

Board Special Meeting

John Stanford Center – Board Office Conference Room

2445 3rd Avenue South, Seattle, WA 98124



Audit & Finance Committee Meeting Quarterly Audit Minutes Tuesday, September 13, 2016 4:30 – 6:30 pm

Call to Order

Director Peters called the meeting to order at 4:30 pm.

School Board members present were Directors Peters, Harris and Blanford.

Staff member present was Assistant Superintendent of Business & Finance JoLynn Berge.

Approval of Agenda

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

Director Blanford moved to approve the June 21, 2016 meeting minutes. Director Peters seconded. The minutes were unanimously approved.

Items Requiring Board Action

1. Amending Board Policy 5251, Ethics (Medina)

Director of Internal Audit & Ethics Officer Andrew Medina spoke about Policy 5251 Ethics and the proposed policy changes to formalize the requirement for the Ethics Officer to provide an annual ethics report to the Board. He noted that no changes were made from the version that was presented to the Committee in August, and that no additional feedback had been provided by management or the Board. The Committee unanimously recommended that the item be moved forward to the full Board with a recommendation for approval.

Internal Audit

1. Central Administration Cash Handling and Deposits Audit (Medina/Nystul)

Director of Internal Audit & Ethics Officer Andrew Medina introduced Gary Nystul. Mr. Medina explained this audit was completed by Mr. Nystul, who is an independent contractor. Mr. Medina contracted with Mr. Nystul to complete this audit after an internal auditor resigned last spring and he didn't want to fall too far behind in the annual plan. Mr. Medina provided a quick background on why this audit was part of the annual audit plan, and that the primary objective was to determine if the District had adequate procedures for transporting deposits from the schools to the bank. Mr. Nystul gave a brief summary of his experience and auditing background. Mr. Nystul spoke about how he began this audit and the steps he took to insure a fair audit process. He spoke about meeting with office staff and performing observation of the depositing process. Mr. Nystul concluded that the current procedures for transporting funds from schools to the bank are adequate, and he did not make any recommendations regarding this process. Mr. Nystul indicated that even though the procedures for transporting funds were adequate, there were other actions the District could implement to minimize the risks associated with collecting and depositing funds. He stated that the other recommendations were summarized in the report. The Committee inquired about the status of point of sale system that is to be implemented in the District. Assistant Superintendent of Business & Finance JoLynn

Berge indicated that a project manager had been hired but then resigned. She indicated that the process to hire a new project manager had begun and they are still hopeful that the point of sale system can be implemented in time for the 2017-2018 school year. The Committee thanked Mr. Nystul for his work.

2. Approval of Internal Audit Annual Plan (Medina)

Director Internal Audit & Ethics Officer Andrew Medina spoke about requesting the Committee's approval of the Annual Risk Assessment and Audit Plan. He shared a draft of the plan at the August meeting, and the version presented today is largely the same. Mr. Medina did add an audit related to professional development to the audit universe based on feedback he received from one board director. He also added some narrative to the plan to identify the procedures that went into completing the plan, as well as some narrative discussing why each primary audit priority was included in the plan. Mr. Medina explained at the August meeting there was a question about the amount of resources involved with each audit, so he also prepared a Gantt chart to illustrate how long each audit is expected to take. This chart also helps to illustrate when the Committee can expect to see a final report for each audit. Mr. Medina reminded the committee to please keep in mind that this is the plan as it stands today, and he will provide updates of any changes.

Director Harris asked if there was a thought to go to mini audits due to lack of staff. Mr. Medina spoke about the guidance provided from prior audit committees to conduct a thorough review of each audit area visited. Director Harris spoke about Dr. Nyland's mini audits conducted during travel to the Philippines and asked Mr. Medina to look at those notes and possibly gain knowledge from that. Mr. Medina indicated that he would reach out to Dr. Nyland. Director Harris would like more information on a mix of large and small audits.

Director Peters asked why the apportionment audits were rated as a high priority. Mr. Medina explained that they were determined to be a high priority based on their materiality to the District.

Director Peters asked how much time and effort do the follow-up audits take. Mr. Medina explained it depends on what is found during the initial audit. Mr. Medina highlighted some audits that should probably receive a full follow-up audit, but indicated that not every audit should require a follow-up audit. Mr. Medina explained that follow-up audits are currently required by board procedure and that is why they are included in the audit plan. Mr. Medina proposed a change to the Board Procedure requiring a following-up audit for all audits in order to free up internal audit resources for other audits. The Committee appreciated the proposal, and Mr. Medina indicated that he would initiate the process for amending the procedure and bring it back to the Committee for evaluation.

Director Peters inquired about how schools are selected for an audit. Mr. Medina explained that their deposit data is analyzed to identify schools in need of an audit.

Director Blanford confirmed the document Mr. Medina gave highlights what risks have been found. Mr. Medina confirmed that to be correct. Director Blanford has a high level of confidence that we are doing the best that we can, given the current resources.

Assistant Superintendent of Business & Finance JoLynn Berge inquired about changes to the audit plan. Mr. Medina explained that proposed changes can be brought to him for consideration then to the Chair of A&F and finally to the Committee. Director Harris asked Ms. Berge if there is a hesitance to go to the auditor or if it's just a question of the process. Ms. Berge explained the process was just not known.

The Committee approved the Annual Risk Assessment & Audit Plan.

Audit Response Updates

1. Audit Response Management (Boulmetis/Berge)

Audit Response Manager Annette Boulmetis explained she uses the audit response plan to guide departments through the audit resolution process.

Three new corrective action plans are from the reports issued in May and June. Progress is monitored until the item is closed.

2. Curriculum & Instruction (Tolley/Clancy/VanDerPloeg)

Associate Superintendent for Teaching & Learning Michael Tolley spoke about their 13 open items. Mr. Tolley went through each of his items listed on the tracking sheet. The Department of Technology (DoTs) was unable to complete work on capturing clock hours. The current system is a manual, labor intensive system. For instance, at the start of school week, over 5,000 clock hours required manual input. Additional project management is needed to re-evaluate the current process and determine the cost/ benefit of an automated system.

Director Blanford would like a timeline of this. Mr. Tolley will be meeting with Director of School Operations Misa Garmoe and a meeting is set up for next week with a timeline.

Director Blanford asked what happens next. Mr. Tolley explained he will need to request an extension.

Mr. Medina summarized the original purpose of the finding and reminded everyone that the issue was related to budget managers not having visibility of the purchases being made in their departments.

Director Harris asked what do other districts do. Mr. Medina is unsure what other districts do.

Director Blanford asked what the timeline is for this and wants staff to have a plan on how to get this done. Mr. Tolley explained he will be going back to the original finding to wrap this up.

Ms.

Boulmetis explained that the recent state audit of staff mix reporting did not have a financial impact; but, a process should be in place to ensure staff mix reporting is based on accurate and real time account balances of clock hours earned.

Director of Special Education Michaela Clancy explained the exception for the Individualized Education Program (IEP) physical signature page and going to electronic archival records. The district is working with the vendor to disallow edits to archival records.

Director Blanford asked who pays us that money for savings. Ms. Clancy explained it comes from the vendor. Ms. Clancy explained how we are a part of a regional collaborative and does see the potential.

Ms. Clancy spoke about IEP online program; the school did choose to go with PowerSchool 10 this August. The implementation timeline is in November for a completion date. Ms. Clancy spoke about a new finding regarding stipends for class size overage payments.

Grants Director Michael Stone spoke about controls around federal personal service contracts. Specifically, for allowable expenditures at the school level. This has been corrected by now adding language and the items are now reviewed by Mr. Stone.

Director Harris inquired about any overlap with internal audit procedures. Mr. Medina spoke about a current school audit, but indicated that it was limited to standard school audit procedures with some additional emphasis on untimely payments being made to vendors. Mr. Stone explained they are providing training to the schools so they can understand what can go into a contract.

Director Harris asked if the collective bargaining partners are complaining. Mr. Stone explained no they are not; this is being done proactively.

Mr. Stone spoke about discrepancies in grants from two years ago. the State Auditor Office (SAO) recommended implementation for Title I.

Director Harris asked if this is the best use of Mr. Stone time because of his paygrade. Mr. Stone explained no it is not, but he is the one currently with the most knowledge but with the new Title I supervisor hire this will change.

3. Capital Projects (Herndon/Best)

Director of Capital Projects & Planning Richard Best reviewed the audit items concerning the design phase for Genesee Hill Elementary School. He noted that he concurred with the audit assessment and that Capital Projects was implementing changes in procedures to strengthen their processes. Mr. Best summarized the current processes for Queen Anne and Magnolia schools. Mr. Best is requesting the items be closed as of September.

Director Harris asked if capital is also spending time communicating with building principals and having candid conversations about project budgets. Mr. Best explained one change was to work closely with a representative from the Office of Teaching and Learning. He explained Manager School Operations Sherri Kokx is now acting as a liaison between the two departments. This allows for better collaboration between capital and learning.

Director Harris asked when will this be completed. Mr. Best said it should be completed by December.

Director Peters asked at what point do we decide to put fences around a building. Magnolia is having a high number of reported graffiti incidents. Mr. Best hasn't received any complaints about Magnolia but will look into the reports of graffiti.

4. Business & Finance (Berge)

Director Peters has asked for Data Privacy procedures be brought to the committee for review and requested this item remain open.

Ms. Berge spoke how all of the Business & Finance items are in currently in progress.

Director Harris asked if other government organizations that already have this developed that we can steal this from. Ms. Berge explained yes to some degree. Our specific policies would require us to tailor it to us specially.

Director Harris if we are making it clear in the Chief Information Officer (CIO) interviews about approved the Point of Sale (PoS) system. Director Harris would like a question in the interviews for the CIO about a PoS Ms. Berge offered suggestions of what could be asked, but she has not currently seen questions for the Thursday interview.

Director Peters asked about item 6, update for Superintendent Procedure (SP) related to aggregate purchases that require Board approval when payments to a single vendor exceed a specific threshold. Ms. Berge indicated the revised SP is being drafted by the Purchasing Manager Craig Murphy. Estimated completion date is March 2017.

Director Peters asked how much leeway do we have with the SAO recommendations. Ms. Berge, indicated some, we work with them and come up with a solution if we do not agree.

The meeting was adjourned at 6:25pm.