

**MEETING MINUTES
COMMITTEE OF THE BOARD MEETING
December 1, 2009**

PRESENT: Board of Education: Elona Street-Stewart, Kazoua Kong-Thao, Anne Carroll, Vallay Varro, John Brodrick, Jean O'Connell
Director Hardy joined the meeting at 5:00 p.m.

Staff: Interim Superintendent Kelly, Michael Baumann, Sandra Weston, Kathy Brown, Christine Wroblewski, Michelle Walker, Jeremiah Ellis, Nancy Stachel, Luz Maria Serrano, Hitesh Haria

Other: Chris Omdahl, Raydene Hagan, Mary Turck

I. CALL TO ORDER

The meeting was called to order at 4:33 p.m.

II. AGENDA

1. Financial Audit Report

The Superintendent stated the draft report of the FY 09 Financial Audit and the OMBA A-133 Audit has been prepared by the firm of KPMG who was retained by Saint Paul Public Schools (SPPS) to perform both audits. Two representatives from KPMG were present to make the presentation of the audit report.

The Superintendent went on to reassure the Board that this year's challenges around staff member misappropriation of funds were being addressed. She stated that while there was great disappointment that staff members had acted illegally, administration is encouraged as administrative policies and practices have been looked at, various additional checks and balances have been implemented, and areas of operation have been tightened up in order to forestall any further instances of this behavior.

A Board member asked to what extent this instance of illegal behavior has triggered any conversation around employee counseling activities in Human Resources as people are stretched/stressed during these difficult economic times. The Superintendent indicated she did not have an answer to this at this time but would get an answer from HR.

The Chief Financial Officer stated the audit was a challenging process with staff needing to be very focused on providing accurate and timely data to the auditors over a period of time. Processes and procedures to accomplish this are continually being refined. He credited this work to the new Accountant V who has worked to streamline the process. Now that the audit is completed there will be an "after action review" of the process to find ways to do things better with next audit.

Chris Omdahl (Partner), with Raydenne Hagen (Audit Lead) in attendance, from KPMG, LLP presented highlights from the financial statements and the opinion for the audit conducted for the year ending June 30, 2009. He stated, in their opinion, the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the aggregate remaining fund information and the respective changes in financial position and, where applicable, cash flows thereof for the year ended June 30, 2009 in conformity with U.S. generally accepted accounting principles or, in layman's terms, an "unqualified or clean opinion."

He reported they had also issued a report on the District's internal control over financial reporting and tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. Additionally they audited the District's compliance with the U.S. Office of Management and Budget (OMB) Circular A-133, which are applicable to major federal programs for the year ended June 30, 2009. Finally, they performed an audit of the financial transactions in accordance with statutory requirements embodied in the Minnesota Legal Compliance Checklist since SPPS is a political subdivision of the State of Minnesota.

He then moved on to a review of the actual financial statements for the District. He noted there was a decrease in net assets of approximately \$24 million (2008 \$155 million; 2009 \$130 million). The principal factor contributing to this change in net assets is the increase in the liability associated with OPEB (Other Post Employment Benefits). He state the General Fund balance for SPPS on June 30, 2009 was approximately \$62 million. The unreserved, undesignated fund balance was \$27.4 million or 5.26% of general fund expenditures.

QUESTIONS (Financial Statements):

- There was a question on the liability for retirees, the number shown as a liability, what does that represent? Response: See Footnote 8 on page 41; it is the difference between the annual actuarial determined required contribution and the actual contribution made by the District. It amortizes the unfunded obligation over a 30-year period. The total actuarial accrued liability is approximately a \$312 million as of January 1, 2007. This figure is revised every two years through actuarial valuation. It was noted there was an earlier presentation to the Board on this subject that will be forwarded to the new members for their review.

Mr. Omdahl then moved to the OMB Circular A-133 Audit Report. This report was in two parts; the first was the audit of the financial statements of the governmental activities, each major fund and the remaining fund information of SPPS as of June 30, 2009. The audit was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in the *Governmental Auditing Standards* as issued by the Comptroller General of the United States. It looked at procedures and reported the results of those procedures related to standards required under government audit standards. This audit considers the design and operating effectiveness of the system established by the District in presenting financial statements. Any deficiencies found were called out as findings. There were two findings noted in the report.

- Financial Accounting and Disclosure for Certain Debt Transactions
- Segregation of Duties and Approval of Manual Journal Entries

The second report was on compliance with the requirements applicable to each major program and on internal control over this compliance in accordance with OMB Circular A-133 and on the Standards of Expenditures of Federal Awards. Five programs were audited for these reports: Title I; Magnet School Assistance-BioSMART; English Language Acquisition Grants Title III; Improving Teacher Quality State Grants Title II, Part A; and the Special Education Cluster. There were findings related to this area as well.

- Cash Management - Timing of reimbursements to expenditures in a Special Education transaction
- Allowable costs - time and effort reporting (Title I, II and III)
- Equipment and Real Property Management – equipment BioSMART project grant

In summary, the findings do not affect the District's overall compliance, so it complied in all material respects with the requirements of OMB Circular A-133 but there were reportable findings as noted. The opinion issued was an unqualified opinion.

QUESTIONS:

- Relative to some of the issues and deficiencies addressed in the opening remarks, were any of the findings related to those? Will the solutions address those? Response: Directly no; indirectly (through process, procedures, compliance, financial assessments, oversight), yes. Specific remedies were discussed relative to the findings.
- There was a realignment of duties within the Business Office that addressed some inefficiencies, are these in addition to those addressed last year or are they new? Response: The items noted in this audit are over and above what was addressed last year. One of the issues last year was to hire an Accountant V which has been done. There was also some realignment and organization redesign with regard to direct report lines. It is not just the Business Office; finance permeates the entire operation of SPPS. There are business administrators at almost every level. What was addressed last year was not just positional but organizational processes. A Financial Management Leadership Team has been established with senior accountants, the budget director and the Chief Financial Officer. This group is looking strategically, operationally and tactically to make an effort to review processes and procedures to make sure that at the classroom level the mission is being accomplished while at the same time insuring compliances are in place and functioning at all levels. This effort is being leveraged using technology capabilities and the establishment of key performance indicators to increase fidelity of the work and the compliances.
- On page 12, the time and effort reporting, are these new issues or continuing challenges from previous efforts? Is technology improving the reporting efforts and how? Response: The specific instances are different; the general occurrence is similar to past issues. The District is moving to an electronic system. This was put into effect in July, 2009 so in FY 10 it is hoped that technology will eliminate this issue. The standard will be zero; the District needs to find the right key to get leadership doing the right thing and the accountants doing quality assurance/quality control processes as needed. Technology will help to do this better. Technology puts less paper in front of individuals, simplifies the process; provides expanded opportunities for review and oversight and putting fail-safes into the system should eliminate the quality assurance, quality control dimension. Additionally ARRA requires T&E reporting so the District must get it right.
- Relative to the advance payment situation, with the new automated State financial management system (SERVS) this should go away.
- On the BioSMART equipment, the inventory was not counted/documented properly. Response: Management of this area has been reassigned so it will be documented properly in future.
- Why is corrective action moving toward a "Policy?" Response: This is administrative policy related to procedures.

The third report was an audit for compliance with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, uniform financial accounting and reporting standards for school districts and local government miscellaneous provisions of the *Minnesota Legal Compliance Audit Guide for Local Governments*. There were no instances of noncompliance in this area.

The Chair noted this was a preliminary report on the audit findings. The final Audit Report will be approved at the December Board of Education meeting. Administration was instructed to prepare a brief presentation on the audit to be given at this meeting.

MOTION: Ms. Carroll moved acceptance of the audit report as presented; motion seconded by Ms. Kong-Thao.

Motion Passed.

Appreciation was expressed for the thoroughness of the report from KPMG and to staff for their work leading to its preparation.

2. Standing Item: School & Program Changes

Information was provided to the Board on the two-year restructuring plan for Washington Technology Magnet Middle School through the restructuring into Interdisciplinary Teams as a continuation of the BioSMART model and expansion of the AVID program into 8th grade. Years 1 and 2 were outlined along with additional considerations for administration and the professional development requirements for implementation. No action was required of the Board at this time.

The report also outlined guidance provided by the Minnesota Department of Education for restructuring Title I schools under NCLB. This represents the only guidance available at this time.

QUESTIONS:

- Who has input into these restructuring plans? Response: In this case the school leadership team for both Washington and Open as the changes were already underway.
- The 10 added days for staff development, how is that handled? Response: The schools generally schedule this in terms of what works for them.
- How do new teachers receive training in these models if they miss the initial professional development? Response: The Professional Learning Communities' (PLCs) work is crucial to ongoing professional development. The restructuring is a two-year plan, the Interdisciplinary Teams at Washington have a consultant who works with them on BioSMART and will continue to work with the group over the next two years to fine tune the model. The training is not done and then over with, there is on-going work. For the AVID training, there are certified District trainers. For the PLCs, the Defores come to town frequently or have on-going workshops people can attend. The PLCs are crucial to development and ongoing training as they model/mentor the new members of the community.

The Board requested a Glossary of Acronyms and Terms be prepared in time for use at the Parent Fair in January.

3. Standing Item: Policy Update -- No report was made at this meeting.

III. **ADJOURNMENT**

MOTION:	Mr. Brodrick moved the meeting adjourn; seconded by Ms. Carroll.
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Motion passed.

The meeting adjourned at 5:53 p.m.

Respectfully submitted,

Marilyn Polsfuss
Assistant Clerk