinion.

Chair Biehl indicated that there was a recommendation made to the Board to approve the Oak Grove High School Band Boosters to solicit contributions or funds on District property with conditions. It was found that some of those conditions could not be met. The San Jose Police Department does not permit their off-duty officers to serve in any capacity at a gambling operation, including bingo. The District's stipulation that they had to have an officer there could not be carried out.

Associate Superintendent Marcus Battle indicated that the District came to an agreement with the Oak Grove High School Band Boosters that they would provide two security guards. There was also an agreement to increase the insurance requirements.

Internal Auditor Kelly Kwong mentioned that the San Jose Police Department only issues annual permits. The Oak Grove High School Band Boosters' permit will expire December 2015. Kelly will follow up with the Boosters to make sure that the renewal is submitted/issued prior to January 2016.

Mr. Battle stated that Kelly is doing a great job reviewing the Booster's financials. The fiscal year ends in June. Their audited financials are due to the District in November.

Member Juchau asked if it was legal to have bingo on school property.

Chair Biehl stated that, according to opinion by Legal Counsel, there is no prohibition to have bingo on school property.

Audit Committee Business

15. Discussion/Action: Audit Committee Charter

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

Member Juchau presented to the Committee proposed changes to the Charter. After some discussion by the Committee, the following changes were made to the Charter:

Page 1:

II: Mission

- 1) *a: Delete sentence*

Page 2:

II: Mission

- 2) *make changes as noted in proposed document (delete “/”; add “and”)*
- 4) *make changes as noted in proposed document (delete “/”; add “or”)*

III: Membership

- 1) *make change as noted in proposed document (remove “,” in “members,” Bottom of page (last paragraph): change from “terms” to “years.” Chair Biehl to rephrase paragraph and send to Legal Counsel for review.*

Page 3:

III: Membership

- Exceptions – (d): Chair Biehl to rephrase language*

Page 4:

IV: Duties and Responsibilities

- First paragraph: Add the word “may” as recommended*
- Items 1 through 6: Remove “s” in “Reviews”*
- Delete sentence: The Audit Committee reviews the ESUHSD’s procedures for monitoring compliance with the Code of Conduct.*

Page 6:

IV: Duties and Responsibilities – External Auditors

- Delete sentence: All accountants thus engaged report directly to the Audit Committee that will oversee the accountant’s work and evaluates their performance.*
- Add “may” and remove “s” in “includes” – to read as follows: The Audit Committee’s oversight responsibilities may include:*
- d) suggested: Any findings by the external auditor -- Chair Biehl to rephrase language*
- Change the word “independent” to “external” throughout entire document*

Page 8:

IV: Self-Assessment

Delete in line 4: "in a written report,"

Delete last paragraph: The Audit Committee Chair, at the request of the Board, shall take responsibility for the immediate review and approval of the Internal Auditors hours, vacation requests and expense reimbursements.

16. Discussion/Action Future Meetings

Audit Committee will schedule the next meeting dates and time.

The next meeting will be held on Tuesday, August 25, 2015, at 6 PM in Superintendent's/Board's Conference Room of the East Side Union High School District.

17. Superintendent Communications/Comments

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

No item(s) to report under this section

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.

No items reported under this section

19. Future Agenda Items

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

<i>Item</i>	<i>Date</i>	<i>Requested By</i>
<i>Fixed Asset Audit</i>	<i>August 26, 2015</i>	<i>Marcus Battle</i>

Calendared from prior meetings:

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

20. Adjournment

Motion by Chair Biehl, second by Member Berg, to adjourn the meeting.

Chair Biehl adjourned the meeting at 7:50 p.m.

Respectfully submitted,

*Frank Biehl
Board Audit Committee Chair*



Preparing every student to thrive in a global society.

Item 10A

August 21, 2015

Report: Facility Use Audit Report (FY16-01)
Report to: Frank Biehl, Audit Committee Chair, and Pattie Cortese, Audit Committee Vice-Chair
Report by: Kelly Kwong, Senior Manager of Internal Controls

Objective

The following reports the observations of an Internal Audit review of the Use of School Facilities policies and procedures. This was a compliance and process review aimed at discovering opportunities for improvements.

Scope / Procedures

Internal Audit interviewed eight school administrators and examined records on file at five school sites from December, 2013, through May, 2014, to determine compliance with District policies and identify any operational improvements. Internal Audit also interviewed six facility users during July 2014.

The following policies were reviewed:

1. Board Policy 1330 Use of School Facilities
2. Administrative Regulations 1330 Use of School Facilities
3. Administrative Bulletin No. 08 Use of School Facilities

Auditor's Summary and Conclusion

Key observations and recommendations were noted as follows:

1. Lack of independence and district oversight
2. Lack of transparency of reservation calendar
3. Lack of completeness and reasonableness review of fees
4. Lack of completeness of records including insurance
5. Various policy and form versions
6. Policies need update and compliance

Please refer to the "Observations and Recommendations" and "Process Improvements" sections of this report for a detailed discussion of items identified and Internal Audit's recommendations to address those items.

Distribution List:

Superintendent's Council

East Side Union High School District Board of Trustees

J. Manuel Herrera, President Van Thi Le, Vice President Magdalena Carrasco, Clerk Frank Biehl, Member Lan Nguyen, Member
Chris D. Funk, Superintendent

A. Observations and Recommendations

Observations and Recommendations in this section are highly recommended and Internal Audit will follow up to determine how management has addressed these items within an agreed time frame.

1. Lack of Independence and District Oversight

For the majority of the school sites, one person manages the entire process from beginning to end. Some sites lack independence with facility users due to the historical relationship and the negotiation of deals and in-kind services. It is difficult to determine whether there are facilities rented outside the District procedures. At the time of this review, some users were getting favorable discounts for their league groups not affiliated with the District.

Recommendation

District Office should approve all facility use to provide oversight and an independent review for checks and balances to prevent one person from managing the entire process. After the school site approves the application, a District Office representative should review to determine whether in-kind services are quantifiable, equitable, transparent and benefiting the District and not an individual personally. District Office can determine whether negotiated fees are inconsistent at one school site compared with all other school sites and ensure fee discounts are fair. Business Services and Facilities should be aware of facility usage to ensure completeness of fee collection and wear and tear of facilities to ensure there is time for maintenance. Requiring District approval is industry norm.

2. Lack of Transparency of Reservation Calendar

Majority of the school sites reservation calendar system access is limited to only a few school site individuals. Without a transparent calendar, it's difficult for others to determine if the facility user had authorization for use of the facility. Coaches with keys could allow facility access to leagues, not affiliated with the District, without going through the proper channels. Without a transparent reservation calendar, approved facility users could allow others to use the facility without the proper approval.

Recommendation

District should implement a transparent reservation calendar system to facilitate coordination among all interested parties. If the public, District staff and the hired security company had access to a transparent calendar, anyone can report any unauthorized facility use. With a transparent calendar, facility availability is known right away, which allows for possible increase usage and income.

3. Lack of Completeness and Reasonableness Review of Fees

There is not an independent review for completeness or reasonableness of facility fees. Business Services accepts fees without a forecast of what is expected. Although Business Services maintains an itemized schedule of fees received among other data, the schedule is incomplete and not reconciled with the school sites. The school sites facilitate the fee collection from facility users and forward fees to Business Services, but do not receive positive confirmation from Business Services whether amounts are actually deposited into the school accounts. Business Services expects the Principal's Secretary to access the Accounting System, but majority do not and not enough information is recorded in the Accounting System that would allow school sites easy interpretation. Without a transparent reservation calendar system to reconcile against, it is difficult for both the school site and Business Services to determine if all fees were collected from all facility users and properly deposited into the school accounts at the District Office.

Recommendation

A transparent reservation calendar system should be implemented, which would allow Business Services to forecast fees and collect on all outstanding fees due. School sites should receive an itemized list of fees collected to positively confirm all fees are properly recorded.

4. Lack of Completeness of Records Including Insurance

Although District policy requires files to be kept in a centralized location, some files are kept at the Business Services versus at the school sites, but it was difficult to determine whether files were complete. Although Business Services was tracking receipt of required documents, there was no follow up with school sites or facility users for missing documents, including proof of insurance. Some long time facility users were considered 'grandfathered in' and, therefore, have not completed any forms or provided any required documents, including proof of current insurance.

Recommendation

Documents should be imaged and stored in an electronic repository so the District and the schools sites both have instant access to ensure records are complete prior to use of facilities. Originals should be consistently stored centrally. Facility users should not be allowed to use the facility, unless all required documents are on file. District Office must play a more active role and enforce the policy.

5. Various Policy and Form Versions

Policies were sent out via e-mail, but it was not consistently forwarded onward. Therefore, school sites were using various versions of the policies. District's policies repository is BoardDocs and available online, but majority of school sites were not aware and were not accustomed to accessing BoardDoc. One school created its own version and altered the payment instructions payable and mailed to the high school instead of the District Office. One school provided a confirmation letter, which is not part of the current policy. One school signed the facility user's agreement stating facility user had exclusive and first right of refusal to use a certain facility.

Recommendation

Policies and forms should be easily available to the general public and centrally located for easy access, possibly the District public website like other school districts. Payment instructions should be clear and consistent to avoid any inappropriate interception. School sites should not alter the forms but participate in the revision process at the District Office level. School sites should not sign facility user's terms or agreements.

6. Policies Need Update and Compliance

Policies are not consistently complied or enforced and has not been updated to be in compliance with California Education Code and California Senate Bill No. 1404 School Property: Civic Center Act, effective January 1, 2013.

The majority of facility users claim to be non-profit to get reduced fees, but there is no evidence to validate non-profit status claim.

There was a range in compliance with the updated fee schedule approved July, 2013. Some former facility users could not afford the new rates and left without any negotiations; therefore, facility was not rented out and income was lost. Some users continued to pay their previous rates without any regards of the updated fee schedule. Significant discounts were granted to some users.

In another example, the District policy requires a \$50 application fee, which does not appear to be collected based on the sample reviewed. Industry standard is \$25 application fee. District policy fee schedule is standard across all schools; whereas, some other districts fees is specific to each school facility.

All school sites understood that they managed short-term facility uses and long-term facility uses were referred to the District's Contract Administration Coordinator to negotiate an

agreement. The District policy defined short-term as 90 days or less, but some schools claimed they were not aware. Policy was not complied with and not enforced.

Recommendation

Policies should be updated and revised to ensure they are in compliance with current laws, reasonable, practical and enforceable. School sites should comply with the policies and District should enforce policies. All facility use applications should be processed consistently with school site as first approval followed by District approval as oversight.

B. Process Improvements

Process Improvements in this section are optional and for management's consideration without Internal Audit's follow up.

1. Emergency Contact

It was not obvious or clear if emergency contact information was easily accessible, especially when school is not in session. The hired security company appears to be underutilized per one school site.

Emergency contact information should be publically posted online on the District's website, physically posted throughout the school sites and included on the application and permit to use forms. District should have a District security phone number, which dispatches the private security either directly or through a District representative. Security should be accessible 24 hours, 7 days a week.

2. Internal and External Customer Service

Some schools sites prefer to self-manage and avoid working with the District Office with claims that the District lacks timely responsiveness and causes unnecessary delays. Some school sites also claim that their facility users are treated unprofessionally; therefore, prefer not to refer users to the District Office. Hard copy documents are sent through the pony mail, but sometimes not routed correctly and sits unattended causing delays. There were some calendar reservation and fee negotiation conflicts between the District Office and school sites.

Internal and external customers should be treated professionally and with timely responses. Requests should be scanned into an electronic repository with responsible owner assigned immediately to avoid documents sitting unattended. Request dates should be tracking to ensure timely response and resolution. School sites and the District Office should coordinate and communicate fee negotiations and calendar reservations for better customer service internally and externally.

3. Fee Payment Options

Some facility users and school sites have complained about the limited fee payment options of just checks and money orders. Some facility users insist on paying with cash.

District should explore additional fee payment options, such as accepting charge cards. If cash is accepted, additional cash handling procedures should be implemented to ensure cash is intact, transparent and complete.



Preparing every student to thrive in a global society.

Item 10B

Date: August 21, 2015
To: Frank Biehl, Audit Committee Chair, and Pattie Cortese, Audit Committee Vice-Chair
From: Kelly Kwong, Senior Manager of Internal Controls
Subject: Child Nutrition Services Audit Report (FY16-02)

EXECUTIVE SUMMARY

Objective

The following reports the observations of an Internal Audit review of the Child Nutrition Services (CNS) Program and school kitchens. This was an operational review aimed at discovering opportunities for financial improvements and where internal controls can be implemented.

Scope / Procedures

Internal Audit conducted interviews and site visits with Child Nutrition Services employees at 12 high schools and several District Office staff from September 2014 to January 2015, to obtain an understanding of the processes, physically observe the operations and examine documents used by employees. Internal Audit also performed financial analyticals without any detailed testing.

Auditor's Summary and Conclusion

Key observations and recommendations were noted as follows:

1. Lack of actual to budget by site, by month and management reports
2. Lack of District inventory management system
3. Competitive bid and contract price
4. Manual payroll lacks positive confirmation
5. Lack of point of sales system for a la carte items
6. Need to automate and analyze production plan and results
7. Vending machines lack segregation of duties
8. Daily meal counts and deposits reconciliation
9. Free and reduced lunch applications

Please refer to the Observations and Recommendations and Process Improvements sections of this report for a detailed discussion of items identified and Internal Audit's recommendations to address those items.

Distribution:

Superintendent's Council
Karen Poon, Director of Finance

East Side Union High School District Board of Trustees

Van T. Le, President

Lan Nguyen, Vice President

Frank Biehl, Clerk

J. Manuel Herrera, Member

Pattie Cortese, Member

Chris D. Funk, Superintendent

830 N. Capitol Ave.

San Jose, CA 95133

T 408.347.5000

F 408.347.5015

esuhsd.org

TABLE OF CONTENTS

Page

A. OBSERVATIONS AND RECOMMENDATIONS

Observations and Recommendations in this section are highly recommended and Internal Audit will follow up to determine how management has addressed these items within an agreed upon time frame.

1. Lack of Actual to Budget by Site, by Month and Management	3
2. Lack of District Inventory Management System	3
3. Competitive Bid and Contract Price	5
4. Manual Payroll Lacks Positive Confirmation	6
5. Lack of Point of Sales System for A La Carte Items	6
6. Need to Automate and Analyze Production Plan and Results	7
7. Vending Machines Lack Segregation of Duties	8
8. Daily Meal Counts and Deposits Reconciliation	8
9. Free and Reduced Lunch Applications	9

B. PROCOESS IMPROVEMENTS

Process improvements in this section are optional and for management's consideration without Internal Audit's follow up.

1. Competitive Sales by Street Vendors, Teachers and Associated Study Body (ASB) Groups	9
2. District Support, Adequate Resources, Skill Sets and Accountability	10
3. Communication, Customer Service, Rebranding and Timing	10
4. Multiple Locations, Long Lines and Student Identification Cards	11
5. Vending Machine Optimization	11
6. Charter Schools	12
7. Catering	12
8. Equipment and Storage	13
9. District Wide Drink Solution	13
10. Employment of Relatives	13
11. Safeguard Inventory	14
12. Complimentary Meals and Leftovers	14
13. Need Planning Before Launching	14
14. District Warehouse and Vendor Delivery Schedule	15
15. Unwanted Items Discarded Versus Share Area	15
16. Employee and Student Safety	15

A. OBSERVATIONS AND RECOMMENDATIONS

Observations and Recommendations in this section are highly recommended and Internal Audit will follow up to determine how management has addressed these items within an agreed upon time frame.

1. Lack of Actual to Budget by Site, by Month and Management Reports

Current accounting system records budget by total object code for the fiscal year without details by site or by month. The Director of General Services created a budget by site, by month on Microsoft Excel when the budget was initially estimated, but the file is not consistently updated with actuals. Business Services provides fiscal year-to-date actuals against total fiscal year budget about three times a year, but information is not meaningful without more detail. Current Business Services support is transactional, but more management reports are needed. Without detailed data, operational performance and efficiency cannot be measured and management cannot determine which sites need improvement.

Recommendation

Detailed budgets by site and by month should be loaded into the accounting system with actual results measured against budget on a monthly basis. Each site CNS Manager should be given their budget and performance should be measured against the budget. CNS Management should take timely corrective actions when monthly actual exceeds budget. More data analysis should be performed so financial performance and operational efficiency is monitored.

Management Response

Actual results will be recorded and budgets will be loaded by site and by month in the District accounting system effective July 1, 2015, and onward.

2. Lack of District Inventory Management System

Inventory Management System

District does not have a District sponsored inventory management system or perpetual records. The Warehouse Worker created his own software and maintains it himself by manually entering items received and shipped out based on individual records, but there is no reconciliation against the accounting system for accuracy or completeness. The Warehouse Worker updates his inventory management system monthly based on his own month end physical counts, which lacks independence. Although he noted discrepancies, mainly shorts in vending, there was no investigation, follow up or explanation.

Physical Inventory

Monthly physical inventories are recorded at the total level in the accounting system and not recorded by site. Physical inventory results from each site are compiled and presented to Business Services for recording without approval from CNS Management or any reconciliation against an expected balance from perpetual records. Submissions from each site are not submitted timely and results are not questioned. Although CNS Management requires a Damage and Discard List is maintained, sites are not consistently recording activities or providing information to CNS Management.

Filling Orders, Adequate Stock On-Hand

The Warehouse Worker provides on a monthly basis a list of available items in the District Warehouse for the sites to order from. With limited quantities, not all site orders will be completely filled. Site CNS Managers stated short order notifications lack timeliness, but CNS Management responded that site CNS Managers are failing to submit requests timely. If items cannot be purchased and delivered in time by the outside food vendor, Sysco, site CNS Managers will pull inventory from a future planned meal, which then causes that future planned meal to be short. It's a domino effect.

Reorder Points, Decentralized Purchasing

Although the Warehouse Worker offered to note inventory levels that would trigger a reorder point, CNS Management has not had time to focus on purchasing. Reliance is that site CNS Managers make their own purchases from the outside food vendors. Purchasing is decentralized and site CNS Managers have a lot of autonomy without purchase order dollar limits and/or quantity limits.

Open Purchase Orders, Not Limits

Site CNS Managers place their orders directly with the outside vendors with no limit on the dollar amount. Main food vendor is Sysco and there are different vendors for milk, bread and produce. The Child Nutrition Supervisor mainly reviews the Sysco food order after the fact to ensure items were District approved. Review is manual and it is difficult to determine whether order mistakes were intentional or accidental.

Aging of Inventory

There were cases of expired vending items not servable. Vending items usually have a longer shelf life. CNS Management stated that it is possible that the items no longer met current nutritional guidelines. Some effort was made to offer items as catering prior to the expiration date but there was still cases of inventory that expired and was wasted.

Proper Recording of Transactions

Documents were not processed in the proper sequence. When the sites order inventory from the District Warehouse, the CNS Account Clerk transfers the expense from the District account to the site, but because purchase invoices were not recorded timely, the transfers created negative balances. Recording transfers to school sites are manually intensive with little benefit currently unless all costing is tracked by school sites.

Recommendation

District should have an inventory management system that links directly with the accounting system for oversight and management of inventory with perpetual records. Documents should be processed sequentially and timely. To reduce the manual data entries, District should automate and leverage the accounting system's workflow moving the inventory from purchasing, receiving, asset account when held and expensed when utilized. Inventory management system should manage the aging of the items to prevent expiration and track the physical location. A perpetual inventory system is ideal so individual items are tracked and there is an expected quantity for physical counts to compare against.

CNS Management should proactively manage the inventory orders and levels, avoid waste and spoilage, push out what is available, especially for catering, and consider centralizing the purchasing responsibilities. Given the menu and meal count served by school is known, CNS Management can work with Purchasing and centralize the purchasing responsibility, which would provide better segregation of duties and prevent any conflict of interest or self-interest at the school sites. If purchasing responsibility remains decentralized, then purchase orders should have dollar limits for each site and each vendor and site actual to budget expense must be monitored. Arrangements should be made with vendors what site CNS Managers can and cannot order to avoid order mistakes or unauthorized items.

Sites must perform and submit monthly physical inventories in a timely manner. CNS Management should reconcile results against a perpetual record and approve any adjustments prior to Business Services recording results especially material write-offs. Inventory usage and balance should be recorded by the school site in order to enable meaningful data analysis. CNS Management should review the Damage and Discard List systematically and ensure reconciliation of all inventory is complete and accounted for.

Management Response

Business Services will review the accounting system to determine whether inventory management modules can be utilized. CNS Management with inquiry with other school districts to benchmark other inventory management solutions.

3. Competitive Bid and Contract Price

CNS Management states they have met their competitive bid requirements. The open purchase order with their main food vendor, Sysco, originated 9 years ago. The main milk vendor prices increased 2%-7% as compared with the prior year. It is unclear whether the invoice price is in agreement with contract price.

Recommendation

In an effort to reduce cost, the District Office should, once again, solicit competitive bids. The CNS Account Clerk should check actual invoice prices against the contract prior to processing invoice for payment.

Business Office should review its accounts payable process to ensure all invoices with open purchase orders, beyond CNS, are in alignment with contracts prior to payment.

Management Response

The CNS Account Clerk will review all invoices to ensure consistent unit prices are in agreement with contract prices.

4. Manual Payroll Lacks Positive Confirmation

Payroll is processed by manual timesheets, which are prone to human error and falsification. Timesheets could be altered after CNS Manager approves or employees can forge a CNS Manager's signature, especially for substitutes who hold their own timesheets and submit directly to the District Office. Processed payroll files are sent to the Director of General Services, but it is not realistic to detect errors or ghost employees given the large volume and not knowing all student cashiers at every school.

Recommendation

District should automate the payroll process, including a card swipe time clock system, so reporting and approvals are done online. Processed payroll files for a particular site should be sent to the specific site CNS Manager for review to ensure accuracy. Actual expense compared with budget should be monitored by site and by month to determine if there are any overages.

Management Response

Business Services will provide a processed payroll file by site each month for the site CNS Manager's review.

5. Lack of Point of Sales System for A La Carte Items

There is no system to track 'a la carte' sale items, such as water, chips, burritos; basically, individual items that are not full meals. Items are sold for cash only at a location away from the kitchen by one employee with limited supervision and maybe help from a few student cashiers. A la carte cash transactions have had a few employee thefts in the past. The area lacks segregation of duties since one employee handles the entire process with no total to reconcile against.

An inventory count reconciliation against cash collected form was implemented several years ago, but lacks independence since employee selling is the one reconciling. A second employee counts the inventory, but does not assist with the reconciliation. Also, the kitchen is so busy that an employee can load more inventory onto the cart undetected. Some employees struggle to complete the manual reconciliation, which is prone to human error. Although site CNS Managers must sign the reconciliation, not all are actually reviewing the results.

All the forms are forwarded to the District Office, but it does not appear the District Office is reviewing or following up for timely submission. There is a lot of employee time devoted to this labor intensive reconciliation, but reliance and benefit is questionable. One school proactively automated the reconciliation using Microsoft Excel, which is easier to review and analyze, but lacks the checks and balances of several reviewers and was not approved by CNS Management.

Recommendation

District should implement a point of sales system for a la carte items so students can prepay onto their student ID and eliminate some of the cash handling. Also, a point of sales system can possibly be linked to the inventory management system for better inventory control. A system will generate a total sales amount to reconcile the cash deposit, assuming all transactions are entered into the system. CNS Management began discussions with the Information Technology Department to investigate modern card reader systems that will leverage the current student tracking system.

If the District cannot get a point of sales system timely, the reconciliation in the meantime should be automated on Microsoft Excel and performed by someone independent of the seller, such as the site CNS Manager. Employees should be trained to ensure all reviews and approvals are obtained for proper checks and balances.

Management Response

CNS Management and the Information Technology Department have evaluated several system solutions that will be presented to Business Services for consideration of implementation.

6. Need to Automate and Analyze Production Plan and Results

Each site CNS Manager manually creates their own daily Production Plan, which outlines the daily menu noting the quantities made, sold and excess. Process is judgmental and based on site CNS Manager's personal experience. Hardcopies are forwarded to the District Office with minimal oversight review or site accountability on performance efficiency. There are no consequences for producing more to have leftovers to keep personally or simplifying the menu items for ease and less work at the detriment of customer satisfaction.

Recommendation

Production Plan should be automated so CNS Management can perform data analytical, especially for overages and waste. Statistical trend analysis should more accurately estimate production quantities. CNS Management should leverage the NutriKids system, which has meal planning and costing capabilities. Production planning responsibility could be centralized since menu and student meal trends by school is known. Site CNS Manager could adjust the Production Plan knowing the activities on campus.

Management Response

CNS Management has reviewed the NutriKids system licenses to enable site CNS Manager online access. Training will be provided.

7. Vending Machines Lack Segregation of Duties

The vending machines are managed by one person who is responsible of the entire transaction without any checks or balances and lacks segregation of duties. Without inventory control, merchandise inventory and sales cannot be accurately reconciled.

The Vending Technician takes the cash from the vending machine to the School Finance Clerk to count and deposit, but the School Finance Clerk does not have a total to expect. Record of total sales is on the vending machine, which the Vending Technician copies on a Daily Sold Sheet, but the School Finance Clerk is not given that paper. Forms are forwarded to the District Office, but no one is reviewing them. The sale counters on the vending machines are not reliable since it periodically resets to zero during power outages.

Overall vending has been operating at a net loss. Given the unit profit margin, vending should be profitable.

Recommendation

CNS Management should explore ways to segregate the vending duties and include the school site CNS employees and School Finance Clerks. Someone other than the Vending Technician should review the Daily Sold Sheet against the actual deposits and periodically check the sale count against the vending machines. With stronger inventory management control and deposits reconciled against counters, vending program should be profitable.

Management Response

CNS Management is exploring other vending set up options.

8. Daily Meal Counts and Deposits Reconciliation

Site CNS Managers are not following written procedures and were not consistently entering daily meal counts and deposits timely and caused the Business Services to book monthly preliminaries, reverse and then record finals. Business Services was doing the work twice, which has since stopped. Site CNS Managers made updates to closed months, which caused discrepancies that outside agencies could question the overall integrity. Deposit differences between WebSmart and the bank statements are noted, but not consistently resolved. CNS Management recently discovered recording corrections for Business Services.

Recommendation

Daily meal counts and deposits must be strictly entered daily and procedures should be followed. Employees should be held accountable for performing their assigned tasks and given training and written discipline when needed. The site CNS Managers' access to prior

months should be removed and any retroactive entries should only be made by the District Office. Deposit discrepancies should be timely escalated for resolution and correction.

Management Response

Business Services will work closely with CNS Management to resolve discrepancies on a monthly basis.

9. Free and Reduced Lunch Applications

From the perspective of site CNS employees, there appeared to be students who should have qualified for the free and reduced lunch program, but were not on the plan and also a concern about the long time lag from application to acceptance into the plan. Students were seen asking fellow students in lunch lines to share food. A few parents complained about the accessibility and difficulty to apply and respond to inquiries. CNS employees at the District Office physically reside in the back of the building and are not easily accessible by the general public.

Recommendation

CNS Management should devise a structured plan to enroll students in the free and reduced lunch program and clearly communicate the plan and deadlines to each school site before school starts. CNS Management should post information online and clearly identify customer support individuals and respond timely for better customer service. CNS employees should consider relocating to the front of the District Office in the Business Services part of the building in order to be more accessible to the general public.

Management Response

CNS Management will develop a plan and present it for approval prior to the new school year.

B. PROCESS IMPROVEMENTS

Process improvements in this section are optional and for management's consideration without Internal Audit's follow up.

1. Competitive Sales by Street Vendors, Teachers and Associated Student Body (ASB) Groups

There were street vendors selling food on the sidewalks and across the street from the schools. It appears there are instances where some teachers are selling food and soda in their classrooms for non-fundraising purposes, which is prohibited. ASB groups sell food on campus as fundraisers, but are not strictly in compliance of regulations. One school bank sells ice cream supposedly 30 minutes after the end of the school day, but could lack the self-control and discipline to adhere to the rules.

Recommendation

District should determine if street vendors can be asked to stay away so many yards from the school and/or whether vendors need a permit to sell. District should determine whether actions by vendors are in violation of any education code or health code. All fundraisers should have a request for approval from ASB and CNS. Students and teachers should be made aware of the competitive food sale restrictions and nutritional guidelines. Employees should not solicit or sell items, per Board Policy 4135, 4235 and 4335.

2. District Support, Adequate Resources, Skill Sets and Accountability

Site CNS Managers stated they lacked CNS Management support and responsiveness; although well liked and sympathetic to workload, District Office is perceived as reactive versus proactive. There were several unfilled positions and substitutes were used more this year than previous years. Substitutes may lack the proper training and continuity. It is a constant learning curve. Several current employees were rushed to complete their task; therefore, did not take breaks. There were instances of late to serve and short cuts were taken.

Recommendation

CNS Management should determine if they are adequately staffed and place the proper skill sets necessary where it is needed. District Office should reevaluate its hiring requirements and process to obtain qualified candidates. CNS should consider hiring more students to work during the lunch rush. If an employee is receiving full benefits, the employee should work a full eight hour day.

CNS Management should consider a formal internal communication mechanism so requests are tracked for timely response and completeness for better internal customer service and District support.

3. Communication, Customer Service, Rebranding and Timing

Some site kitchens operate with minimal communication with site administration. There have been instances when the CNS Manager was unaware of an event and meals were prepared, but few to none of the food was consumed.

A Small but Necessary (SBN) School has the same lunch bell schedule with the comprehensive school, but SBN students want to avoid the large crowds; therefore, do not approach the CNS area.

A Continuation School is being serviced by a school with multiple meal services; therefore, menu is limited and food is delivered significantly earlier than the lunch service time and so it sits in the warmer for an extended period of time.

Recommendation

There should be a formal site employee, possibly the Assistant Principal of Administration, who is responsible for communicating with site CNS, especially if it impacts the number of meals. CNS should rebrand itself and try to accommodate customer requests and change the negative perception with employees and then students.

SBN Schools should be served at a different time than the comprehensive schools.

The Continuation School should be serviced by another nearby school and serve the full menu at a more reasonable time.

4. Multiple Locations, Long Lines and Student Identification Cards

Several sites had multiple food serving locations, which is cumbersome and time consuming to transport the food. Food was sometimes kept in transport trays and not moved into warmers, which potentially could fail the temperature requirement. At one school, a location sold out an item versus another location that had excess of the same item. There was no communication, which caused employees to fail to redirect students or move the excess to the sold out location.

Students complain about the long lines. There are three schools that have speed lines where students walk through a line to pick up food instead of using windows. Majority of schools have students key in their identification number into WebSmart keypad, meal count system, or they verbally tell the number to employees to enter into WebSmart keypad, which is prone to human error and much slower than using card readers. There are numerous WebSmart broken machines at the District Office. Every service window had a cash box but there are minimal cash sales. It's time consuming to count each cash box.

Recommendation

CNS Management should review with Site Administrators whether number of sale locations can be reduced. All schools should maximize their sales windows by hiring student cashiers and having enough WebSmart sale machines. District Office should repair the broken WebSmart machines and distribute to the schools or invest into a newer system. All schools should have card readers, which is faster than keying in the student identification number into a keypad. District Office should also promote prepayment on student identification cards to lessen cash handling and the time to make change. CNS Management and the Information Technology Department are exploring more modern card readers that can leverage the current student tracking system.

CNS Management should consider having only one window at each school for cash sales to eliminate all the cash boxes at every window, which is time consuming to verify and there is very few cash sales.

All schools should consider speed lines. For two of the schools with speed lines, consider allowing student lines on both sides of the food bins with employee supervision to prevent theft. This allows for two lines and not just one line.

5. Vending Machine Optimization

Two schools do not have vending machines, one school requested for additional vending machines and one school asked to relocate vending machines away from cat odor. Vending machines have been set on fire and vandalized. Employees have asked for soda machines in the teacher's lounge, which appears to be allowable.

Recommendation

District Office should review all vending machines at all locations to ensure sales optimization and security. District Office should consider moving vending machines where they are most accessible and where it could be locked overnight; possibly inside teachers' lounge, locker rooms, gyms, and/or theaters. District Office should consider soda and coffee machines in the teachers' lounge.

6. Charter Schools

Serving meals to Charter Schools are additional business for revenue generation, cost recovery and obligation to provide alternatives, but it is difficult to determine whether these venues are successful given the negative impact to the comprehensive schools and its own students. For one site, it does not appear the current staff can manage the multiple meal service times and multiple locations within this one particular site. Site also lacked enough student cashiers and consistent internet connectivity to operate the sale terminals.

Recommendation

CNS Management should determine the current staff capability of serving the multiple meal times and multiple locations or whether more resources and/or different skill sets are needed. More leadership is needed to identify and resolve issues timely at the site.

7. Catering

Catering internally is an additional business for revenue generation and cost recovery, but it is difficult to determine whether catering is profitable. Catering charges are submitted to the Business Services, but it is difficult to determine whether departmental transfers were all completely processed to pay for the catering. Catering is underutilized by employees as evidenced by the significant frequency of outside food purchased and brought in. CNS does not always accept catering requests due to staffing shortages.

Recommendation

Catering should be marketed internally with cost saving and convenience incentives. Catering is an opportunity to push out CNS food prior to its expiration and waste and reduce

the expense for outside food brought in. Catering forms should be numerically sequenced for completeness review to ensure funds are properly transferred to CNS.

8. Equipment and Storage

There is a lot of equipment, some of which are broken, throughout the District and school sites and are taking storage capacity and gives a cluttered appearance. Equipment, such as freezers, are aged and have broken down. An employee's request for proper storage bins for perishables was left unanswered, but the District Office had containers. Majority of employees were not concerned about mixing items in boxes or had any incentive to prolong product shelf life.

Recommendation

Anything that is broken or not used should be either sold or disposed. All unused equipment should be collected from the school sites and consolidated and inventoried at the District Office. A transparent fixed asset list should be maintained so that employees know what is available for use. District should determine whether it is beneficial to invest in reliable, energy efficient equipment and apply for grants to offset the cost. CNS Management should train and follow up with employees to ensure proper storage containers are provided and used to prolong the shelf life of perishables.

9. District Wide Drink Solution

Some schools still have Pepsi vending machines on campus, which the District Office receives some commission, on an honor system, but there is no current contract. Several schools would like to bring back the drink vending and increase the sales to earn commission. Education Code also requires potable water is made available, which some schools have, but not all. Several requests were made for water in vending machines. Some school sites have resorted to procuring items without going through the District Office given the lack of response and support from the District Office.

Recommendation

District Office should determine the District wide drink solution for all schools, including whether employees should have access to coffee and soda on campus, which is allowed if not accessible to students. Potable water should be made available at all sites.

10. Employment of Relatives

There are a few employees who are working for or with a relative, which gives the appearance of favoritism, impropriety and causes resentment and low employee morale.

Recommendation

Board Policy 4112.8, 4212.8, and 4312.8 on Employment of Relatives should be followed to avoid conflicts of interest.

11. Safeguarding Inventory

Food inventory has value and are mostly locked, but there are a few areas that are unlocked and others have access to it. The District Warehouse area is kept unlocked during the day and there are no security cameras.

Recommendation

District should assess where inventory could be better safeguarded from theft and take any corrective measures, including installing security cameras, especially after physical inventory analysis by site is performed to determine any inventory shortages by site.

12. Complimentary Meals and Leftovers

Some sites allow non CNS employees free meals without recording it into the system. A student cashier asked for and was given a second meal, while another student cashier helped himself by discreetly putting additional food into his backpack. At some sites, employees helped themselves to leftovers and unsold items. CNS Management states there is a policy, but it is not enforced.

Recommendation

There should be clear guidance of who, how often and how many complimentary meals are given. Actual complimentary meals should be documented in the system. There should also be clear guidance on unsold items and consequences for failing to adhere to District procedures. District policy should be formalized, widely available and strictly enforced with documented consequences.

13. Need Planning and Cost Study Before Launching and Constant Communication

There were two instances of lack of planning prior to a launch and lack of communication: menu change and Supper Program. Supper Program was launched without adequate staffing. Employees were paid overtime to stay later. Profitability or loss from the Supper Program is still to be determined.

There was a lack of communication and oversight during the menu change transition. Although CNS Management instructed sites to use up existing inventory before implementing the new menu, site CNS Managers either knowingly or unknowingly implemented the new menu and was not redirected. Site CNS Managers complained of the lack of notice to adequately stock their site with the new menu items and their request for the District to remove inventory no longer usable was left unanswered. Existing inventory does not appear to be fully utilized and site CNS Managers were not held accountable.

Recommendation

There should be adequate planning and cost analysis prior to launching new programs in order to maximize resources with minimal cost. CNS Management should adequately plan for the installation of the donated salad bars for successful implementation, maximum efficiency and cost management. Current inventory should be assessed and utilized prior to implementing menu changes. CNS Management must maintain oversight, monitor and direct CNS Managers when needed to ensure inventory is fully utilized.

14. District Warehouse and Vendor Delivery Schedule

Some schools want more input on when the District Warehouse and outside vendors deliver inventory. Preference was on their minimum days and to have perishable items, such as fruit and vegetables, delivered the beginning of the week. Observed one school's delivery sitting unattended and only put away hours later after students were served lunch. At another school, major food vendor delivered while students were being served, which, again, was an inconvenient time to accept delivery.

Recommendation

District Office should discuss with site CNS Managers to collaboratively determine the District Warehouse and outside vendor delivery schedules, preferably on their minimum days and first thing in the morning or after students are served.

15. Unwanted Items Discarded Versus Share Area

Students are required to take components, which they may not want and will leave it behind either on the counter, into the garbage or littered on the floor. Other students do take the available items if left on a share table. At one school, the employee took the discarded item and placed it back into the inventory.

Recommendation

District Office should determine the proper procedures, per health code regulations, and communicate to the sites the requirements.

16. Employee and Student Safety

There is a lot of pushing and cutting in the student lunch lines and even fights. Employees complained of food theft and food being thrown. One school keeps order by sending the student to the back of the line. Even student cashiers have authority at this one school.

Recommendation

Adult supervision is needed at the lunch lines at the beginning of the school year to set the tone of acceptable behavior.

1. **STAFF TIME CHARGED TO BOND**

Question: Is each individual employee salary allocation charged against bond programs reasonable?

Background: Employees are required to submit quarterly PARS forms that document their actual time spent on each programs including bond programs. Documentation was reviewed over 6 years ago. Allocation was listed in the Total School Solutions Bond Program Audit September 2013 and will be included again in the planned September 2015 audit.

Plan: Review all PARS forms for 1HCY15 to determine whether salary allocations against bond programs for 2015-16 budget appear reasonable. Results will be presented to the Board Audit Committee and CBOC Citizen Bond Oversight Committee.

2. **TIMELY PAYMENT OF PAYABLES**

Question: How can we improve the timely payment of payables?

Background: There is a perception that employee reimbursements and vendor payments are not timely.

Plan: Perform a walk-through of a sample of a variety of different types of payments to determine the length of time of each transition point, including each approval, and determine where improvements can be made. Review policies and procedures for compliance and possible improvements.

3. **FACILITIES RENTAL: REVENUE VERSUS COST BY SCHOOL**

Question: What is the revenue versus cost for each rental for each school?

Background: District facilities current policy rents at market rates to profit-making organizations and discounted rates, to recover costs, to non-profit youth groups.

Plan: Sample a variety of different rentals (youth, non-youth, non-profit and for profit) at each school for 2014-15 to determine the actual revenue versus cost for each rental.

4. **FACILITIES RENTAL: CUSTODIAL HOURS**

Question: What are the custodial hours charged to facility renters versus actual custodial support each renter receives?

Background: Some renters are charged custodial fees but do not see the full value of the cost when custodian is not accessible and the facility is not maintained or cleaned adequately before, during or immediately after the rental. Union contracts require a minimum of three hours custodian charge to open/close the facility. Is a cleaning deposit proposal feasible?

Plan: Review rental agreements and union contracts for compliance and reasonableness. Interview a selected sample of renters and custodians to determine expected versus actual custodial support to renters. Identify process and communication improvements.

5. **FACILITIES WORK ORDERS**

Question: What is the backlog of facilities work orders and what can we do to improve timeliness?

Background: There is a perception that work orders are not timely addressed and resolved.

Plan: Review the backlog of work orders and classify them by type to determine the response and resolution time. Determine if and what are the reasons for delayed response including staffing levels. Recommend ways to improve timely response.

6. **ARTIFICIAL TURF MAINTANCE**

Question: Are the artificial turfs being maintained to optimize the useful life of the artificial turfs?

Background: If artificial turfs are properly maintained, it would have a longer useful life before replacement is required. It is not clear whether it's District or school sites responsibility and whether there is a schedule to proactively maintain the artificial turfs.

Plan: Inquire with District Maintenance/Facility, school sites and benchmark against best practices on maintenance expectations on how to extend the useful life of artificial turfs. Determine whether plans are in place and executed timely.

7. **ON-GOING PROJECTS**

- A. Fraud, Waste and Abuse Hotline
- B. Associated Student Body (ASB)
- C. School Connect Organizations

National School Lunch & Breakfast Program Administrative Review

Audit Committee
August 25, 2015



Administrative Review

- What – Required areas covered
- When – How often
- Why – Accountability for tax payer \$\$\$
- Where – All National School Lunch and Breakfast Program participants
- How – Off-Site and On-Site Review

What

- Areas covered in review process
 - Meal Access & Reimbursements - \$\$\$
 - Meal Pattern & Nutritional Quality - \$\$\$
 - Resource Management - \$\$\$
 - General Program Compliance
 - Summer Seamless Option - \$\$\$

\$\$\$ - Could have fiscal action if not compliant



When

- Every three years
- National School Lunch and Breakfast Programs - March 2015
- Summer Seamless Option – July 2015



Why

- Healthy Hunger-Free Kids Act
- Greater accountability when using tax payer dollars



Where

- National School Lunch and Breakfast Programs
 - Piedmont Hills
 - Yerba Buena
 - Wm. C. Overfelt
- Summer Seamless Option
 - Yerba Buena

How

- Off-Site Assessment
 - State gets a better understanding of ESUHSD program
 - State identify any areas needing more extensive review while conducting the On-Site Review
- On-Site Review
 - Applications
 - Meal Service
 - Records



Comprehensive Review

- More in-depth review if fiscal accountability
- Risk Indicator Tool
 - Size of District
 - Past Audits
 - Maintenance of Nonprofit School Food Service Account
 - Paid Lunch Equity
 - Revenue from Non-Program Foods
 - Indirect Costs
 - USDA Foods



- Results -

NO FINDINGS!!!!



CPRS Fixed Asset and Inventory Solutions Recommendation Matrix 2014 - 2015

Item 14

Responsibility: André Bell, Director of Purchasing and Capital Accounting

Expected due date: March 2016

Item #	Recommendations: Actions:	
1	Develop a clear disposal process for assets to capture all assets leaving the district. This includes theft, e-waste and general retirement of assets.	Revise the current Administration Regulation that will clarify the proper procedures for disposal of assets. This updated AR will allow District staff to understand the requirements for the disposal of all assets, by category (theft, e-waste or retirement) and which department needs to be contacted regarding proper disposal.
2	Assign very portable assets such as laptops, and iPads to individuals that sign for them and are responsible until the asset is turned back in. It was recommend doing this either through the IT department or on a site level. Currently there is no way of tracking these assets down to an individual. For example if a teacher retires, or changes districts there is no procedure in place to have the individual return these assets. This is not an option in the current fixed asset program even though the suppliers give detailed information on who receive some of these items.	Currently portable assets are assign to individuals, but the information in the current system is very hard to obtain. The District is planning on soliciting a RFP for an Asset Management system which will interface with our current system this new system will be able to provide reports of assets assign to an employee and insure that prior to the employee departure all portable assets are returned the District. The District will develop a procedure, when an employee is leaving, notification will be given from Human Resources, then a report on items assigned to the employee, which will be collect prior to their departure.

CPRS Fixed Asset and Inventory Solutions Recommendation Matrix 2014 - 2015

Item #	Recommendations: Actions:	
3	Develop a system to assign assets to actual locations within the sites after delivery.	The new system will allow assets to be assigned to sites, and rooms. The system will allow tracking using Radio Frequency Identification Detection (RFID) which by using a reader all assets assigned to that location can be located in real time. These readers will allow the District to know exactly what assets are located at what site and room. Also system will report missing assets from assign location.
4	Recommend restructuring your category and type library in the database to reflect a more specific listing of assets. This will allow the District to run reports based on classification of assets. For example the District can run a listing of all laptops at Evergreen Valley High School.	The new system would allow for more asset categories instead of the limited categories in the current system. The District would categorize assets by types, model and manufactures, which would allow reports to be based on various critical factors across the District, not only by site, also by category type.
5	Recommend assigning an employee to manage the fixed assets.	The District has hired a new Warehouse Specialist on August 24, 2015. Part of the duties of the specialist is to work 50% on the new Assets Management System. Their responsibility will be to provide the District with information on all fixed assets using the new system, including reporting, tracking and removal.
6	Moving to a new fixed asset management system.	The District is planning to solicit a Request for Proposal for an Assessment Management system. The plan is to have the proposal completed in September and recommendation for a new system to the Board at the October 2015 meeting. Once approved the goal is to have the system completely implemented by March 2016



Item 14

ESUHSD Fixed Asset Audit 2014/2015

Asset Results

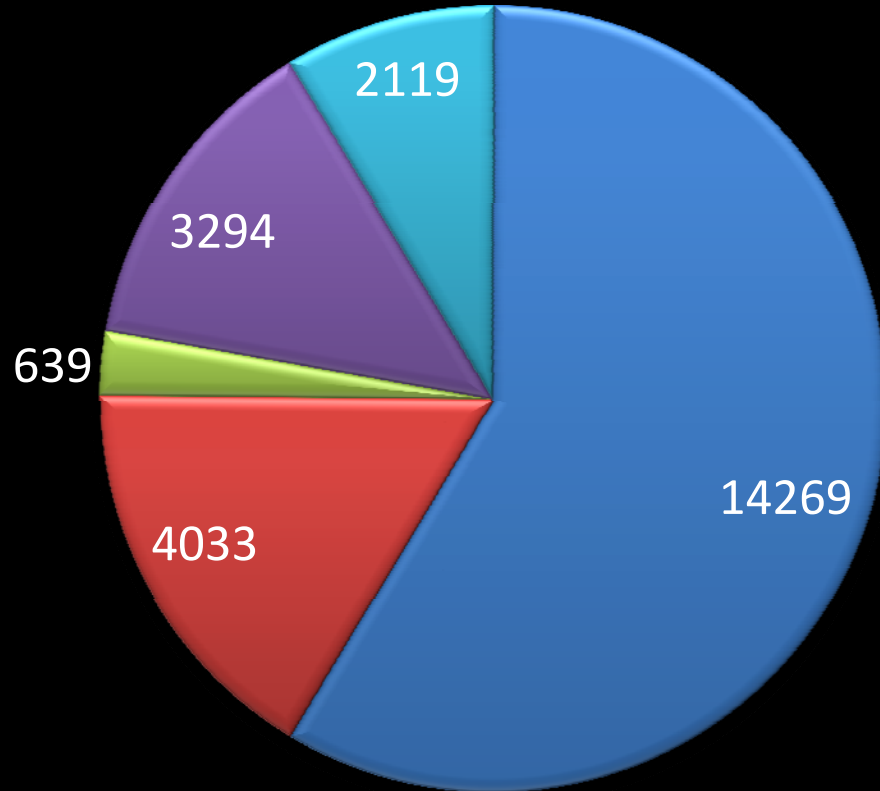
Issues in Fixed Asset Management

Recommendations for ESUHSD



Fixed Asset and Inventory Solutions

Audit Results (21,060 active assets)



- Found Assets currently in District Database (Up from 10,500)
- Not Found Recommended Disposal (Down from 9500)
- Not Found Concern (Down from 1300)
- Audit Additions (Down from 5000)
- Disposals Processed by CPRS during the audit



Issues ESUHSD has in the management of fixed assets.

- Assets are not being pulled from the database at time of disposal. We did receive some disposal forms from sites from the past summer, but they did not encompass all assets that were or should have been disposed.
- New assets were not consistently entered into the database or were entered without the full detail of their location.



Recommendations for Management of Fixed Assets

- Develop a clear disposal process for assets to capture all assets leaving the district. This includes theft, ewaste, and general retirement of assets. We did receive the listing of some assets that were disposed, but they were not removed from the system. This should be done immediately following board approval.
- Assigning very portable assets such as laptops and iPads to individuals that sign for them and are responsible until the asset is turned back in. We recommend doing this either through the IT dept. or on a site level. Currently there is no way of tracking these assets down to an individual. For example if a teacher retires, or changes districts there is no procedure in place to have the individual return these assets. This is not an option in your current fixed asset program even though the suppliers give detailed information on who receive some of these items.



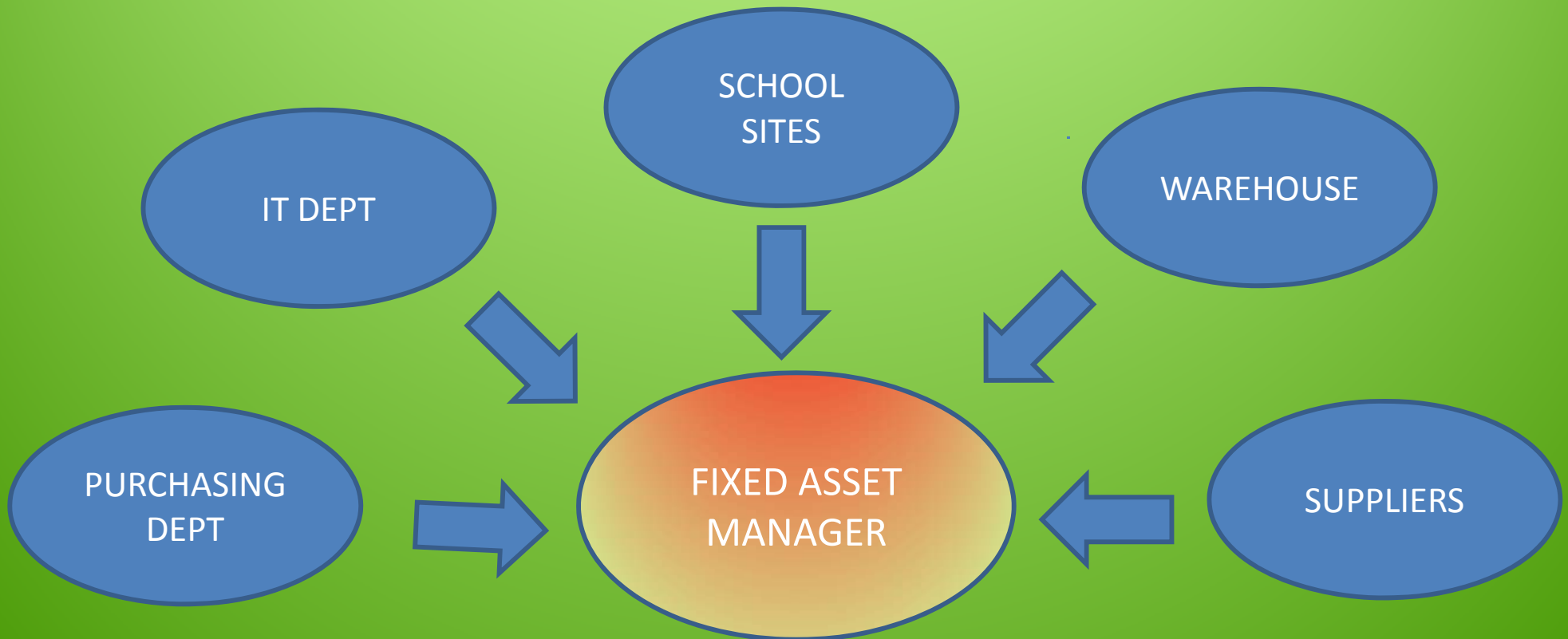
Recommendations for Management of Fixed Assets

- Develop a system to assign assets to actual locations within the sites after delivery.
- We recommend restructuring your category and type library in your database to reflect a more specific listing of your assets. This will allow you to run reports based on classification of assets. For example, you will be able to run a listing of all laptops at Evergreen High.



Recommendations for Management of Fixed Assets

We recommend assigning an employee to manage the fixed assets. All groups shown here are putting effort into the management but there is no one to coordinate all the data to ensure the process is completed correctly





Recommendations for Management of Fixed Assets

- We recommend moving to a new fixed asset management system. This will aid in the ease of managing your fixed assets, and make it a more useable system that can produce relevant information in real time. CPRS does offer a web based fixed asset management tool that will streamline and improve the management of your fixed assets.

**East Side Union High School District
San Jose, California
Audit Committee Charter
Adopted 11/19/2009
Revised 04/16/2013**

Item 15

Revised Proposed Revisions 08/2015/2015

I. Audit Committee Authority

The East Side Union High School District (ESUHSD) has established an Audit Committee to assist the Board of Trustees (Board) in the oversight of both the internal and external audit functions. The ability to create an Audit Committee was established by ESUHSD BP 3460.

II. Mission

The primary responsibility for financial and other reporting, internal control, and compliance with laws, regulations, and ethics within the ESUHSD rests with the Superintendent and his / her management team. The Board has oversight responsibilities in these areas and the Audit Committee is to assist the Board in fulfilling these responsibilities.

The Board Members who are members of the Audit Committee shall, on behalf of the Audit Committee, have unrestricted access to all information, including documents and personnel, and have adequate resources in order to fulfill its oversight responsibilities. All confidential information shall be maintained as confidential in accordance with Board policy and law, and shall not be provided or distributed to public members of the Committee.

In adopting this Charter the Board directs that District Administration shall work cooperatively with the Committee to promptly and fully respond to all requests for information and documentation.

The Board has established an Audit Committee to serve in an advisory capacity to the Board and shall:

- 1) Assist the Board in providing oversight of the external/internal audit functions by:
 - ~~a. Making recommendations regarding the selection of the external independent auditor,~~
 - b. Reviewing the plan for the audit process with the independent auditor to determine the adequacy of the nature, scope, and timetable of the audit,
 - c. Reviewing the results of the audit and participate with the independent auditor and the Board in preparing final recommendations and responses,
 - d. Participating with the independent auditor in presenting the audit report to the Board,
 - e. Reviewing Board policies and administrative regulations to recommend any revisions needed to ensure effective financial reporting,
 - f. Periodically reporting to the Board regarding the status of previous audit recommendations for improving the accounting and internal control functions, and

g. Providing input on the effectiveness of the external independent auditor.

- 2) Assist the Board in providing oversight of the external and internal audit functions
- 3) Assist the Board in complying with its fiduciary oversight obligations;
- 4) Provide a communication link between the external and ~~or~~ internal auditor and the Board
- 5) Provide greater transparency over public funds while improving public trust

III. Membership

The Audit Committee consists of five voting members appointed by the Board as follows:

- 1) Two Board members, who shall serve as Chair and Vice Chair of the Committee, as determined by the Board. The Board President may not concurrently serve on the Audit Committee.
- 2) Three public members.

The Board may appoint an alternate public member. The alternate's responsibility is to temporarily substitute, with full voting powers, for any Audit Committee member who is absent from a meeting.

All voting members of the committee must reside within the boundaries of the East Side Union High School District.

The Board may appoint non-voting members with specific expertise to the committee. There is no residency requirement for non-voting members.

Appointment of Board members to the Audit Committee will be made at the Board's annual organizational meeting in December or as vacancies occur.

Board member terms shall be for one year beginning on the date of appointment at the Board's annual organizational meeting in December and ending the following year at the Board's next annual organizational meeting.

Public members will be appointed at the first regular Board meeting in January. Notification of the appointment process shall be posted at least 30 days prior to the appointment date. Public member terms will be for two years. The alternate public member term will be for one year. In order to coincide with the annual presentation of the external audit report to the Board, public member terms shall begin on February 1 and end two years later on January 31 or when the Board appoints a new member, whichever is later.

Public member's terms will be staggered so that all terms do not start and end at the same time. Immediately after the initial appointment of the three public members, the Board shall determine by lot which two of the public members shall serve an initial term of two years with the third public member serving an initial term of one year. The maximum number of consecutive years terms a member may serve is ~~four~~ nine. A termed out member is eligible for appointment again after not serving for at least one year.

The members of the Audit Committee must collectively possess knowledge and experience in accounting, auditing, financial reporting, and school district finances needed to understand and evaluate the district's financial statements, the external audit of those statements, and the district's internal audit activities. Accordingly, the Audit Committee members should:

- 1) Be independent of the day-to-day management of the ESUHSD,
- 2) Possess the required skills and experience necessary to understand technical and complex financial reporting issues,
- 3) Have the ability to communicate with and offer advice and assistance to the Board, the external auditors, and the internal auditor,
- 4) Be knowledgeable about internal controls, financial statement audits, and managerial/operational audits
- 5) Be available to take training in educational finance

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 notify the public of the opening, accept applications and appoint an individual to serve the balance of the vacated term.

If a vacancy among the voting public members occurs, the Board may appoint the alternate public member to fill the term of the vacated member.

The Audit Committee Chair and Vice Chair shall recommend to the Board as to when (as quickly as possible or in conjunction with the annual appointment of public member(s)) a new alternate public member shall be appointed.

IV. Duties and Responsibilities

Internal Control

The Audit Committee monitors the fiscal health of the ESUHSD and the relationship between its spending and its adopted budget. To carry out this duty, the Audit Committee may:

- 1) Reviews the effectiveness of the ESUHSD's accounting organizational structure, and operations,
- 2) Reviews the ESUHSD's internal controls, the adequacy of such controls, and recommends changes to management and the Board,
- 3) Reviews with the Superintendent and other management personnel the adequacy of systems and procedures for protecting information,
- 4) Inquires of the Superintendent and other management personnel about significant financial risks or exposures facing the ESUHSD, assesses the steps the ESUHSD has taken, or proposes to take, to minimize such risks to the ESUHSD, and periodically review compliance with such steps,
- 5) Review with the Superintendent and other management personnel;
 - a. Significant findings with respect to any management financial review including that of the Audit Committee, during the year and responses thereto,
 - b. Any difficulties review teams or personnel encountered in the course of their review, including any restrictions on the scope of their work or access to required information,
 - c. Any changes required in the scope of the review.
- 6) Reviews with the independent auditors, the Superintendent, and financial management personnel:
 - a. The adequacy of the ESUHSD's internal controls including computerized information system controls and security,
 - b. Any related significant findings and recommendations of the independent auditors together with management's responses thereto, and
 - c. The clarity and transparency of financial information and disclosures.

~~The Audit Committee reviews the ESUHSD's procedures for monitoring compliance with the Code of Conduct.~~

The Audit Committee recommends procedures for the confidential, anonymous submission of concerns about questionable accounting or auditing matters or suspected fraud. At the request of the Board, it reviews any submissions that are received, the current status of the review, and the resolutions, if any.

Assist the Board in providing oversight of the external audit functions

General

The Audit Committee

- Shall perform its duties in good faith, in a manner to be in the best interests of the Audit Committee and the ESUHSD which a reasonably prudent person in a similar position would use under similar circumstances,

- Shall have an obligation to the ESUHSD to maintain strict confidentiality regarding confidential information it may have access to,
- Shall meet at least three times per calendar year, and at additional times when necessary, to fulfill its responsibilities,
- Shall receive training and comply with the Brown Act
- May ask members of management or others to attend its meetings and provide pertinent information as necessary,
- In consultation with the Board may have access to all information it deems necessary to carry out its duties, consistent with California law,
- May request information from the ESUHSD that is deemed necessary to carry out its duties and responsibilities. Only the Audit Committee Chair will make these requests for information. Any member wishing to request information will do so by submitting the approved Committee request form to the Audit Committee Chair for approval. If the Audit Committee Chair approves the request, the Chair will send the request to the Board for processing. If the Chair does not approve the request, a majority of the Audit Committee may override the request denial. In the event of an override, the Chair is required to submit the request to the Board.

A quorum constitutes a simple majority of the total voting membership and meetings will not be conducted unless a quorum is present.

Every attempt will be made to make decisions by consensus of the voting members present. Consensus is defined as an acceptable solution that all can agree to support. If consensus cannot be reached, polling of the voting membership will take place. Any decision of the Audit Committee requires an affirmative vote by the majority of the committee's voting membership. Voting members who are physically absent from a meeting can participate through audio or video means. Proxies CANNOT be granted.

The Audit Committee may recommend to the Board the engagement of professional consultants. The authority to engage professional consultants rests exclusively with the Board.

The Audit Committee shall report to the Board, at least annually, its activities, findings, and decisions. Reported findings should include any suspected fraud or abuse or material defects in internal management controls, and any significant failure to comply with laws, or district policies or regulations.

The Chair prepares the agenda with consultation with the Vice Chair. Any member wishing to place an item on the agenda will do so by communicating in writing to the Chair.

The Audit Committee shall prepare minutes of each meeting that, at a minimum will include:

- Copies of the meeting agenda,
- Date, attendance, and location of the meeting
- A brief summary of the topics discussed, and
- Any recommendations forwarded to the Board

The Audit Committee may recommend to the Board the dismissal of any member who has had two unexcused absences during the member's term or three absences, for any reason, in any twelve month time period. Dismissal requires a majority vote of the Board.

External Auditors

The Audit Committee oversees the ESUHSD's engagement of any independent accountants for the purpose of preparing or issuing an independent audit report or performing other independent audit, review, or attest services. The Board, acting on the recommendation of the Audit Committee, makes all final decisions concerning the appointment, compensation, and retention of such accountants. ~~All accountants thus engaged report directly to the Audit Committee that will oversee the accountant's work and evaluates their performance.~~

The Audit Committee's oversight responsibility may includes:

- 1) Monitoring the periodic selection of and contracting with, the outside independent auditor in accordance with State law, and reviewing the independence of the audit,
- 2) Meeting with the independent auditors prior to commencement of the annual audit to review the engagement letter (scope of the work to be performed),
- 3) Receiving and reviewing the draft annual audit report and draft management letter comments,
- 4) Reviewing all non-privileged significant written communications between the independent auditors and management, such as any schedule of unadjusted differences,
- 5) Making a recommendation to the Board concerning acceptance of the annual audit report,
- 6) Reviewing with management and independent-external auditors:
 - a. The ESUHSD's annual financial statements, related footnotes, and management's discussion and analysis,
 - b. The independent-external auditor's audit of the financial statements and their report thereon, including any management letter comments or schedule of unadjusted differences,
 - c. The independent-external auditor's judgments about the quality, not just the acceptability, of the ESUHSD's accounting policies as applied in its financial reporting,
 - d. Any findings by the independent auditor's regarding assessment of the ESUHSD's system of internal controls,
 - e. Any significant changes required in the independent auditor's audit plan,
 - f. Restrictions on the auditor's activities or access to information, and any significant difficulties or disputes with the Superintendent or management encountered during the audit,
 - g. Matters required to be discussed by applicable government and professional literature and standards,
 - h. All critical accounting policies and practices used by the ESUHSD, any significant changes in these policies and practices, and the degree of aggressiveness or conservatism in applying these policies and practices,
 - i. Recent and proposed professional and regulatory pronouncements, especially those having a material impact on the ESUHSD's financial statements,
 - j. All alternative treatments of financial information within Generally Accepted Accounting Principles (GAAP) that have been discussed with the Board, the

ramifications of each alternative, and the treatment preferred by the ESUHSD, and

k. Any corrective action plans developed by the ESUHSD.

The Audit Committee considers, with the Board, the rationale for employing audit firms other than the principal independent auditors for services that the ESUHSD or the independent auditors determine would not be appropriate for the principal independent auditors to perform.

Internal Audit

The Audit Committee:

- a) If requested, may make recommendations to the Board regarding the selection of an internal auditor,
- b) Assists in the oversight of any internal audit function,
- c) Reviews the annual internal audit plan to ensure that high risk areas and key control activities are periodically evaluated and tested,
- d) Reviews the results of internal audit activities and significant recommendations and finding of the internal auditor,
- e) Monitors implementation of the internal auditor's recommendations by the Superintendent and/or Board,

The Audit Committee and the internal auditor(s) shall maintain a degree of professional independence when assessing management's performance of its responsibilities. However, this does not mean that an adversarial role is necessary or desirable as both parties share common goals.

In working to ensure the independence of the internal auditing function and that appropriate actions are taken on audit findings, the Audit Committee shall promote and enhance the mutual cooperation among the Committee, internal auditor(s), and executive management.

V. Self-Assessment

The Audit Committee shall review its charter annually, reassesses the adequacy of the charter and recommends any proposed changes to the Board. The Audit Committee considers changes that are necessary as a result of new laws, regulations, or accounting or auditing standards.

The Audit Committee conducts an annual self-assessment and describes to the Board, ~~in a written report,~~ how it discharged its duties.

Adoption and amendments to this charter shall be recommended by an affirmative vote of a majority of the committee and by passage of the Board.

~~The Audit Committee Chair, at the request of the Board, shall take responsibility for the immediate review and approval of the Internal Auditors hours, vacation requests and expense reimbursements.~~