

Rochester Board of Education
Finance Committee
December 12, 2006 at 6:00 p.m.

Attendance: Commissioners Powell, Evans and Brennan; Mr. Coney; Mr. Smith; Mr. Keysa; Mr. Connors; Mr. Greene; Ms. Lee; and Ms. Wilson

Commissioner Powell convened the meeting at 6:01 p.m.

Commissioner Powell: The Superintendent will not be presenting the budget priorities tonight. As we move through the agenda I am going to suggest two finance committee meetings in January and ask that Dr. Rivera join us at our special January meeting the first week of the month.

Motion to approve the agenda with the above revision made by Commissioner Brennan. Seconded by Commissioner Evans. Adopted 3-0.

I. Approve November Finance Committee Meeting Minutes

Motion to approve the November minutes made by Commissioner Evans. Seconded by Commissioner Brennan. Adopted 3-0.

II. Receive and Review Monthly Financial Reports

Commissioner Evans: In reference to the last sentence of the MDA letter (*given the State's historical cash flow situation, the District could have future State aid payments delayed beyond the 2006-2007 fiscal year, which would negatively impact the final cash balance*) what is our past experience and what is the likelihood of it happening this year?

Mr. Connors: Historically, the State tends to move payments around the end of March, beginning of April (their fiscal year). In the last 10-20 years there have been one or two severe situations where they moved the money later into the year. From an accounting standpoint, we treat this as revenue in the current year and book it as a receivable. That can have a negative cash flow implication. However, as we look at this year, the State is projected to end with a surplus well over \$1B. We put this note in every year as a cautionary measure and to bring it to the Board's attention.

Commissioner Evans: When are the final runs?

Mr. Connors: December. We provide year-end reports in the fall (September/October time period) which are uploaded into the State's database. The State refers to this as their November database. They use this information to adjust the State aid runs in December. We just received those State aid runs and this budget amendment reflects those changes.

Commissioner Evans: Do you anticipate anymore budget amendments?

Mr. Connors: Per Board policy, we are scheduled to provide budget amendments in December, February and April and other times as necessary. I believe we will do the February and April if for no other reason than to recognize additional revenues and/or grant funding.

Commissioner Powell: We received less Special Services aid than projected at the beginning of our budget planning. What is the offset for that?

Mr. Connors: There is no one-to-one offset. The offset is how much the revenue changes as opposed to how much the expenditures change. The reason for the reduction in Special Services aid in this category is what we refer to as Occupational Education. What we are seeing with our new programs is a transition of students from the traditional shop classes (auto mechanics, etc.) into business and marketing classes. While they still generate Special Services aid, they it generate at a lower rate which reduced the aid in this category.

Commissioner Powell: Do we still have the same number of seats available?

Mr. Connors: I can't answer that question specifically. With the new smaller schools and the different offerings students have more options and they are electing to utilize them. We are actually responding to market forces and offering more seats in those programs and adjusting the seats in the current programs.

Commissioner Powell: I am curious because there is in fact a great demand for auto shop students. MCC has a program for auto shop that they can't fill. It's a peculiar thing that perception of a good career or job move is driving this rather than the reality of good jobs in the world. Incrementally we did lose revenue, but the expenses shifted because of enrollment and the reductions in expenses is scattered all over.

Mr. Connors: That is correct. We would be hard pressed to make a case that the expenses that were reduced were all in this program. If we were to do a cost analysis of these programs we would probably see that expenses exceed this aid category.

Commissioner Powell: Is this a program-based budget category?

Mr. Connors: No. The working definition for program based budgeting is programs beyond the regular classroom.

Commissioner Powell: What are we doing to ensure we have funds for the Superintendent search?

Mr. Connors: Ms. Lee and I have been working on the Board budget and currently there are sufficient resources in the budget to pay these costs. We are also looking to make sure we project out the cost for the full year to ensure there are adequate funds available. The analysis will be done within the next few weeks and at the January meeting we will be able to give you a definite answer.

Commissioner Powell: You actually mean the Board's budget or the Superintendent's office?

Mr. Connors: We are using the Board's budget.

Ms. Lee: The funds are coming out of the Professional and Technical Services line.

Mr. Connors: There is a large budget in this line that was built to meet needs of the Board if they needed independent legal counsel, etc. The usage to date has been relatively small.

Commissioner Powell: I am anticipating the Superintendent is going to be doing a national search for a CFO. I am assuming we are going to set aside some money as we build next year's budget. Is that part of your thinking as well?

Mr. Connors: Yes. We look at all these things.

Mr. Coney: Keep in mind; it may not be limited to a CFO search.

Commissioner Evans: What is the local share deduction for certain students on the revenue side?

Mr. Connors: When we get our State aid projections from the Governor, they never mention this. This is a deduction the State does to all school districts for certain students receiving services in other areas. They could be receiving services (i.e. jail, state schools: Batavia School of the Blind, etc.). Each school district that has a jail located within its boundaries is required to provide the educational services that are fully funded by the State and accounted for in the grant fund. We keep this as a separate line because we have to make that budgeting adjustment every year when we get our State aid projections.

Commissioner Powell: When we have students enrolled in our District for instance, The Young Mother's Program, where we bring in students from other schools from around the county do they transfer pupil aid to us?

Mr. Connors: No. In cases where we agree to take students, we sign a contractual agreement with those districts and we bill them. The money comes in as miscellaneous revenue to the District.

Commissioner Evans: What constitutes indirect cost?

Mr. Connors: When we have a grant we are not allowed to directly charge the cost of services that are needed to administer the grant. It could be purchasing, accounting or various administrative costs. The State has a formula that calculates how much we are allowed to charge to those grants as an overhead cost. The current rate is 3.6%. The accounting in the grants side is that it is indirect cost as an expense and the offset is shown as revenue (Local Other).

Commissioner Evans: Can you please explain Overtime Non-Instructional, Contract Transportation and Hourly Teachers?

Mr. Connors: The actual expenditure trend for Overtime Non-Instructional is pretty consistent year over year. Last year the budget was low we increased it with budget amendments. When we get to the end of the year you

will see that the expenditure trends are similar and the budget usage percentage is similar. If we go back to last year the budget was low and it was stepped up a couple times during the course of the year which makes the utilization rate this year look lower than last year.

Mr. Connors: The Contract Transportation line has increased in this amendment by \$1.8M and that is the fall out of a number of changes in the transportation program this year. When we built the budget, by State law we used a CPI increase factor (based on the Northeast Urban Index) of about 3.5% for the current year and unfortunately the index at the end of last year was 4.8%. As a result Contract Transportation was under budgeted. There were a couple of other factors that drove up cost

1. The decision to provide transportation to all students at Jefferson High School which was an unbudgeted factor
2. The transportation of special education students. We were transporting them on buses that could carry up to six students and based on interpretation of State aid regulations we had to switch those students to a three students to a bus ratio with an assistant on each bus.

Commissioner Evans: How does that affect us going forward? It looks like only 10% of the budget remains

Mr. Connors: When you read this remember this is a combination of expended and encumbered funds. The adjustments have been made and we will probably increase the purchase orders a bit this month. Next month's report will be in line at a 95% rate. We should be fine after this adjustment.

Commissioner Evans: Why is Cash Capital Expenses 100%?

Mr. Connors: The line item always reaches 100% early in the year. This is cash invested in construction programs in the District and per SED regulations we have to account for it in the capital fund. What you see here is the budgeting of the money which is technically referred to as an inter-fund expense. We transfer the money into the capital fund as inter-fund revenue and then they utilize it for the CIP program.

Commissioner Evans: You do not need to address Hourly Teachers.

Commissioner Evans: Are EPE payments due this year?

Mr. Connors: This was the last year we had a waiver. As it now stands we would be required to make the first payment next year (about \$2.1M per year) and payments would be made over the next six years interest free. It's a total liability of over \$12M based on an EPE audit of the District's practices that took place in late 1990s early 2000s. According to the claim, we were charging too much contact time. We earn revenue based on contact hours with students. In defense of the program, the EPE regulations weren't really clear. At the time of the audit they said here are the regulations now which was an after the fact audit. This reduced the number of eligible hours we were entitled to and had already received? The decision was that we would have to pay back on a six year interest free basis. However to date, we have not paid anything back. In the past we have been successful going to the legislature and getting waivers.

Commissioner Evans: We may try that again this year. I have to circle back with Mr. Looby.

Commissioner Powell: My understanding is that we did not get a favorable response.

Commissioner Powell: If we aren't forgiven outright by legislature, who has the power to do it we are going to be on the hook next year.

Motion to accept the monthly financial reports and recommend their acceptance along with the Budget Amendment Resolutions to the Board made by Commissioner Evans. Seconded by Commissioner Brennan. Adopted 3-0.

III. Review of Proposed Resolutions for December 2006 Board Business Meeting

a. Budget Amendment Resolutions

See above

b. Oracle – Three Maintenance Agreements

Mr. Greene: This is the standard annual maintenance payment for PeopleSoft maintenance. The one change Ms. Cottrell implemented this year is that instead of one lump sum, we have separated them into three distinct resolutions that coincide with three separate contract activities.

1. First contract - 1998
2. Second contract - 2001
3. Third contract was - 2003

Commissioner Powell: This is a maintenance agreement for \$400k?

Mr. Greene: The total of all three is \$645,490.71.

Commissioner Evans: Why is it such a large amount?

Mr. Greene: The maintenance that is charged by PeopleSoft is a percentage of the original license fee. Previously they had the opportunity to increase it up to 15% per year. However in our latest negotiations, Ms. Cottrell was successful at getting that frozen.

Commissioner Evans: So we are going to be paying Oracle on an annual basis over \$600k?

Mr. Greene: Yes.

Commissioner Evans: When we talk about Oracle and PeopleSoft we are talking about the same thing?

Mr. Greene: Yes. Oracle purchased PeopleSoft.

Commissioner Evans: Are you hearing good things from the field?

Commissioner Powell: I am hearing that it is under utilized. Our people don't know how to use it to its full potential. What is your response to that?

Mr. Greene: What we have implemented is being utilized but there are a number of modules we are not utilizing. During the process of this financials upgrade from 8.4 to 8.9 for example one of the things we have requested is an analysis that will show us additional opportunities to use what we are already paying for.

Ms. Lehner: We are currently at a 45% utilization rate and will have more functionality once the financials upgrade is complete.

Commissioner Powell: What is the timeline for that?

Ms. Lehner: June 1st rollout.

Commissioner Evans: What is the consequence of not paying the licensing?

Mr. Greene: There are a number of benefits:

1. Access to PeopleSoft experts by phone call
2. Ongoing bundles of fixes that correct problems that have been discovered by the total universe of PeopleSoft users. In many cases we get fixes before we experience a problem.
3. A vast database of information relative to efficient usage.

If something breaks and we are not paying our maintenance fee, we have no recourse and no assistance. We would have to be completely reliant on ourselves.

Commissioner Powell: I am willing to wait until June. It is really uncomfortable knowing how much money we spent and knowing we are only utilizing 45%. If the switch is going to be turned on in June, I will be patient.

Ms. Lehner: There are additional modules that we are looking to implement after the upgrade as well.

Commissioner Evans: Madam Chairwoman, you may want to send a memorandum to the rest of the Board members letting them know why we are paying Oracle \$600k.

Commissioner Powell: You are correct. It is a licensing agreement that we can't live without. It is a burden we undertook when we signed on back in 1998.

Action: Commissioner Powell will prepare a memorandum to the Board communicating the necessity of the Oracle maintenance agreements.

Motion to advance the Oracle (three maintenance agreements) resolutions to the Board for consideration made by Commissioner Evans. Seconded by Commissioner Brennan. Adopted 3-0.

c. Imminent Solutions, Inc.

Minutes taken by Ms. Wilson

Mr. Greene: This is connected to PeopleSoft but in terms of training. We need to get the budgeting process underway and neither the budget department nor my department has the spare resources to train approximately 300 end users. We were able to locate this very credible resource will train users in the time we require, but will also provide additional training aids for ongoing training that we can later do as needed.

Commissioner Evans: You believe this is actually a cost savings?

Mr. Greene: The price is more than reasonable compared to other options we explored. It's really a situation where we can not do it in house.

Motion to advance the Imminent Solutions, Inc. resolution to the Board for consideration made by Commissioner Evans. Seconded by Commissioner Brennan. Adopted 3-0.

d. Chancery

Mr. Greene: The RCSD people that were needed to work with Chancery were unavailable for a number of weeks. This is a request to extend the date of termination of the contract so that we can complete the work with no additional fees incurred.

Commissioner Powell: What remains to be done?

Mr. Greene: A lot of work in the area of custom reports and report training would be the key elements.

Commissioner Powell: Is this the system that promises that anyone would be able to pull off some rollup type reports?

Mr. Greene: That option is available. That is a matter of policy and procedure as oppose to capability.

Commissioner Powell: Do we as a finance committee have any interest in making sure the Board staff receives access and training?

Commissioner Evans: Who is allowed to have access?

Mr. Greene: I follow the lead of the Superintendent relative to who and how. Compared to the previous mainframe based system my directives from the Superintendent and CMichael Robinson have been to tighten up on who exactly gets access.

Commissioner Powell: I would suggest that you may want to anticipate a summary report level by student name or number level or report writing. I can take this question to the Board president.

Motion to advance the Chancery Student Management resolution to the Board for consideration made by Commissioner Evans. Seconded by Commissioner Brennan. Adopted 3-0.

e. Facilities

i. SWBR Architects Amendment

Mr. Keysa: This is a consultant contract for a term extension at no additional cost.

Commissioner Brennan: The contract was extended before and if I understand it correctly, this is an additional extension. What prevented completion by the previous date?

Mr. Keysa: SWBR is the consultant hired to help with the Facilities Modernization Plan (FMP). We have been working to put the legislative piece together we submitted that legislative piece before the end of this pass session but we only gave them a week to two week to review it and due to insufficient time it was tabled. Because it was tabled it will be coming back around for the January session and we need their assistance to help with the packaging of Phase I of the FMP.

Commissioner Powell: We need to make sure we articulate the fact that this is at no additional cost

Motion to advance the SWBR Architects amendment resolution to the Board for consideration made by Commissioner Evans. Seconded by Commissioner Brennan. Adopted 3-0.

Commissioner Evans: Are the facilities resolutions new before this committee?

Commissioner Powell: Yes. Battle Construction and Lloyd Mechanical came before the Board last month and were voted down. The concept for the voting down was nonspecific language about what we were being asked for aside from the final payment.

ii. Battle Construction and Lloyd Mechanical

Mr. Keysa: In November, we had a resolution that had two parts. These are two contracts that are coming up for final payment and the wording has been restated word for word as it was originally stated at the November Board meeting. We are addressing these two resolutions in this one cover letter. Where it wasn't clear in the past, we are now stating and giving the following additional information:

- a) When the contract was awarded
- b) To whom it was awarded
- c) For what (scope of work)
- d) The original amount of the contract
- e) Details on each change order
- f) Completion information
- g) Final payment amount
- h) Summary recap showing the "new" total for the contract

Commissioner Powell: I am glad to see the remaining final payment stated as opposed to telling us the additional change order adds. I am curious why we pay out more than the change order amount before a resolution would come before the Board. How was the final payment figured and how was it justified to go over the original contract?

Mr. Keysa: That is what we are planning to talk about at the January meeting. Setting guidelines going forward that if we are working within the contingency dollars that we have the authority to keep these things going.

Mr. Coney: At the January meeting we have to come away with two conclusions:

1. A process for old issues
2. A procedure going forward

Because we are going to be defining what happens in terms of change orders, we want to make sure there is understanding of our definition of a change order. When we make the new procedure we need to make sure the Board is more involved in the change order procedures going forward. That is our challenge for January

Commissioner Powell: I met with Mr. Coney earlier this week and the idea of having an additional Finance Committee meeting early in January before our scheduled one, we thought was essential in order to pull that together. I didn't think it was possible for us to actually come up with some of these parameters with all the other business we have in front of us. Is that acceptable that we have an additional meeting?

Commissioners Brennan / Evans: Yes.

Commissioner Powell: The idea is that we would have a tour of the FMP room at Lofton and talk about what goes into first stage and then we would get down to business regarding change orders.

Commissioner Evans: Battle Construction, can you explain change order #GC4? Remove deteriorated existing carpet...

Mr. Keysa: At School #50 there is a window wall system in the building that is over 50 years old, single pane, no thermal break in the windows. The caulking was asbestos so that had to come out as an abatement procedure. When we removed that we had just replaced the unit ventilators a few years before that and we are trying to save those ventilators, we have to take them away from the wall and deconstruct the exterior bookshelves. We opened and exposed an entire classroom to the elements. When we pulled the cabinets back we ended up with worn carpet. We are trying to maintain our buildings with minimal money. We absolutely had to replace these windows, the primary emphasis of this project. And then some residual things associated with the window wall that we knew we would have to do. It's when you start opening things that you find things you hoped you could get away with and find out you can't.

Motion to advance the Battle Construction resolution to the Board for consideration made by Commissioner Evans. Seconded by Commissioner Brennan. Adopted 3-0.

ii. Lloyd Mechanical

Mr. Keysa: This was a plumbing contract for School #28, \$17k contract, 10% contingency and one change order for a total of \$1.5k.

Motion to advance the Lloyd Mechanical resolution to the Board for consideration made by Commissioner Evans. Seconded by Commissioner Brennan. Adopted 3-0.

iii. MCS Remedial Services, Inc.

Mr. Keysa: This is for asbestos abatement at Franklin during the summer of 2005. You will see a number of deducts. The final amount is actually a deduct to their contract of \$11k due to poor workmanship that caused damage. This contractor is on notice and did not bid on any work for 05-06.

Commissioner Powell: If they did bid, they may not have been considered the lowest qualified bidder. The final payment owed is \$6k.

Motion to advance the MCS Remedial Services, Inc. resolution to the Board for consideration made by Commissioner Brennan. Seconded by Commissioner Evans. Adopted 3-0.

iv. Leo J. Roth Corporation

Mr. Keysa: This was for equipment at Edison during the 2005 summer renovation work. We were trying to replace shop equipment and trying to identify components on a major lathe would need to be replaced. This is a little odd in terms of what we normally do in terms of buildings but it's one of the things Edison needed. We haven't replaced the shop equipment since the building was built. This was the first effort to put some major shop equipment in.

Motion to advance the Leo J. Roth Corporation resolution to the Board for consideration made by Commissioner Evans. Seconded by Commissioner Brennan. Adopted 3-0.

IV. Superintendent Priorities

Removed from the agenda

V. P-Card Overview

Mr. Smith presented to the Committee an overview of the p-card program.

Mr. Coney: Mr. Smith will do a presentation on the control components of the p-card program. If you would like additional information (i.e. narrative) let me know and we can provide that next month. Hopefully, the presentation will answer most of your questions.

Commissioner Powell: Is 184 cardholders what you anticipate the total universe to be.

Mr. Smith: We are getting close. Every school secretary has one and almost all custodians.

Commissioner Evans: Why do custodians have them?

Mr. Smith: Custodians have them in order to make small purchases for the schools, gas for the mowers or snow blowers and if need be they can make quick repairs, etc.

Commissioner Powell: You mentioned gas, what prevents a user from filling up their own gas tank?

Mr. Smith: We review all transactions by vendor on a weekly basis. If we see Hess and it is over \$10 we would question that transaction.

Commissioner Powell: Part of the accountability structure is that supervisor are reviewing transactions as well and if there are any bad faith transactions it's not just the employee who gets a hand slap, but the supervisor as well.

Commissioner Evans: Is our ordering and procedures manual and/or labor intensive or does any of this tie into the PeopleSoft upgrade?

Mr. Smith: Two part question. The ordering process is much easier because the purchase order process can take up to 3 weeks. PeopleSoft, there is a p-card module but we have elected not to roll out this module right now.

Commissioner Evans: In terms of policy and procedures do the cardholders sign something stating they understand the policies and procedures associated?

Mr. Smith: Yes. All potential cardholders and supervisors.

Commissioner Evans: There has been one incident of misuse and the card has been taken away. How did you determine this course of action (three strikes and your out)?

Mr. Smith: We are still evolving with that. One suggestion was three strikes. But we are still working through that process. We want to be careful of what we communicate to cardholders.

Commissioner Powell: When the intent is clearly bad faith, theft or embezzlement the procedure should be one strike.

Commissioner Evans: What happens when they lose a receipt?

Mr. Smith: The cardholder has to go back to the store to get one. Also, we do not pay tax and if a cardholder submits a receipt with taxes paid they have to go back to the vendor for a credit.

Commissioner Evans: What is they can't get the receipt, do we still pay the bill?

Mr. Smith: We have setup a ??? account. This way we don't have to hold up posting as we had to do in the past.

Commissioner Evans: Claims audit, we are required to review every claim before we pay out on it. So how are we handling that when someone is already purchasing it using the p-card.

Mr. Coney: One of the omissions of the legislation is that there is no mention of p-card. That is one of the issues we are going to have to work out. We can advance all types of arguments, maybe we argue that the bank is the ultimate payment. There are going to be a lot of people in this same situation because all districts are going to p-card and p-card is a definite step toward the future. It is a major potential cost savings to organizations that are doing it.

Commissioner Evans: Do we hold up payment to the bank until all receipts are received?

Mr. Smith: No. We hold up posting to the general ledger. We must pay the bank by the 20th.

Commissioner Evans: There is still the potential for us to have paid for something that someone has purchased in bad faith.

Mr. Smith: There is the possibility. But we are reviewing transactions on a weekly basis. So we can catch something very soon.

Mr. Coney: It is still after the fact.

Commissioner Evans: I think there has to be zero tolerance for bad faith transactions.

Mr. Coney: Is there anything specific you would like to see followed up on?

Commissioner Evans: I would like to see what is instituted in terms of one, strike, two strike, three strike or if that is going to be a part of this.

Action: Mr. Coney will provide the Committee with written set of administrative protocols.

VI. Next meeting

To be determined after the 2007 organizational meeting.

Adjournment: Motion to adjourn made by Commissioner Evans. Seconded by Commissioner Brennan.

Adopted 3-0 at 7:49 p.m.