



**Santa Monica-Malibu Unified School District
Board Committee
Financial Oversight Committee**

Minutes

January 25, 2005

Time: 7:00 to 9:00 p.m.

**Location: Testing Room of the School District's Administrative Offices
1651 16th Street, Santa Monica, CA**

Attendance: (Committee Members) Paul Silvern [Chair], Craig Hamilton, Chris Harding, Patricia Hoffman, Cheryl Stecher [Vice-Chair], Cynthia Torres. (Board Liaison) Julia Brownley, Kathy Wisnicki. (Staff) Winston Braham, Dawn Smithfield, Gabe Soumakian, Roy Blair (CPA). (Public) Jim Jaffe

I. Call to Order

The meeting was Called to Order at 7:08 p.m. by Chair Silvern.

II. Approval of the Minutes

A motion was made by Ms. Hoffman and seconded by Ms. Stecher to approve the Minutes, as amended, from the January 11, 2005 meeting. Motion carried.

III. Staff Report: Winston A. Braham, Chief Financial Officer

A. Governmental/Legislative Issues: Mr. Braham informed Committee members that Superintendent Deasy has gone to Sacramento to meet with California School Board Association (CSBA) and will likely bring back additional information pertaining to the State Budget and its impact on SMMUSD. Mr. Braham also shared several points, such as information regarding the 2005-06 Fiscal Budget Crisis. Primarily as a result of the Governor's Proposed Budget, the District will face the challenge of dealing with several million dollars in new spending. He further pointed out that the demands of State and Federally-mandated program requirements must be complied with, even though reimbursement payments have been deferred and/or postponed for up to (15) years. The Reserve for Deferred Maintenance must be restored to the 3% level for 2005-06, in addition to the General Fund Reserve (Reserve for Economic Uncertainties) from 1.5% to the 3% requirement. The District's Retrospective payment for Workers' Compensation must now be funded at a 90% confidence level versus the previously-funded 65% level on a lower premium amount, and finally, GASB 45 regulations mandating up-front funding (booking) of post-employment retirees benefits which must be in place by December, 2006. Mr. Braham has proposed that the District evaluate alternate health/medical benefit providers other than Cal-PERS. Current annual costs with Cal-PERS are approximately \$7 million. He stated that it is likely that significant savings could be achieved by going with another provider but this can only be established through a comparative analysis of rates "Going to Market". An example of other increasing operating expenditures is utility costs for the District, which are now approximately \$160,000 per month, and the Dept. of Water and Power is requesting, through the Public Utilities Commission (PUC), a 5% rate increase. As to revenues, staff is reviewing the District's debt service levels and will, among others, evaluate the possibility of refinancing our General Obligation Bonds and our outstanding Certificates of Participation (COPs) as well as possibly revising our lease payment agreements. These are all intended to revise and increase our revenue

sources wherever possible, while seeking to achieve steep reductions in our expenditures.

- B. Status of City [of Santa Monica] Contract: Members had previously picked up or been mailed copies of the *Master Facilities Use Agreement* and Mr. Harding distributed copies of his response to the proposed Agreement. The Los Angeles County Office of Education (LACOE) expects that this Agreement will be finalized by the time the 2nd Interim Report is submitted for Board approval in March, 2005. It was suggested that the Board direct the FOC to review specific items in order for this Agreement to be approved by the second meeting in February. Mr. Harding pointed out that the City of Santa Monica is paying \$6 million to the School District because the City runs programs at District school sites, but he characterized the Agreement as specifying “community use”, not just City programmatic use.

Mr. Silvern will review Mr. Harding’s document and submit comments/changes to him. It was requested that a copy of this document be sent to Superintendent Deasy to forward to our legal counsel. The FOC would like the Board, at the February 3, 2005 Board Meeting, to request the FOC’s opinion on the City of Santa Monica’s Agreement. Ms. Brownley will speak to the Board about this.

- C. Other Items, as Needed:

1. Request for Additional FOC Meeting: A motion was made by Mr. Harding and seconded by Ms. Torres to schedule an additional FOC meeting on February 7, 2005. Motion carried.

2. EdSource Budget Documents: As requested at the last FOC meeting, copies of the EdSource documents *Understanding School District Budgets* and *School District and State Budget Cycle Calendar* were distributed to members.

IV. Review and Discussion of Pending Board of Education Agenda Items

- A. Independent FY 2003-04 Audit Report: (Roy J. Blair, CPA, Auditor). Mr. Braham introduced the District’s Independent Auditor, Mr. Roy Blair, who has performed the annual District audits for the past three fiscal years. The audit showed that the financial information was presented fairly, money was spent correctly and the District complied with State and Federal mandates. Mr. Blair worked with staff on internal controls, such as payroll and attendance to fix any potential problems ahead of time. There were no audit exceptions and we complied fully with State, Federal and General Accounting Standards Board (GASB) requirements. The audit report was approved at the January 6, 2005 Board Meeting. There was a \$2.3 million discrepancy in the report because of the required switch from the Carter Pertaine Financial System to PeopleSoft as part of the Standardized Account Code System (SACS) conversion. Of note: the fact that we were a PeopleSoft pilot site for LACOE is a significant contributor of this systems-based error. Additionally, during routine discussions of the audit report with Mr. Blair, the suggestion/question was floated as to whether or not the auditor felt he needed to have a private meeting with the Board or FOC to share information he may have observed that he felt he did not necessarily wish to include in his report, but that he wanted leadership to know. Mr. Braham indicated that such meetings, although they would be at the discretion of both bodies, and they are free to do so, would not necessarily serve any purpose because auditing standards require that all noted violations and/or compromising fiscal practices be included in the written audit report. He further suggested that should the District wish to avail itself of “ongoing audit information”

(in the absence of an Internal Audit Section or Inspector General), it might be best accomplished through quarterly oversight reports to the Board or the FOC through a retained professional advisor. They therefore would not have to await the (once per year) single Independent Audit Report. This was endorsed by Mr. Blair, who stated clearly that his practice has always been to record all notable/observed findings, notwithstanding their consequences. A request was made for the format error on Page 3.6 to be revised so that all numbers are fully shown.

- B. Planning for the 2005-06 Budget (including Budget Calendar): This document was distributed to Committee members. Due to a lack of time, this item is being tabled for the next FOC meeting.
- C. District Investment Policy: This document was distributed to Committee members. Due to a lack of time, this item is being tabled for the next FOC meeting.

V. Old Business

- A. Process for Capital Programs/Resources:

VI. New Business

- A. Interview Schedule for FOC Applicants: Ms. Torres will come up with a list of questions for the applicants and requested that members email any questions to her that should be included. The subcommittee (consisting of Mr. Hamilton, Mr. Harding, Ms. Hoffman and Ms. Torres) will interview for new FOC members on February 1 and February 8, 2005. The interviews will begin at 7:00 p.m. in the Testing Room, which has been reserved for both evenings. Upon conclusion of the interviews, the subcommittee will pick the top (3) applicants and report back to the entire Committee, which will then forward the recommendations to the Board of Education..
- B. Revision of FOC Meeting Schedule: Due to a lack of time, this item is being tabled for the next FOC meeting.
- C. Student Transfer Permit Control Strategy/Impact on District Revenue Limit: Mr. Braham introduced Gabe Soumakian, Director - Personnel Services, who is working with us for enrollment projections. The previous software is an antiquated version for use on DOS, not Windows. He has researched with Human Resources Departments in other school districts which use a spreadsheet with a cohort survival method. He will probably use the figures from California Basic Educational Data System (CBEDS) which come out in October. According to Mr. Braham's Budget Calendar, the enrollment projections should be available by the end of February, 2005.

The Superintendent will recommend a policy change to the Permit Policy at the next Board meeting, based on the ramifications to the Budget. The FOC would like the Board to have the enrollment projections prior to the Board taking action on the Permit Policy. If we slip below 12,000 enrollment, we start to lose revenue and could possibly receive a less than favorable rating from LACOE on the 2nd Interim Report.

VII. Public Comments:

Jim Jaffe

VIII. Agenda Planning for the Next Meeting:

- < Applicant Recommendations to FOC from Subcommittee
- < Discussion of Inspector General Role in District
- < Planning for the 2005-06 Budget (including Budget Calendar)
- < District Investment Policy
- < Revision of FOC Meeting Schedule

IX. Adjournment. Meeting adjourned at 9:45 p.m.