

# Board Special Meeting

2445 – 3<sup>rd</sup> Avenue South, Seattle WA 98134



Exit Conference for Financial Statement and Federal Grant Compliance Audit  
Work Session: Budget  
Wednesday, May 25, 2016, 4:30 PM – 7:00 PM  
Auditorium, John Stanford Center

## Agenda

1. Call to order 4:30 PM

Directors were present were Patu, Blanford, Pinkham, Peters, Burke. Director Geary arrived at 4:33pm.  
The meeting was staffed by Superintendent Nyland, Deputy Superintendent Stephen Nielsen and Budget Director Linda Sebring.
2. Exit Conference for Financial Statement and Federal Grant Compliance Audit  
Stephen Nielsen thanked the State Auditor Office (SAO) for being fair and helpful in the audit process.  
Auditors introduced themselves; Assistant Audit Manager Anastassia Kavanaugh, Audit Manager Joe Simmons and King County Audit lead Heidi Wiley. Mr. Simmons spoke about presenting item for federal single audit and financial statement report.  
Director Geary arrived at 4:33pm  
Ms. Kavanaugh thanked the employees of the SPS that were involved in single and financial statement audits. Ms. Kavanaugh also stated that auditors would like to recognize the District desire to correct last year recommendation and appreciate that not only the District leaders but employees on every level care to do their job right. Ms. Kavanaugh mentioned that three audits were performed and results for two of them will be discussed today.  
Ms. Wiley walked the Board through audit reports for financial statements and single audits. She referred to the page 2 of the report package and went over about the table of contents of the report. Ms. Wiley went through the summary of the financial and single audit reports. There were no significant deficiencies or material weaknesses for the financial statement audit and no findings. There were no significant deficiencies or material weaknesses for the single audit, however there is one finding. Ms. Wiley spoke about the finding regarding School Improvement Grants federal program for unallowable costs. She explained unallowable costs over 10K are required to be reported as a finding. Additional detail about the finding can be found on, on page 6 of the report.  
Directors asked if the allowable costs are detailed. Ms. Wiley confirmed the details will be included on page 6.  
Directors asked about the federal grant on unallowable cost last year. Ms. Wiley confirmed that last year was regarding payroll for a different grant and is not the same type of unallowable costs this year.

Directors asked for specific sites and additional details to allow for correction. Ms. Wiley confirmed they are allowed to correct the findings.

Directors requested page numbers added to the documents. Ms. Kavanaugh confirmed the final report will have page numbers. Ms. Kavanaugh went over financial statement (exit conference handout) page 2. She spoke about required communications for financial statements audit noting that there was one uncorrected immaterial misstatement and no material misstatements in financial statements. Prior year audit had two findings: one for Teacher Incentive Fund federal grant and the other one for time/ effort compliance requirements. The District completely corrected the first finding and partially corrected the second one. Ms. Kavanaugh went over the management letter recommendation. Ms. Kavanaugh explained that the District did not follow federal procurement requirements when making purchases of goods with federal funds. Specifically the District was out of compliance when making purchasing of goods (excluding books) under \$40,000 and when purchasing books at any level between \$40,000 and \$200,000.

Directors asked for specific type of books this was a problem for. Ms. Kavanaugh clarified any type of books purchased with federal funds should be procured in accordance with federal law.

Directors asked if that included when teachers are given seed money—Ms. Kavanaugh explained that federal law applies only to books purchased with federal funds. She stated that any federal purchase over \$3,000 has to be competitively procured. Directors questioned this and gave an example of 10 teachers in school spend \$300 per classroom, would that trigger a finding. Ms. Kavanaugh explained that if federal fund were used for purchase this would an issue. Ms. Kavanaugh explained that there is an expectation that all purchases made at school level with federal grant funds should be tracked by grant manager (the principal or assistant principal) who insures compliance with federal grant requirement

Directors asked about federal funds vs non-federal funds. If the funds were raised and were no federal the funds rule bid rule apply. Ms. Kavanaugh confirmed she is speaking to federal funds and state law for purchases of good is different.

Directors asked about why is the 3K rule not included in the management letter. Ms. Kavanaugh spoke about how this is a new rule for this year and during the year under the audit the threshold was \$0. Directors requested management letter to show that 3K is a new rule.

Ms. Kavanaugh explained that the purchasing manager along with grants department is working on developing a school policy with documentation on a memo from OSPI.

Directors asked what the threshold is for immaterial funds; each book was less than 5% total of the grant amount. The total amount of what the district made each year.

Ms. Kavanaugh reviewed the exit items, she explained these are recommendations with immaterial or insignificant effect and have been discussed with management. Exit items are not reference in the audit report.

Mr. Simmons went over concluding remarks. The report will be published on the SAO website as of May 31st. The cost for the audit this year was 132K, billing

has also changed. Mr. Simmons spoke about how the SAO will be back in June to finish up the audit process.

Directors asked if the audit cost is the same as it was in previous years. Mr. Simmons confirmed the cost was the same for the past three years.

Directors asked about how it was chosen what will be reviewed for an audit.

Ms. Kavanaugh explained since the District follows OSPI prescribed guidance when preparing financial statements SAO only required to reconcile District's cash accounts to King County treasury reports. However, SAO may identify additional risks related to financial statements audit. This year it was interfund transfers. In previous years SAO look at capital fund expenditures. The goal is to make sure each year is looking at different areas.

Ms. Kavanaugh noted that also this year auditor's reviewed how the District implemented new reporting governmental accounting standard GASB 68.

This is the first year the District is required to adhere to GASB 68 reporting requirements. And it's important that the District done it correctly and used accurate information.

Mr. Nielsen introduced the new Assistant Superintendent of Business and Finance JoLynn Berge.

3. Work Session: Budget

5:35 PM

- Superintendent Nyland's Opening Remarks
- FY 2016-17 Budget Development Calendar
- FY 2016-17 General Fund Resources
- FY 2016-17 General Fund Expenditures
- Historical Budget Challenges (Dollars in Millions)
- Fund Balance
- Associated Student Body Fund
- Capital Fund
- Debt Service Fund

Deputy Superintendent Stephen Nielsen explained this presentation will be a high level overview of the 2016-17 budget. Mr. Nielsen spoke about due to McCleary, next year has more uncertainty in the legislative budget. The allocations may change the funding in basic education and dependence on levies is stronger than in years past. Mr. Nielsen spoke about how this is a cautious year and needs to be thought of in multiple years. Mr. Nielsen introduced the Budget Director Linda Sebring.

Ms. Sebring reviewed the agenda of the meeting. Ms. Sebring explained the board approval process. Ms. Sebring spoke about the signing of the resolution by the board. Ms. Sebring explained what a budget extension is and when it can be used. Ms. Sebring spoke about the five District funds which includes the vehicle transportation that the District does not use.

Superintendent Nyland asked where the depreciation funds for transportation goes. Ms. Sebring explained the depreciation is part of the total funding we receive and redirect to our outside bus service contractors. The contract cost is not directly tied to our reimbursements, nor does the state funding fully cover the cost for all of our transportation costs. Mr. Nielsen explained if the District had a fleet of buses a large amount would be paid from the levies. Ms. Sebring spoke

about how our current transportation model does not cost our tax payers as much as it might if we operated our own fleet of buses.

Directors asked if we receive 1/15<sup>th</sup> (the bus depreciation funds) through our general fund. Ms. Sebring noted that it does.

Directors asked we pay our service provided out of our general fund, and what we pay out is liability. Ms. Sebring spoke about being in our own category of transportation for reimbursement purposes.

Directors asked if we are saving money by only using one bus company. Pegi McEvoy confirmed the District is saving money.

Ms. Sebring spoke about the budget development calendar on page 4. Ms. Sebring explained the budget being locked, and how additional changes may not be reflected in the budget book if made after the lock date.

Ms. Sebring spoke about the BAR for the resolution coming forward in June. Mr. Nielsen spoke about the opportunity to make changes to the budget book before the board approval on July 6<sup>th</sup>. Ms. Sebring spoke about if the board adopts the budget and after it is reviewed by the Education Service District (ESD), if a material error is found we would have to adjust the budget and ask the board to vote for the amended proposal. In order to get the budgets loaded into our system we cannot spend funds until it is approved.

Ms. Sebring explained the enrollment data on page 6, based on the state funding all-day Kindergarten increase is actually a total of 24 students comparing the FY15-16 adopted budget to the proposed FY16-17 budget. The current slide shows a larger increase but when it is kindergarten funding is equalized out by the enrollment is actually in a decline.

Directors stated City population is increasing. Directors asked why is the students populations are not growing at the same slope. Ms. Sebring spoke about receiving numbers from enrollment planning and Flip Herndon would be the best person to answer those questions. Directors asked for follow up on enrollment numbers. Mr. Nielsen will follow up with Flip Herndon to get the numbers to the Board.

Ms. Sebring spoke about the FY 2016-17 general fund resources summary. Ms. Sebring explained 10M in reduced grant capacity gives the appearance of federal funds being reduced. This is only a change in our budget methodology to better align our budget with our anticipated revenues and expenditures. The District has been ending its fiscal years with a budget that is almost \$40M more than it should have been. Reviewing what was causing the excessive budget identified that almost 50% of the amount was caused by grants which only account for 10% of the General Fund total budget. It was discovered that grant funds were included in the budget even if the funds were not planning on being spent in the school year. To help correct for this, grant capacity was reduced from \$16M to \$10M. Directors asked if any carry forward in previous grants is included in the total. Ms. Sebring spoke about we do have savings, such as salary savings. Major grants also have savings being generated.

Directors asked about special education on page 11. Ten years ago, at a meeting, Seattle Public Schools had more special education students because of the hospitals that place students, has that changed in the last decade. Mr. Nielsen spoke about the trend was being seen in the early 2000's. Other districts in the state do not see the same special need trends.

Directors asked if we should tell the legislature about the special circumstances we face. Mr. Nielsen explained we do already speak with the legislature.

Ms. Sebring spoke about the challenges with the individual student funding documents we have.

Ms. Sebring explained slide 13 shows the big categories that the state will identify as spending activities. The teaching number is being suppressed by the adjustment to grant capacity mentioned earlier. Goal is to have a budget that better reflects where we are going and strategic alignment. Ms. Sebring explained 84% of the budget is going towards staff.

Directors asked if the 84% the total on Expenditure Changes on slide 14. Ms. Sebring explained that is correct it is 84.4%. Maintenance Supplies and operating cost is a legally required slide to show what we receive vs. what we are spending for these slides. Ms. Sebring spoke about some costs can be on the levy or on state funding. Additional details will be given on June 15<sup>th</sup>.

Ms. Sebring spoke about the WSS formula. Supt. Nyland spoke about mitigations, and many programs that cost more to run and we think we can run well based on the formula.

Ms. Sebring spoke about the investment of people on the compensation changes slide.

Directors asked if this number was \$33M at one point. Ms. Sebring spoke about the agreements made with the labor partners such as SEA and para educators. Assumptions the District made about enrollment numbers, and reconciliation can be made and given to the board members if requested. Ms. Sebring will get back to the board on where the previous numbers came from and have it in a Friday memo in two weeks.

Ms. Sebring spoke about the furloughs in previous years, even during that time represented employees received step increases and COLA's. Ms. Sebring spoke to the COLA to represented and non-represented. Represented teachers received 3% in the salary allocation model and an additional 3% for a total 6%. Ms. Sebring explained TRI, and how compensation adjustments are given to them. Mr. Nielsen spoke about the coming fiscal year the District recommend steps and COLA for all employees in the coming year. SPS wants to stay competitive with other districts. Ms. Sebring spoke about the staff mix that is trending down and forecast out.

Ms. Sebring summarized the multi-year projections slide 20. Ms. Sebring spoke about slide 21 historical budget gaps. FY17 budget will be locked and the District can then use this to determine where funding can be allocated. One time resources can be found in the next year.

Ms. Sebring explained the renaming of the Minimum fund Balance to Economic Stabilization Fund. It is recommended to hold the fund balance to 3.25%.

Directors asked Ms. Sebring to speak to the range of the fund balance. In 2002-2003 it was \$1. The district overspent by \$23M, and the district didn't have a policy before this. This is not rare other districts do not have policies that specifically set money aside.

Directors spoke about other districts coming very close to bankrupt, and also not wanting funding to go unused. Mr. Nielsen spoke about managing expenditures and the importance of that. Mr. Nielsen spoke about June 8<sup>th</sup> work session to further discuss fund balance. Mr. Nielsen explained cuts in previous years during

a \$33M shortfall, even after the economy has recovered funds were not put back where they were. Directors spoke about how some of the items in the \$51M could be lined up with the SMART goals. They would like to see it aligned with items that are organized with it. Mr. Nielsen will do his best and the items will be seen on one spreadsheet, it is very large.

Directors questioned hearing that this should be \$80M and would like to know how did it go \$54M. Superintendent Nyland explained possible overlap between the \$80M and \$54M was discovered as the list progressed.

Directors asked if they can make the SMART goals fit within the budget. Mr. Nielsen explained that is true, but it will be discussed more at the June 8<sup>th</sup> work session.

Directors asked about mitigation requested are included in the \$54M. Mr. Nielsen explained that mitigation requests are not, the total is almost \$8M. Ms. Sebring spoke about how some schools are not submitting the mitigation requests any longer.

Directors asked how much we still owe on JSCEE. Ms. Sebring explained the amount is approximately \$25M as of September.

Adjourn

7:07 PM