

Board Special Meeting

John Stanford Center – Board Office Conference Room
2445 3rd Avenue South, Seattle, WA 98124



Audit & Finance Committee Meeting Minutes Thursday, August 18, 2016 4:30 – 6:30 pm

Call to Order

Director Peters called the meeting to order at 4:31 pm.

School Board members present were Directors Peters and Harris. Director Blandford arrived at 4:36pm.

Staff members present were Assistant Superintendent for Business and Finance JoLynn Berge.

Approval of Agenda

Director Harris moved to approve the agenda. Director Peters seconded. The agenda was unanimously approved.

Directors did not approve the June 9, 2016 meeting minutes. Edits need to be made and brought back to the September Audit and Finance committee meeting.

Special Attention Items

1. Notification of Contract Exceeding \$250,000: Patterson Buchanan/ Freimund Jackson's Employment (Cerqui)

Deputy General Counsel John Cerqui spoke about informing the board of two legal contracts that are expected to exceed the \$250,000 threshold. Freimund Jackson are contractors that handle litigations and tort cases in regards to the case involving the Garfield High School (GHS) teacher and a civics teacher. Patterson handles tort and Human Resources (HR) work for the district. Expenditures for this vendor is currently below the board approval threshold, but the Title IX department is also using Patterson so expenditures may go over the threshold. This is only informative and counsel is bringing it forward for notification.

Director Harris asked about an auditing process and whether invoices from legal firms have a line item delineation. For instance, could a paralegal do some of the work in order to keep legal costs down. Mr. Cerqui explained they review all bills submitted and the work conducted by firms. Since the cases are not high in discovery, having law firm paralegals perform more work is not an option. Law firms are mostly doing hearings, writing briefs and memorandums. They do have an auditing process in place for bills.

Director Blandford arrived at 4:36pm.

Director Peters asked by how much the contracts will exceed the anticipated costs. Mr. Cerqui stated Patterson is estimated at \$265,000 and Freimund will total about \$400,000 for the remainder of this fiscal year. The bulk of that was from GHS case alone.

Director Harris asked if that fee is from settlement fees. Mr. Cerqui explained that settlement fees comes from a different pot of money.

Director Peters asked if a director wanted to see these contracts, where they obtain a copy. Mr. Cerqui responded he would be able to provide contracts.

Follow up: Mr. Cerqui will provide contracts to the Board Members, upon request.

2. Policy 6801 Annual Fixed Asset Report (Hammer)

Supervisor of Fixed Assets Jeff Hammer spoke about the presentation of the documents, and the capital threshold documents. He stated minimal threshold for categories are listed and explained all donated items are also tagged.

Director Peters asked a general question in regards to the general purpose of the presentation. Mr. Hammer responded that this is an annual report required by policy.

Director Blandford asked about the different processes and sharing the information and what about employees that have separated from the district, how to retrieve items once a staff member has left. Mr. Hammer worked with Human Resources on the exit checklist and the fixed asset segment that is included.

Director Harris asked why is the document not dated and why there are not any indication of what value assets have. There was some confusion regarding the order of the pages in the report. Mr. Hammer described the total number of categories on the left hand page. They could be a number of different types of equipment. Assistant Superintendent of Business & Finance JoLynn Berge suggested bringing a detailed list of items.

Director Harris asked what is the benchmark. Ms. Berge suggested we could look at previous reports, we could have values assigned and get history, and that could provide perspective on what it looks like at a glance.

Director Peters asked are we looking at quantity of items, or price of all items. Mr. Hammer explained assets meeting the monetary threshold are asset tagged. Often principals will request asset tagging of equipment below the \$300.00 minimum threshold as technology prices have dropped.

Director Peters asked about the deleted page that Mr. Hammer asked them to ignore. Mr. Hammer will send updated copy of stolen goods page for fiscal year 2015-16 once it's fixed. Final three pages need some revision and Mr. Hammer will send updated ones once he corrects them.

Follow up: Mr. Hammer will send an updated document to the Board Members.

3. Informational Only: Ballard/West Seattle High Schools Roof Repair/Replacement Procurement (Best)

Director of Capital Projects and Planning Richard Best is notifying the Audit & Finance (A&F) committee of different procurement method that Seattle Public Schools (SPS) is using for the special roof projects at West Seattle High School and Ballard High School (BHS). Both schools have complicated roofing systems currently in place. This different procurement methodology was also brought up at the Operations Committee. The reason for the different procurement methodology is the size and complexity of each project.

Director Blandford spoke about the Operations Committee meeting, which included discussion of using a co-op purchasing agreement, curiosity of opportunity costs associated with selecting a co-op, and the potential outcry from companies who did not get chosen. If board members are kept informed, and SPS receives a better product with some cost savings utilizing a purchasing co-op is worth the potential for outcry.

Director Harris asked if these roofs are failing prematurely. Major Preventative Maintenance Manager Frank Griffin explained BHS is failing prematurely due to ultraviolet degradation of the single ply PVC. The team is trying to mitigate the process. When the department did master

planning for these projects, they built in contingency and made plans for unforeseen conditions. Contractors were given opportunity to bid for this and the co-op follows the required public works procurement process. Approval of the construction contract would still come before the board.

Director Harris asked what have we've learned from this situation. Mr. Griffin stated the new buildings have stayed away from single ply membranes.

Director Peters asked if this methodology would exclude others. Mr. Griffin explained they utilize a price book about the different design styles. Roofing designers can also review given price points. Wayne's Roofing would be the one specific contractor.

4. JSCEE Bonds/ Bldg Update (Berge)

Assistant Superintendent for Business & Finance JoLynn Berge spoke about an update on these John Stanford Center for Educational Excellence (JSCEE) building bonds. Ms. Berge handed out an updated copy of the briefing to the Audit and Finance Committee document, this document did not round the numbers, while the previous document did.

Director Blandford asked if this has been shared out widely or is there a way to send this out. Ms. Berge could work with Chief Engagement Officer Carri Campbell to get this shared out.

Director Harris stated the JSCEE Bonds update has been reported in the press in the past, and requested it be included in a Friday memo which is open to public.

Follow up: Friday Memo on the JSCEE bonds.

5. Informational Only: Gates Grant Notification SpEd SPP (Toner/ Stone)

Director Harris asked about sustainability after two years for the role of the person. Mr. Stone explained as with all –grant work, the hired employee will know it is grant funded.

Director Blanford asked can this person chart a course through that. Director of Early Learning Cashel Toner explained the role will be a liaison between state work, city work, and our work to put it all together.

Director Blanford asked what is the issue, capacity or funding. Ms. Toner explained the issues they are facing. Capacity is an issue but that isn't focused in that scope of work, it is multi-layered.

Director Blanford asked is Gates Foundation funding flexible. Ms. Toner explained the proposal includes 1 FTE, but Gates is open to rationale and they are flexible.

Director Peters asked does the city not have an approach figured out for Special Education (SpEd) students and are we reinventing the wheel. Ms. Toner stated we can all learn from each other, SPS offers Head Start and the City offers Community Based Organization (CBO) preschool Seattle Preschool Program (SPP), SpEd.

Director Peter requested a copy of the grant since it is so close to the threshold. This is a positive step forward.

Director Harris asked how many SPP SpEd kids are currently enrolled. Ms. Toner explained she will keep looking at that number and get back to the committee members.

Items Requiring Board Action

1. BAR: Family and Education Levy CBO Contracts (Stone)

Director of Grants and Strategic Partnerships Michael Stone spoke about the end of June meeting where this already went to intro, no major changes have been made. The Board Action Report

(BAR) will be up for action next week, nothing has changed.

Action: Director moved to move the item forward to the full Board with a recommendation for approval. This motion passed unanimously

2. BAR: Northwest School of Innovative Learning Contract (Jessee)
Director of Special Education Michaela Clancy spoke about how this BAR is being reintroduced, and hoping for it to be moved forward for intro and action. Ms. Clancy spoke about challenges with isolation and restraint that were noted at the last board meeting, and the updates that were provided by Northwest School of Innovative Learning (NWSOIL) to their policy and practice in this area, including their assurances that their policies and practices adhere with updates to the WAC in this area. Training of staff have also been completed.

Director Harris asked what is the ETA from their counsel. Special Education Services Supervisor Spencer Pan is continuing to work directly with the Directors of the Redmond NWSOIL location regarding the Behavioral Management form, and parent signature on this form. Currently, this is part of their agency parent notification practice, with the updates provided in the new version of the form presented. This will be presented on the 24th. The students that are included in the contract request for service are currently enrolled at NWSOIL. Mr. Pan described the discussions with the NWSOIL team this summer, including staff training, and the supports provided by district special education behavior specialists over the last school year in conjunction with the student success plan for all three Non Public Agencies that provide these types of services, including NWSOIL. Staff training and qualifications and the onsite review by an OSPI student success coach of their positive behavioral practices last spring were discussed.

Director Peters asked if any outreach to the SpEd community has been done. Ms. Clancy explained the primary concern is with families of students currently enrolled at NWSOIL. We have been making outreach opportunities through SpEd PTSA regarding Isolation and Restraint policies and practices as well as Day Treatment services. Updates were also provided in Friday memos.

Director Peters asked would these changes have happened without us. Ms. Clancy explained the special education team supporting all Day Treatment services at the district contracted Non Public Agencies was already currently working on it, but the urgency was increased by the Board's concerns.

Director Blanford asked if they encountered any resistance. Ms. Clancy explained that this was a topic of discussion with all Non Public Agencies this school year, but the urgency was increased due to the Board's concerns.

Action: Director Harris moved to move the item for intro/action consideration to the full Board with a recommendation for approval. Director Blanford second. This motion passed unanimously.

3. BAR: Policy 6501 Data Privacy (Codd)
Assistant Superintendent of Human Resources Clover Codd spoke about purpose of the Data Policy. Ms. Codd has worked with Chief Engagement Officer to determine level of engagement needed. It was determined that this policy affects internal stakeholders (employees). This policy is a response to an HR audit finding. This secondary recommendation is to ensure that employee data is also secured.

Director Harris asked does this mean we have a pathway to address some of these hot topics in the other policies under the umbrella. Ms. Codd explained if the board wants to take on changing other policies under the umbrella, it would have to be added to the yearly work plan. The Board can ask them to review any policy at the time.

Director Harris stated this isn't a band-aid for internal audit findings. Ms. Codd stated this was a secondary recommendation, it isn't a critical requirement or policy for them to put it in the report, it was a common sense report. We have administrative procedures to help with those privacy procedures.

Director Blanford stated it is not a band-aid but now a policy to refer to with direction of how to best manage data.

Action: Director Harris moved to move the item forward to the full Board with a recommendation for approval. This motion passed unanimously

Board Policies and Procedures

1. Update- Policy 5010, 5250 Non-Discrimination and Affirmative Action, and Protecting Whistleblowers Against Retaliation, and Anti-Retaliation (Codd)
Assistant Superintendent of Human Resources Clover Codd spoke about the fact that these policies were supposed to be brought to the Committee back in April, as that was the date on the board work plan. The policies were supposed to be revised, but this did not happen because of the intersection with the 3000 series. These are related to student and staff discrimination, intimidation, and bullying. It was decided we need to separate the 3000 series and the 5000 series, they have to go in different places for students and adults. The recommendation is to pull them apart and draft a Civility policy. Ms. Codd explained a draft with community feedback will not be ready until November.

Director Harris wants to note this is a huge body of work and is about changing culture. You would upset the status quo for trying to changing it. She asked if November would be a really realistic timeline since the work is so complex.

Director Blanford stated delays are by and large expected as long as they have realistic timeline. Ms. Codd agreed to come back in November with an update.

2. Update - Policy D140.00-D140.01 (new 6102) District Fundraising and Policy 6114 Gifts, Grants, Donations & Fundraising Proceeds (Stone)
Director of Grants and Strategic Partnerships Michael Stone spoke about how this policy currently does not address modern funding, such as Parent Teacher and Student Associations (PTSA) or crowd funding. Mr. Stone is working on developing language, and will bring it to the next committee meeting in September.

Director Blandford noted it didn't mention anything about including some of the folks with grants. Director Harris requested a number of CBO and community members be reached out to. Mr. Stone will work with the Chief Engagement Officer Carri Campbell for advice.

- 3 Draft- Policy 5251 Ethics (Medina)
Director of Internal Audit and Ethics Officer Andrew Medina spoke about amending Board Policy 5251, Ethics to require an annual report to the Board. Previously an annual report was required by a contract with the city, but that requirement was eliminated when the contract was terminated. The proposed amendments are all specific to the annual reporting requirement. Mr. Medina will bring the policy back to the Committee in September, with a plan to introduce at the September 21 Board meeting and action at the October 12 board meeting. The annual report would also be provided at the October 12 Board meeting. Mr. Medina requested that the Committee members send him any proposed changes to the amended language by August 25.

Director Blandford requested a summary of changes. Mr. Medina explained that the changes will require an annual report within 90 days of fiscal year end.

Director Harris asked Mr. Medina what he thought should be included or changed. Mr. Medina did not have any suggestions but requested that any additional suggestions be sent to him.

Internal Audit

1. Purchase of Technology for new BEX IV (Medina) and
2. Additional Support Agreement with PowerSchool (Medina)

Director of Internal Audit and Ethics Officer Andrew Medina spoke about these agenda items together. Mr. Medina summarized the requests made at the June 30th A&F Committee of the Whole and the July 6 School Board meeting. Mr. Medina indicated that based on those requests he was here to have a discussion as whether or not internal audit resources were necessary to review these items that had to be intro and action at the same time. Mr. Medina stated that he had not done a formal audit, but that he had met with some of the staff involved and reviewed some the supporting documentation. He believes that management is well aware of the Board's concerns regarding these items, and that everyone has been put on notice regarding the Board's expectation. He stated that management has begun working on corrective actions to ensure there is not a repeat occurrence, and that management is also working on a corrective action plan in response to a recent procurement audit that cited some similar concerns. Mr. Medina recommended that management continue to address these items and that internal audit resources not be used at this time.

Director Harris asked would it be helpful to encapsulate this into a Friday memo. Mr. Medina agreed yes, he could do that.

Director Harris stated the public is concerned about what happened and want to know his professional opinion. Assistant Superintendent of Business and Finance JoLynn Berge explained internal controls worked in ensuring that these items were taken before the Board.

Director Peters stated in between views. We should not have intro/action at the same time and there should have been adequate time to prevent that. She also highlighted that even though the issues are similar to what was noted in the Procurement audit, these items were not included in that review because they occurred after the audit fieldwork was complete.

Follow up: Friday Memo with summary.

3. Preliminary Draft Internal Audit Plan (Medina/ Fry)
Director of Internal Audit and Ethics Officer Andrew Medina spoke about the draft internal audit plan for next year. Mr. Medina stated that the draft provided today is just a snapshot, and that he will come back to the September quarterly meeting for approval of the full plan that will include more narrative.

Mr. Medina highlighted school audits and spoke about a couple different approaches aimed to reduce the amount of time spent on school audits. First, having principals certify that they are aware of the proper procedures related to some common audit findings, and that they have reviewed the proper procedures with their staff. Second, condensing the school audit program to focus primarily on the high risk areas. Both approaches would focus mainly on cash handling procedures.

Director Blanford asked for clarification as to the whether the focus was on high risk items or high frequency findings. Mr. Medina explained that he believed the area of cash handling is a significant risk area, but acknowledged that the focus in this area is mainly due to a high error rate.

Director Blandford is wondering if is appropriate to coordinate with PASS leadership in creation of the letter sent to principals. We want the highest possible compliance, and selecting principals to assist with drafting the language may lead to a better response rate.

Director Harris noted that Executive Director of Schools job descriptions just changed and they may be a valuable resource also. Mr. Medina indicated that he would like the letter sent to principals to be sent by someone within their chain of command to send a strong tone at the top message that the district values compliance and proper cash handling.

Director Harris asked about the timeline to implement a point of sale system that will assist with many of the cash handling problems. Assistant Superintendent JoLynn Berge stated that a project manager had been procured but quit.

Director Blanford asked if feedback was received from all directors. Mr. Medina stated that he sent out a request for input on the audit plan in June, but that not all Directors replied. He stated the A&F Chair provided feedback during their monthly one on one meetings, and that some Directors met with Kim Fry, Capital Program Audit Manager, directly to provide input on the capital audit plan. Director Peters stated that she would send a reminder to all Directors asking for any additional input to be provided by August 25.

Mr. Medina spoke about follow-up audits, and that 11 audits are anticipated this year. Mr. Medina noted that follow-up audits are required by Board Procedure, and that they can take up a significant amount of resources. Over the next year Mr. Medina would like to bring a review of the procedure before the Committee to evaluate if follow-up audits should be required for every audit, or if it's possible to free up some internal audit resources by changing the process for follow-up audits. Mr. Medina believes that since we have an audit response manager, and since departments are already required to update the Committee of their progress quarterly, it may be possible to reduce the number of follow-up audits performed.

Mr. Medina spoke to the remaining primary audit priorities on the list, including disbursements, apportionment, and hiring practices and background checks. Directors inquired about how the apportionment items became a high priority. Mr. Medina highlighted the materiality of these items. Most of the district's state funding is dependent on staff mix and enrollment, and it's important to ensure we have strong procedures in these areas to ensure that our funding is accurate. Mr. Medina stated that he didn't know if the district had defined ownership of the data involved with these processes, and he also highlighted the states recent focus on school district compensation.

Mr. Medina spoke about the annual plan including more items than can normally be done in a single year. This is to prevent the auditors from having to come back to the Committee mid-year if an audit of a specific area is not feasible, or if the state auditors were to come in and decide to audit some of the same areas on the plan.

Director Harris asked about the resources required for each audit and how can we benchmark if we don't have an idea. Mr. Medina explained it's hard to know in advance how long an audit will take until we begin the planning process and get a sense of the complexity of the audit and the existing controls.

Director Blanford asked about having the necessary resources to audit everything that needs to be audited, and asked how we know that the next big problem isn't around the corner. Mr. Medina indicated that's the importance of the risk assessment. Mr. Medina stated that he conducts a risk assessment, but that he would like to conduct a more comprehensive risk assessment the coming year with more input from management specific to the likelihood and materiality of the different risk areas. He spoke about Enterprise Risk Management (ERM) and how an ERM program could assist an internal audit risk assessment.

Mr. Medina requested than any additional feedback to the audit plan be provided by August 25.

Regular Agenda

1. Monthly Financial Status Update (Berge/Tsoi)
Accounting Manager Barry Tsoi spoke about financial updates during the summer months. Mr. Tsoi reviewed the financial highlights for May and June. Overall we are on track with our budget spending.
2. Monthly Budget Update (Sebring)
Budget Director Linda Sebring spoke about the budget update currently being in the process of loading budget to OSPI, it is a manual process that hopefully it is done within next week. The Budget Office is also loading the new 2016-17 budget into our financial system (SAP). Staff are also working on building the 2017-18 financial forecast and five-year projection. Ms. Berge explained there will be some prototypical school model information and will be taking a lot of this information to present at the September board retreat.

Ms. Sebring explained they are looking at ways for parents to understand and get involved with school budgets. The upcoming presentation on August 23rd is for community partner organizations and not focused on details parents are typically interested in.

3. Monthly Head Start Financial Report Updated (Gousie/Toner)
Director of Early Learning Cashel Toner spoke about the budget report in the packet. Head Start is right on target, nothing unusual and nothing to draw attention to. Reminder that nearing the end of budget cycle for Head Start. It was decided Head Start could start coming only quarterly to A&F committee meetings and reporting when necessary. Federal Head Start program does not have requirements about reporting.
4. SMART Goal #4 Early Hiring (Codd)
Assistant Superintendent of Human Resources Clover Codd spoke about open positions. Out of the 628 certified vacancies, we have filled 83% and schools are in the middle of the site based hiring. SpEd positions were 96.4% filled by the first day of school. On August 29th a job fair for SpEd was held. Currently our biggest challenge is language immersion, 3/5 were filled 2 have not been filled. We will continue to look at conditional certified applications. It is hard to find good language immersion teachers.

Director Blandford asked with regard to language immersion, do we know where the breakdown is. We have several complexities related to hiring international teachers from other countries. Sometimes they are a pipeline. However, we do not have the content or legal expertise to operationalize the proper hiring/payment of these teachers without going outside for legal expertise. It takes an inordinate amount of staff time to hiring visiting teachers.

5. Committee Annual Work Plan (Berge)
Assistant Superintendent Business & Finance JoLynn Berge spoke about 4 things. Fixed assets report was done in August not June where it was scheduled, so the work plan should be amended. Next, District fund raising plan for that was shown on the work plan for June will be coming in September rather than June. The Nondiscrimination plan in August will be moved to November for update only (likely moved to 2017). And moving Head Start to quarterly on monthly agenda.

Meeting was adjourned at 6:51pm.