

From: Awwad, Yousef
Sent: Wednesday, August 20, 2014 11:20 AM
To: 'wdh@umd.edu'
Cc: Brown, Samuel; Soto, Karla; Corey Arvizu (carvizu@heinfeldmeech.com)
Subject: Scope of Work - Audit of USB

Importance: High

Dr. Hawley,

As we discussed today, you will email me and Karla Soto the scope of work in your view which we will review and set up a meeting to discuss on Monday to make sure we are all on the same page in terms of what we will accomplish with the Audit.

As I mentioned in our phone conversation I will be out of office next week but Karla Soto, our CFO will handle the phone call with you and Corey.

Please email her directly and cc me your thoughts.

Thank you

Yousef Awwad, CPA, MBA, CGMA, PMP

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From: Thompson, Lois D. <lthompson@proskauer.com>
Sent: Friday, August 22, 2014 3:42 PM
To: 'wdh@umd.edu'
Cc: 'rsjr3@aol.com'; 'Bhargava, Anurima (CRT)'; 'Savitsky, Zoe (CRT)'; 'Balentine, Vicki Eileen - (vbalenti) (vbalenti@email.arizona.edu)'; 'Juan Rodriguez (jrodriguez@MALDEF.org)'; Brown, Samuel; Tolleson, Julie; 'awwad.yousef@tusd1.org'
Subject: RE: USP audit

Dr. Hawley,

We write to address your email below as well as your clarification of this morning.

We believe that it is important to distinguish between the audit of expenditures in the now-concluded 2013-14 school year and future audits, on the one hand, and procedures to govern actual expenditures and budget preparation going forward, on the other hand.

As to the audit, both of last year's expenditures and future expenditures pursuant to future budgets: we believe that while you are correct that it will be very useful to know how much actually was expended to perform the activities required in the implementation and action plans (indeed, we understand that you have been pressing for some time to have the District budget against those plans), we also have to be able to tie expenditures to the line items in the budget since that is the only way we can know if the District spent money in the manner to which it committed when it adopted the budget (subject of course to whatever amendments the Court may require in response to objections). Therefore, we believe that such a reconciliation has to be an essential component of the audit mandated by the USP. Ideally, it would be a combination of that information, tied to the budget, and a presentation of the costs to perform the activities required in the implementation and action plans that would inform the development of the budget for 2015-16 and subsequent years.

As to the reallocation of funds during the year, we agree that any unspent/unencumbered funds should be used only for other USP purposes and that the District should in the first instance identify the priorities; however, we also believe that the District should do more than share those priorities with the plaintiffs and the Special Master, as you suggest in your memo. Rather, we believe that the District should consult with the plaintiffs and the Special Master in the setting of those priorities and that an effort be made to agree on them. Particularly if the amounts involved are material (subject to a definition of materiality to be agreed to by the parties and the Special Master with guidance to the plaintiffs from Vicki), there should be the same right to object as there was with the initial budget.

We agree that there should be a threshold below which the District does not have to report on the reallocation of unspent/unencumbered funds (again to be agreed to by the parties and the Special Master, with guidance to the plaintiffs from Vicki). We understand your desire to permit the District appropriate flexibility yet are also concerned that if only you and Vicki are informed of reallocations in excess of an agreed threshold, variations that one or more of the plaintiffs consider meaningful may not be reported to them in a timely fashion. Since this not an audit issue, but, rather, an issue that implicates process going forward we suggest that it need not be addressed on Monday and may indeed be a topic for discussion (along with the budget process for next year) when all of us convene in Tucson.

Lois D. Thompson
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From: Willis D. Hawley [<mailto:wdh@umd.edu>]
Sent: Thursday, August 21, 2014 8:10 AM
To: Rubin Salter, Jr.; Rubin Salter, Jr.; Thompson, Lois D.; anurima.bhargava@usdoj.gov; zoe.savitsky@usdoj.gov; Balentine, Vicki Eileen - (vbalenti)
Cc: Brown, Samuel; TUSD; Julie.Tolleson@tusd1.org; Awwad, Yousef
Subject: USP audit

Plainyiffs and budget expert, Please see the attached and give me whatever feedback you deem needed by Monday morning. thanks.

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The District has asked that I discuss with the auditor what the audit should address. This will happen Monday at 1 or so. Here are my thoughts. Let me know if you have a different view. This is about goals, not process. I leave the technical details to the auditors and Vicki Balentine.

The fundamental purpose of the audit is to learn whether the commitments made in the budget are actually implemented. That is, that the district spent the money it budgeted on the activities it said it would spend it on.

The audit should be of expenditures on activities specified in the implementation plans in the IA or Action Plans if the relevant implementation plan is not up to date. Line item expenditures on “projects” will not be helpful. The District should be allowed to group elements of the IA that are highly related. Indeed, the IA should be amended to do this (it borrows its current itemization from the District’s annual report).

Of course, not every proposed expenditure can (or should) be spent as initially planned (e.g., people quit, positions are not filled, software is not ready, etc.) However, unspent funds must be spent on activities in the USP budget. When such reallocation occurs, the District should provide a brief rationale for these changes regularly—say, every other month unless the amount exceeds a certain amount—to be determined. In these cases, the action should be reported to the special master and the budget expert who may bring the matter to the plaintiffs. Indeed, it may be that variations suggested here should be reported to the special master and the budget expert so that the plaintiffs are not burdened unless the changes are substantial or otherwise worthy of consideration.

Unspent funds should be allocated to priority items in the USP budget. The District should identify priorities and rank them. These priorities should be shared with the plaintiffs and the special master. The audit should determine where unspent (reallocated) funds we invested.

From: Willis D. Hawley <wdh@umd.edu>
Sent: Tuesday, August 26, 2014 12:05 PM
To: Rubin Salter Jr. (Rsjr3@aol.com); Juan Rodriguez; lthompson@proskauer.com; Anurima Bhargava (Anurima.Bhargava@usdoj.gov); Savitsky, Zoe (CRT) (Zoe.Savitsky@usdoj.gov); Brown, Samuel; TUSD; Juan Rodriguez
Cc: Soto, Karla; Balentine, Vicki Eileen - (vbalenti)
Subject: Report on Meeting about the US(P Audit

Parties,

Vicki Balentine and I had a very positive meeting with Karla Soto, several staff members and a representative of the audit company. We emphasized the importance of being able to link budgeted and actual expenditures to specific activities underway to implement the provisions of the USP. This will not be easy.

The budget for the USP is structured around projects but the projects are not projects and many, if not most, cut across various activities. By "activities", I refer to those actions identified in the implementation addendum that, for the most part, are derived from the district's annual report. This also means that currently 910G expenditures cannot be linked to the district's annual report. Since 910G expenditures have not been coded so as to link them to the actual activities in which the district is engaged, it will not be possible to know how much was spent on implementation of particular activities, much less to compare this to what was budgeted for those activities. In fact it does not appear that the district budgeted by analyzing what the cost would be to actually implement each of the various activities.

As a result, the information we will have from a 2013-14 budget audit will be similar to that received from the 2012-13 "audit review" unless steps not now planned are taken. In addition, unless the district changes its coding procedures immediately, the information we will have from a 2014-15 budget audit will also be meaningless. It is therefore, essential that the district immediately change its coding procedures with respect to 910G expenditures so that expenditures can be mapped on implementation activities and other items of interest to the plaintiffs.

This problem is further complicated by the fact that the district's accounting system is antiquated in that much of this work must be done by hand. We were told that this problem is being remedied but that the new system will not be in place until the next fiscal year ('15-16). In order to have a meaningful 2014-15 audit of 910 G expenditures in relation to budgets, it will be necessary to add additional staff to the finance office this year. Ms. Soto is preparing an estimate of required staffing and related budget needs to address the issue this year. It is also

critical that this capacity to code 910G expenditures be incorporated into the new system as implementation is planned so as to eliminate this issue in the future.

In my earlier memo to the parties about the audit I suggested a general approach to dealing with variations in expenditures during this fiscal year. We did not address this issue in yesterday's meeting, but it is even more important, knowing what we know now, that the parties collaborate and develop an agreement about how significant variations will be shared, what the priorities for reallocation will be when reallocation is necessary, and how often the district will share this information during this current year. I suggest that this is a critical issue that should be among the issues we deal with at the face-to-face meeting now being contemplated.

Willis D. Hawley
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