

FINANCIAL MANAGEMENT

Summary of Findings and Recommendations

The district has made some progress in addressing its fiscal management and internal control issues but continues to face several issues that make recovery challenging.

Overall progress in implementing recommendations is mixed. Some areas, such as the development of policies and procedures, are beginning to show progress. However, in other areas such as the establishment of a fully implemented, integrated, and accurate position control system that provides the district with tight control over personnel costs, the district has not made substantial progress.

The issues of greatest concern for the district are its structural deficit and reducing expenditures to the level that revenues will support. The district appears to have reduced but not eliminated the operating deficit. A significant portion of the reduction results from the shifting of general fund expenditures to categorical programs. While the effective utilization of categorical funds would constitute significant progress, the district needs to exercise caution that those categorical funds are being used appropriately and supported by adequate documentation. To the extent that general fund expenditures were covered by categorical carryover/fund balances, those were one-time funds that will not be available to support the expenditures in future years.

The deficit continues to be exacerbated by the district's decrease in enrollment, which shows no evidence of abating. The enrollment decline by itself requires the district to reduce expenditures every year in order to prevent the structural deficit from increasing.

Other questions related to the operating deficit that have not yet been resolved include the following:

- Can the district afford to continue to operate the large number of school sites, given its declining enrollment?
- Has the district reduced staffing to a level that its revenues can support?
- Will the district be granted a waiver for special education maintenance of effort (MOE)?
- Can the district successfully implement results-based budgeting, which poses significant challenges in the areas of budget development and monitoring?

The district's pending fiscal recovery plan will be integral to addressing the underlying issues and bringing fiscal stability. Ultimately, the district should develop a realistic multiyear plan to eliminate its structural operating deficit and repay its state loan.

Since the FCMAT review in September 2003, the district has achieved some measure of stability in daily operations, but turnover in senior fiscal management and the supervisory staff and the loss of the FCMAT on-site advisors has slowed further progress. The district recently filled the vacant supervisory and management positions. However, while the new managers appear capable

and knowledgeable about school finance, the mere transition entails a learning curve for both the remaining staff as well as the new management employees. This hampers the district's efforts to address the assessment plan and recommendations aggressively.

Improvement was noted in the following areas:

- The district has been revising its board policies and administrative regulations. While this process is not complete, significant progress has been made.
- The district has completed drafts of policies and procedural manuals for the business and accounting staff. These items are currently under management review and have not been implemented yet, but the writing of these items is essentially completed. Once reviewed, the district will need to distribute the manuals and provide staff training.
- The district is implementing a new student attendance and information system, which is scheduled to be in place for the 2005-06 year.
- The district has reduced nonpublic school costs for the special education program.

Nevertheless, significant fiscal management issues still need to be addressed.

Budget Development and Monitoring

The budget is a school district's single most important planning document. In addition, it is the key document that correlates the district's educational goals and priorities with the financial resources available and budgeted to meet those goals. This document is the primary vehicle by which the district explains to the staff, parents, and the community its financial plan for meeting educational goals. The budget is also the key document for controlling district finances and ensuring fiscal solvency. Therefore, developing and monitoring the budget during the fiscal year are two of the most important financial management activities that the district performs.

The district's budget development process is now more actively managed by the Budget and Finance departments. The oversight provided by the management staff provides for some level of critical review and evaluation of budget information and assumptions. Therefore, the district's budget should be more accurate. A comparison of budget to actual revenues and expenditures could not be made because the district had not closed its books at the time of the review. However, the district's third interim report did show a significant level of variance between the original budget and projected amounts. After the books are closed, the district should evaluate the differences in order to identify opportunities to more accurately budget revenues and expenditures.

The district is in the process of formally establishing policies and procedures. Nevertheless, the quality of the budget and budget process is still heavily dependent on the knowledge and involvement of the senior administrators. Further complicating this process is the transition to results-based budgeting, which decentralizes a significant portion of the budget development process. This change makes the budget development process more difficult to manage as the necessary infrastructure and systems have not been put into place. That is, site budgeting, particularly for positions, is currently performed outside of the financial, human resources, and position

control systems. This increases the workload for budget analysts and also increases the potential for errors. Therefore, the district needs strong policies, procedures, and systems to ensure that the budget is accurate, meets standards, and sustains any progress made.

The district still has not fully implemented position control, which compromises its ability to monitor and control personnel expenditures. Given the exceptionally large percentage of the budget that personnel costs comprise, this fact alone puts the district at significant risk. Further, the district is also precluded from utilizing many system functions, such as position budgeting, for budget development. This hampers the district's ability to produce an accurate budget. In addition, the new human resources/payroll module needs to have documentation developed, additional staff training provided, seniority and credential information loaded, and the automated substitute calling system established.

In the area of special education, the district is still trying to accurately identify all special education FTEs/staff, the appropriate location of those positions, and the related costs. While the district is actively working to resolve this issue, to date the project is not complete. Further, while the district is making efforts to reduce its special education encroachment, it nevertheless is still a significant burden on the unrestricted general fund.

Accounting Policies, Procedures, and Controls

The key to monitoring and controlling the budget is the ability to produce accurate and timely financial information. Accounting policies, procedures, and controls are the tools used by districts to ensure that transactions are processed timely and accurately, financial information is reported appropriately and is free from misstatement, and assets are protected from theft or misappropriation. The district has made some progress in improving its accounting processes as evidenced by performing the following:

- Eliminating the accounts payable backlog
- Completing monthly cash reconciliations
- Reviewing cash flow monthly
- Completing draft policies and procedures for most business functions

However, the implementation of the human resources/payroll system seems to have resulted in more payroll errors. Further, errors related to year-end payroll have affected the district's ability to close its books.

While the staff's technical skill and capacity appears to be improving, there is still a clear need for capacity building and additional training. However, the district does not consistently evaluate its employees to identify and address capacity and training issues. Annual staff evaluations are integral to establishing high expectations for employee job performance. In addition, the evaluations help facilitate the development of effective annual training plans for individual staff members, as well as for the department as a whole.

Supervisory and management staff members still appear to be consumed with dealing with various issues and emergencies that frequently arise. As a result, accounting staff members are not closely supervised, and their work is not reviewed on any meaningful basis. Until policies and procedures are in place, training has been provided, systems improved, and the staff's technical

capacity increased, close monitoring, supervision, and review by the accounting supervisors and managers is critical in order to ensure the timely and accurate recording and reporting of financial transactions. Such supervision, review, and oversight are not occurring. In addition, the district still has not established an internal audit function, which would provide an additional source of review and monitoring.

Management Information Systems

The most important tools in managing district finances are appropriate and effectively utilized management information systems. Integrated budget, financial, and personnel systems assist the district in preparing and monitoring its budget, projecting and controlling personnel costs, and recording and reporting accurate financial information in a timely manner. In the past, the district operated with antiquated and ineffective nonintegrated systems. Insufficient management information systems have contributed to the lack of timely and accurate financial information, and undermined budgetary controls.

The district has made some progress in the area of management information systems, having previously converted to a new financial management system. In addition, in January 2004, the district implemented the human resources/payroll module of its information management system. These system upgrades are encouraging.

FCMAT's prior progress report mentioned that the staff was not using all the available system capabilities and that system controls were still being overridden. In some instances, the district is not utilizing all of the system capabilities, and in other instances, controls have not been implemented or are being overridden.

While the district implemented the human resources/payroll module in January 2004, it still has significant issues to address before the module is fully implemented. Specifically, the district has not fully implemented and does not consistently utilize position control. In addition, the district needs to develop documentation and implement security controls. Critical information related to seniority and credentialing is not yet loaded onto the system, nor has the automated substitute calling system been implemented. While some progress has been made, the district needs to significantly improve in the areas of budget development and control over personnel expenditures.

With regard to the student attendance and information system, the district is moving forward with plans to implement a new system for the 2005-06 year. However, for 2004-05, the district will continue to operate with an outdated version of the SASI system. The older version is not able to accommodate the recording and reporting of information for more than 99 school sites, but the district operates more than 112 sites. As a result, the district must combine the data of some sites and then separate it again to be able to report accurately. The need to manipulate the data increases the likelihood of errors in recording and reporting attendance data. Further, only one staff member handles the SASI system and attendance reporting. If this employee were to leave the district or otherwise be unable to perform the duties during the 2004-05 year, it would be difficult for the district to record and report attendance data.

Special Education

Special education is typically one of the largest categorical programs operated by a school district. Legal requirements, unique program needs, and insufficient funding make the financial management of this program problematic. In fact, most districts' special education expenditures exceed their special education revenues. This encroachment of special education costs on unrestricted general fund revenues is virtually unavoidable. Nevertheless, because excess program costs use the districts' relatively scarce unrestricted general fund money, minimizing encroachment is important for all districts.

The district has historically operated with a significant deficit in its special education program. Currently, the district is attempting to better control costs through measures such as reducing NPS/NPA placements, controlling staffing ratios and the number of staff, recouping costs for LCI and charter school students, and improving the intervention and assessment processes. Nevertheless, the district continues to operate with a large deficit in the current fiscal year.

The district is in the difficult position of reducing its special education general fund encroachment without violating federal maintenance-of-effort requirements, which could result in the district losing federal funds and further increasing general fund encroachment.

1.2 Internal Control Environment — Governing Board and Audit Committee Participation

Professional Standard

The district should have an audit committee to: (1) help prevent internal controls from being overridden by management; (2) help ensure ongoing state and federal compliance; (3) provide assurance to management that the internal control system is sound; and, (4) help identify and correct inefficient processes. [SAS-55, SAS-78]

Progress on Implementing the Recommendations of the Recovery Plan

The district did not implement the general recommendation regarding the establishment of an audit committee, or any of the related recommendations regarding the following:

- Defining the reporting relationship for the audit committee
- Determining the composition of the audit committee
- Establishing the audit committee's charge
- Determining the frequency of the audit committee's meetings
- Establishing the authority of the audit committee

The district did establish a board policy that addresses the role of an audit committee, should one be formed. Nevertheless, the district still needs to implement the original recommendation to form a standing audit committee based on the following considerations:

1. Reporting Lines

The audit committee would exist at the pleasure of the district's Governing Board and Superintendent. Organizationally, the committee stands apart from all other district departments and functions. Any internal auditors, whether district employees or contracted audit firms, should report to the audit committee regularly.

The Governing Board and Superintendent should establish a charter and bylaws for the audit committee that define:

- a. Functions and objectives
- b. How members are appointed
- c. Terms for members
- d. Voting and quorum requirements
- e. How the members are to involve and communicate with district management and the Governing Board

2. Composition

Typically, an audit committee is composed of five to seven people. Ideally, committee members should have business or legal backgrounds. While the committee may include members from the district, those members should not dominate it. To ensure

independence, the committee should have a majority of its members from outside the district. In accordance with district policy, minimal compensation and expense reimbursements may be given to committee members.

3. Committee Charge

Typically the audit committee does the following:

- a. Oversees the independent audit and reporting process. This includes the selection of the independent auditor, preferably through a bid process that focuses primarily on qualifications before price.
- b. Ensures timely attention is paid to control and compliance weaknesses. The external and internal auditors are required to communicate all findings to the committee. Management is responsible for responding to the findings as part of the resolution process.
- c. Encourages legal and ethical conduct of management and employees through the audit process. The audit committee, through its assignments to the internal audit staff or by its evaluation of external audit findings, should hold management and the staff accountable for adherence to board policy regarding legal and ethical conduct.
- d. Increases confidence in the financial reporting process. The audit committee helps to ensure that the financial reports are adequately reviewed and accurately stated, as verified by the auditors.
- e. Provides an annual report to the Governing Board, Superintendent, and management. The report should identify significant issues related to financial statements, the annual audit and internal audits (including findings), and the audit committee's recommendations.

4. Frequency of Meetings

There are obvious times during the year when the audit committee should meet, such as the following:

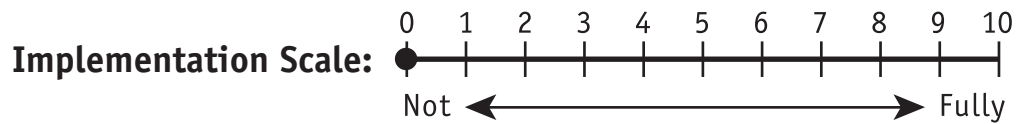
- a. To select the independent auditor. This may not be an annual task, since most agencies have multiyear contracts for audit services.
- b. To meet with the independent auditor to review the audit findings. This is an annual task that includes followup on prior audit findings.
- c. To meet with management regarding the audit findings and resolutions resulting from external and internal audits.
- d. To meet with the internal auditor to make annual work assignments and to review the internal audit reports.

5. Committee Authority

Any organization brings with it various political realities and the potential for misdirected agendas. While there is the potential for the committee to overstep its delegated powers, the district should recognize that the committee process in its nonpublic setting involves, by nature, more behind-the-scenes work. Thus, the committee has the responsibility to sift through the facts for accuracy and offer management an opportunity to act on the facts or resolve issues.

Standard Implemented: Not Implemented

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| January 2000 Rating: | 0 |
| September 2003 Rating: | 0 |
| March 2004 Rating: | 0 |
| September 2004 Self-Rating: | 0 |
| September 2004 New Rating: | 0 |



1.6 Internal Control Environment — Hiring Policies and Practices Governing Financial Management and Staff

Professional Standard

The district should have procedures for recruiting capable financial management and staff, and hiring competent people. [SAS-55, SAS-78]

Progress on Implementing the Recommendations of the Recovery Plan

1. Previously, the district took steps to improve the hiring process, with the goal of attracting and retaining qualified and technically proficient staff members. The district created new job classifications/job descriptions for positions such as Deputy Superintendent, Chief Financial Officer, Financial Services Officer, Fiscal Services Manager, Fiscal Analyst, Information Technology Officer, and Risk Management Officer to align them with the actual tasks performed. In addition, the district has also evaluated the minimum qualifications/experience and educational requirements for these new positions to align them with the level of knowledge required for the positions. The district has begun to advertise positions outside the district in both local newspapers and professional publications. However, the majority of these positions are at the upper management level.

The district has made some changes in staff at the working level, and candidates from outside the district have been interviewed and hired. However, it appears that there has been no significant change in the composition of the staff. It is unclear how significant the changes have been across the basic supervisory and working level positions. To ensure continued improvement in both the hiring process and staff proficiency, the district should continue to evaluate its accounting and budget positions to ensure that job classifications, job duties, and experience and educational requirements are aligned with the actual functions.

In the prior review, the Business Department was considering the implementation of a process to test core competencies for entry level positions. However, such a process has not been implemented to date. In fact, interview questions are developed for each position by the manager performing the interviews. The process for advertising and evaluating/interviewing candidates, including an interview by the prospective employee's supervisor, has not yet been formalized. While the district has drafted and adopted some policies and procedures, this area still needs to be addressed by the adoption of formalized policies and procedures.

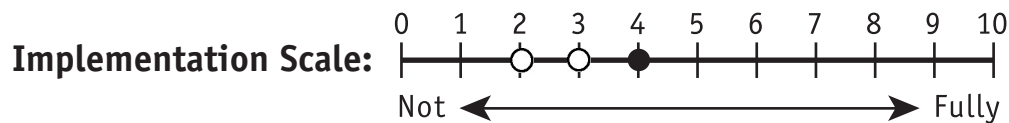
2. The district has not provided formal training to its managers and supervisors regarding the legal and technical aspects of the hiring process, conducting hiring interviews, and evaluating the qualifications of candidates. The district needs to provide training to all supervisors and managers who will be involved in the hiring process.
3. For recent hires, the district appears to be checking references and has drafted policies identifying the requirement for items such as fingerprinting and tuberculosis testing. However, nothing indicates that the district has adopted and implemented formal

policies and procedures related to verifying credentials, work history, and references of employment candidates. Since the responsibility to check education, references, and work history has not been formally assigned, these items are verified only if the process is initiated by the hiring manager in the business office.

The business office should work with the Personnel Department to develop formal policies and procedures regarding the verification of employment history, credentials, and references for employment candidates. Those policies and procedures should establish a consistent system for background and reference checks that designates the employee responsible for performing the check, what checks are to be made, and how the records are documented for the results of the checks.

Standard Implemented: Partially

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| January 2000 Rating: | 2 |
| September 2003 Rating: | 2 |
| March 2004 Rating: | 3 |
| September 2004 Self-Rating: | 4 |
| September 2004 New Rating: | 4 |



1.7 Internal Control Environment — Employee Performance Appraisals

Professional Standard

All employees should be evaluated on performance at least annually by a management-level employee knowledgeable about their work product. The evaluation criteria should be clearly communicated and, to the extent possible, measurable. The evaluation should include a followup on prior performance issues and establish goals to improve future performance.

Progress on Implementing the Recommendations of the Recovery Plan

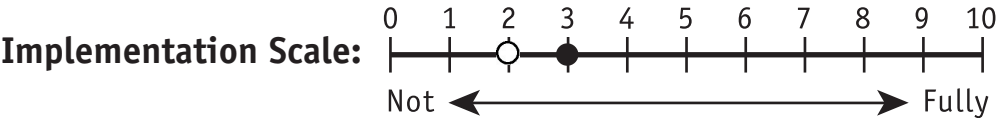
1. The district has not implemented the recommendation to require and ensure that all business employees are evaluated at least annually and that such evaluations adequately measure job skill and performance related to the individual job. The draft Business Services Guide recognizes the need for evaluations that are at least annual. Supervisors, and managers have verbally been directed to begin evaluating the staff. Further, the business office has developed a standardized evaluation form, but evaluations for the working-level staff have not been completed to date. It appears that evaluations for fiscal managers were performed at the end of the 2003-04 fiscal year.

The district should implement the prior recommendation to work with the personnel staff to ensure that all the staff is evaluated at least annually. Staff evaluation should be the responsibility of each supervisor and manager, and individual supervisors/managers should be evaluated on whether evaluations are completed. The district should implement a process to track and monitor outstanding evaluations for all employees.

The evaluation process and related form(s) should be adequate to evaluate the employee's skills and performance related to his/her specific job. In addition, the evaluation should identify areas for future improvement and establish goals and methods related to the improvement areas. The evaluation, and specifically, any areas identified for improvement, ideally should be consistent with goals of the staff training plan developed for the employee.

Standard Implemented: Partially

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| January 2000 Rating: | 3 |
| September 2003 Rating: | 2 |
| March 2004 Rating: | 2 |
| September 2004 Self-Rating: | 3 |
| September 2004 New Rating: | 3 |



2.4 Inter- and Intra-Departmental Communications — Communication of Illegal Acts

Professional Standard

The district should have formal policies and procedures that provide a mechanism for individuals to report illegal acts, establish to whom illegal acts should be reported and provide a formal investigative process.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has partially implemented the prior recommendation to adopt board policies and administrative regulations regarding its commitment to:
 - Ensuring legal and ethical conduct by all employees
 - Implementing a system of policies and procedures to prevent and detect fraud

The administrative regulations outline 11 examples of conduct or activities that would be defined as fraud, financial impropriety, or irregularities. These examples, while not all encompassing, provide some of the basic concepts for the district staff. The regulations also discuss the disposition of instances of substantiated fraudulent activity.

2. The district has a draft of its Business Services Guide, which is intended to provide information and guidance to the staff on the handling of job duties, transactions, and processes within the business office. However, the guide has not yet been adopted or distributed to the staff, nor has training been provided.

Ultimately, if adopted and used appropriately, this guide should help to strengthen internal processes and controls. The district should take all necessary measures to review, edit, adopt, and implement the guide. The review of the business guide and its procedures should ensure those procedures provide sufficient controls to decrease the likelihood that fraudulent activity could occur and remain undetected in the normal processing of transactions. Appropriate activities include separation of duties, supervision and review of work, adequate ongoing job training, job rotations, and mandatory vacation policies. In addition, implementation of the Business Services Guide should include staff training on the organization and use of the manual.

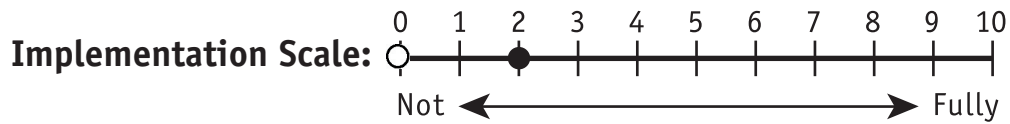
3. The district has not implemented the prior recommendation to establish a hot line for reporting suspected fraud.

The district should implement an anonymous fraud hot line that provides easy access for reporting suspected fraudulent activity. The hot line should be a function of the internal audit unit. All hot line calls should be logged, evaluated by the internal audit manager, prioritized, and assigned for investigation. The Internal Audit Unit would be responsible for coordinating activities with the other district and external entities.

4. The district has not implemented the prior recommendation to establish an internal audit unit that is organizationally independent. The district should establish an Internal audit unit that is organizationally independent and reports either to the Superintendent or the audit committee.

Standard Implemented: Partially

January 2000 Rating: 0
September 2003 Rating: 0
March 2004 Rating: 0
September 2004 Self-Rating: 0
September 2004 New Rating: 2



4.2 Internal Audit — Organization and Management of Internal Audit Functions

Professional Standard

Qualified staff should be assigned to conduct internal audits and be supervised by an independent body, such as an audit committee.

Progress on Implementing the Recommendations of the Recovery Plan

The district has not implemented the prior recommendation to establish an independent audit function to review and evaluate district programs and operations on an ongoing basis. However, the district has a draft of an Internal Control Manual. This outlines the concepts of internal control and includes audit program type items that are to be used in the basic review of various accounting areas. The information could be used as a basic starting point for internal audits. As the draft is being reviewed, it should be further developed and tailored for the district's specific systems and processes.

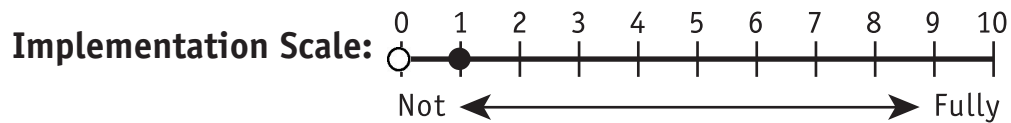
The district should implement the prior recommendation to establish an independent internal audit function that is staffed by qualified employees and that is under the direction of an independent body, such as an audit committee. Specifically, the district should do the following:

1. The board should adopt policies establishing an internal audit function for the district. The policies should address necessary qualifications for both the manager/supervisor and staff positions. The minimum qualifications should include a four-year degree and CPA, CIA, CISA, or CFE certification, or equivalent audit experience.
2. The internal audit unit should have from one to three staff members. One position should have supervisory/management experience and be responsible for the daily oversight and management of work. Duties for this manager position would include:
 - Serving as liaison to the Superintendent, CBO, Audit Committee, and board
 - Preparing the annual audit plan
 - Scheduling work and coordinating with the other departments
 - Supervising work and reviewing work papers to ensure adherence to professional standards
 - Evaluating employees and preparing training plans to ensure compliance with continuing professional education requirements
3. The internal audit manager should present reports to the audit committee or the board. In addition, the manager should provide periodic progress reports for projects currently in process.
4. The audits should follow standards established by the Institute of Internal Auditors. In addition, the department should do the following:
 - Use planning memoranda to plan and manage audits.
 - Use standard audit programs.

- Have standard requirements for work paper documentation, cross-referencing, and maintenance of work paper files.
- Have policies and procedures regarding sampling methodologies and materiality.
- Provide draft reports to the department/sites/programs being audited in order to obtain comments and additional information.
- Include the department's comments in the final report if draft findings are not resolved.

Standard Implemented: Partially

January 2000 Rating: 0
 September 2003 Rating: 0
 March 2004 Rating: 0
 September 2004 Self-Rating: 0
 September 2004 New Rating: 1



4.4 Internal Audit — Organizational Placement and Establishment of Workplan

This standard has been added since the 2000 report.

Professional Standard

Internal audit functions should be designed into the organizational structure of the district. These functions should include periodic internal audits of areas at high risk for noncompliance with laws and regulations and/or at high risk for monetary loss.

Progress on Implementing the Recommendations of the Recovery Plan

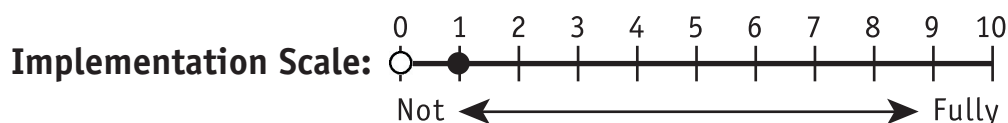
1. To date, the district has not implemented the prior recommendation to establish an independent audit function to review and evaluate district programs and operations on an ongoing basis.

The district has drafted a Business Services Guide to formalize processes for the business office's basic functions, provide training and reference materials, and provide basic criteria/benchmarks so that supervisors, managers, and the internal audit staff can review and evaluate transactions. However, the guide is still in draft form, has not yet been reviewed, and will not be implemented until some time in the future.

The district should implement the prior recommendation to establish an internal audit function that is independent of all operational areas and the staff. The internal audit function should have reporting responsibility to the audit committee and Superintendent/State Administrator. The internal audit unit should develop an annual work plan identifying areas of previous noncompliance that are otherwise considered high risk and submit the plan to the audit committee for approval. Additional requests for review should be initiated by a request to the audit committee. In addition, the audit committee should be able to authorize additional reviews to be made by the internal audit staff during the course of the year. Such reviews should utilize information such as professional and state accounting standards, laws and regulations, categorical program requirements, and the district's policies and procedures in identifying evaluative criteria and standards for internal audits conducted.

Standard Implemented: Partially

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| January 2000 Rating: | Not Assessed |
| September 2003 Rating: | 0 |
| March 2004 Rating: | 0 |
| September 2004 Self-Rating: | 3 |
| September 2004 New Rating: | 1 |



5.6 Budget Development Process (Policy) — Projection of the Net Ending Balance

Professional Standard

The district must have an ability to accurately reflect its net ending balance throughout the budget monitoring process. The first and second interim reports should provide valid updates of the district's net ending balance. The district should have tools and processes that ensure that there is an early warning of any discrepancies between the budget projections and actual revenues or expenditures.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district did not implement the prior recommendation to:
 - Identify the characteristics of budget overruns that occurred in prior years
 - Establish a task force to identify factors that allowed such overruns to occur, but did not provide sufficient prior warning
 - Establish written policies regarding fiscal operations, monitoring, and the closing process to improve control over transactions and the quality of budget monitoring

At this point in time, the district does not intend to review and evaluate the budget overruns for prior years or assemble a committee or task force to evaluate the situation. The exceptions are prior informal review by fiscal administrators or issues that might be identified in the State Controller's audit. Given the passage of time and the limited resources available to address other pressing fiscal issues, it may not be particularly critical for the district to assemble such a task force.

It is important to establish policies and procedures regarding the requirement to monitor and evaluate budgeted and actual revenues and expenditures during the course of the fiscal year, and to determine the effect on the projected net ending balance. The district has partially implemented the prior recommendation to implement comprehensive policies and procedures regarding budget development, monitoring, and the projection of net ending balances. Specifically, items that discuss budget development, monitoring, interim reporting, and the projection of net ending balances include the following:

Board policies—3000, 3100, 3460
Administrative regulations—3100, 3460
Business Services Guide—Chapter 5

Ongoing development and implementation of procedures is anticipated for the 2004-05 fiscal year.

None of the items developed to date provide detailed information about the actual process and procedures established by the district to ensure that the activities are occurring appropriately, accurately, and timely.

The turnover in business office management personnel also affects the process of preparing and monitoring the budget. Except for the Deputy Superintendent, essentially all the management staff has changed in the last six months. Therefore, responsibilities will have to be defined, and the new staff members will have to become familiar with district systems and processes.

The district should continue to develop/update policies, administrative regulations, and business processes. Most critically, the district should formalize the processes, forms, timing, and responsibility for budget development, monitoring, and projection of the net ending balance throughout the year. The district should monitor the budget and projected net ending balance not only at the interim reporting periods, but monthly. If implemented with appropriate staff training, the new/updated policies and procedures should help provide greater oversight and control over the processing of financial transactions and the monitoring of the budget..

2. The district did prepare a third interim report for the 2003-04 fiscal year, and, given its financial situation, will likely be required to file a third interim report for the current 2004-05 fiscal year. The interim reports, particularly the use of a third interim, provide the district with a specified time period in which to update its projections and evaluate its projected net ending balances.

For the 2003-04 fiscal year, differences between the net ending balances projected in the interims and the unaudited actuals could not be evaluated since the district had not yet closed its books when this review was performed in late August.

However, the district's interim reports showed a significant change in net ending balances from the original budget because of changes in beginning fund balances and projected revenues and expenditures. These changes show that the district is attempting to monitor changes throughout the year, but could also indicate ongoing issues in the budget development process. As financial information is reviewed and refined, staff members are further trained, policies and procedures implemented, and supervision and monitoring increased, the district should be better able to project revenues, expenditures, and fund balances. At this time, the effectiveness and accuracy of the monitoring cannot be evaluated, particularly because of the large turnover in the management staff. These items should be evaluated in the subsequent followup reviews when additional information is available.

District policies should specifically require the preparation of a third interim report for future fiscal years. The third interim report should be used to forecast problems and to more accurately project the net ending balance for the year-end closing so that the district has advance knowledge of the issues that could be faced.

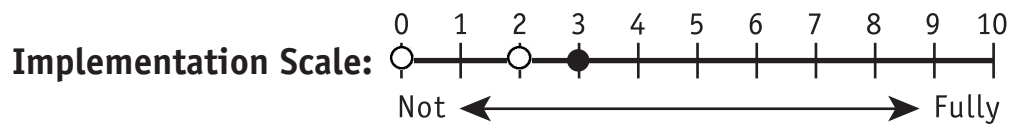
The policies should also require that the third interim report reflect revenues and expenditures through April 30, and be delivered to the Governing Board in open session no later than May 31. While this third interim report has a shorter deadline than other interim reports, the time line is required in order to provide the district with notice regarding the year-end balances.

3. The district has provided some in-house training to board members regarding the financial reporting process and how to interpret the information contained in the reports. However, no additional, comprehensive training has occurred since the last review.

The Governing Board should be encouraged to take formal training related to financial reporting and reading financial reports, such as the interim reports and the characteristics of such reporting. Such training can be obtained through various organizations, such as the California School Boards Association and the California Association of School Business Officials. In addition, the district fiscal staff should continue to provide in-house training to board members, and provide study sessions as necessary for issues such as the budget and financial statements.

Standard Implemented: Partially

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| January 2000 Rating: | 0 |
| September 2003 Rating: | 0 |
| March 2004 Rating: | 2 |
| September 2004 Self-Rating: | 4 |
| September 2004 New Rating: | 3 |



6.1 Budget Development Process (Technical) — Technical Methodologies Used to Forecast Preliminary Budget Revenues and Expenditures

Professional Standard

The budget office should have a technical process to build the preliminary budget that includes: the forecast of revenues, the verification and projection of expenditures, the identification of known carryover and accruals, and the inclusion of expenditure plans. The process should clearly identify onetime sources and uses of funds. Reasonable average daily attendance (ADA) and cost-of-living adjustment (COLA) estimates should be used when planning and budgeting. This process should be applied to all funds.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has partially implemented the prior recommendation to formalize its budget development process in a procedures manual and also provide desk manuals for each position that specify how the various tasks should be carried out.

The district has completed a draft of its Business Services Guide, which has a section relating to the district budget, and a Budget Planning Manual. These guides provide good high-level information regarding budget concepts relating to revenues (various revenue sources) and expenditures (components and factors affecting expenditures), as well as organization and presentation of the budget information. However, the guides are not quite detailed enough to function as a desk manual or guide specifically tailored for the district. That type of reference material would help increase the efficiency and accuracy of the preparation of budget data, and also provide a resource to maintain continuity in the case of staff turnover. However, they are a good start.

The district should implement the Business Services Guide and Budget Planning Manual and provide staff training on the manuals. In addition, the district should continue to develop the procedures related to budget development so that the manual would serve as a desk manual for the staff to identify responsibilities, time lines, and information sources to be used in carrying out their individual job duties.

2. The district has been implementing the Bi-Tech integrated financial system over the last several years. The financial reporting modules (general ledger, accounts payable, accounts receivable, and purchasing) were previously implemented. In January 2004, the district implemented the integrated human resources/payroll module. This is a significant step, and the speed with which the module was implemented is a major achievement. Concurrent with the implementation process, basic training was provided for the human resources and the payroll staff. In addition, the district has taken steps to verify its human resources/payroll database by canceling direct deposits and requiring the staff to pick up an actual pay warrant and provide proof of identification.

The implementation involved only the most basic elements and functions, and a significant amount of work still needs to be done to fully implement the human resources/payroll module. Tasks still to be accomplished include, but are not limited to the following:

- Implementing the absence reporting and substitute calling system
- Entering seniority information into the system
- Entering credentialing information into the system
- Formalizing, documenting, and communicating the payroll process and time lines
- Formalizing, documenting, and communicating human resource processes and time lines
- Developing and documenting security codes
- Identifying and developing needed payroll reports
- Verifying and correcting payroll calculations in the system
- Providing ongoing training for payroll and human resources staff members to ensure they fully understand their responsibilities, the system capabilities, and the interaction of the two functions

Since the implementation of the human resources/payroll system, the district has had to address ongoing issues related to problems processing payroll transactions. Significant issues arose in processing payroll accruals and transactions related to the 2003-04 year end. Those payroll issues have contributed to the district's lateness in attempting to close its books.

Because the system has only recently been implemented, there is no historical experience or data to indicate whether the system as implemented has sufficient controls to ensure data integrity or ensure that the district maintains control over its positions.

The district did not use the systems position budgeting function to develop the 2004-05 budget, but rather had an external ad hoc program written to enable it to perform position budgeting. Questions remain about the quality and accuracy of position data in the system, which would diminish the district's ability to accurately budget and control FTEs and the related salaries and benefits.

The district needs to implement prior recommendations to complete the following:

- Implement position control and position budgeting via the IFAS system
 - Review and refine position data on the system
 - Enter seniority information into the system
 - Enter credentialing information into the system
 - Develop standard position/personnel reports
 - Implement absence tracking and substitute calling system
3. The human resources system still does not provide information regarding column movement or normal retirements for budget development purposes. The district needs to implement the prior recommendation to complete the implementation of the human resources/payroll module to provide for position control and position budgeting. However, the Human Resources Department still needs to be an active participant in the budgeting and monitoring process.

- The district changed the 2004-05 budget development process for the Special Education Department to include the Financial Services Officer and an outside consultant, as well as the Executive Director of Special Education in projecting revenues and expenditures. In addition, these administrators were actively involved in reviewing and monitoring 2003-04 fiscal year revenues and expenditures to identify potential reductions in costs and encroachment.

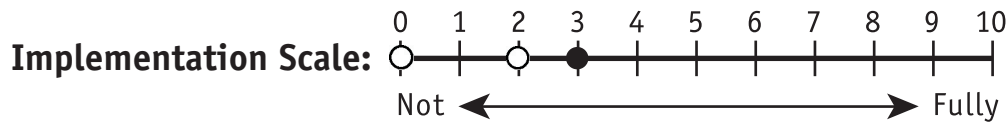
These actions provide a good start in addressing the program and fiscal issues for the special education program. However, the effectiveness cannot be fully evaluated at this time since the 2004-05 fiscal year has just begun. The accuracy of the budget information produced by the revised process cannot be reviewed at this time. With regard to 2003-04, the district had not closed its books at the time the review was performed. Therefore, no conclusion can be drawn about reductions in special education expenditures and encroachment.

If results document that the revised budget development process results in more accurate budgeting, those procedures should be formalized in a manual as identified in item No. 1 above. This is necessary to ensure that the procedures are followed from year-to-year and to ensure the integrity and quality of the special education budget.

- According to the Chief Financial Officer, the district budget process has been revised and now is based on actual revenues and expenditures rather than the prior year budget. Categorical funding is based on information contained in grant letters and the district's consolidated application. Revenue limit funding is based on prior-year P-2 ADA, due to the district's declining enrollment. Again, these procedures should be formalized in the procedures manual.
- The district has discontinued the process of negative budgeting to balance the budget.

Standard Implemented: Partially

| | |
|-----------------------------|---|
| January 2000 Rating: | 3 |
| September 2003 Rating: | 0 |
| March 2004 Rating: | 2 |
| September 2004 Self-Rating: | 4 |
| September 2004 New Rating: | 3 |



7.3 Budget Adoption, Reporting and Audits—AB 1200 Quality Assurance Processes

Professional Standard

The district should have procedures that provide for the development and submission of a district budget and interim reports that adhere to criteria and standards and is approvable by the county office of education.

Progress on Implementing the Recommendations of the Recovery Plan

1. For the 2003-04 and 2004-05 fiscal years, the district has submitted its budgets and interim reports on a timely basis. However, the reports still had several errors and the county office had significant questions regarding the reports and the information and assumptions they contained. The district has improved its performance but still has problems with its interim reporting. These problems reflect issues with the technical skill of the staff, the information produced by the financial system, and the level of review and oversight that management is able to provide given other demands. To the extent that problems in the interim reports reflect problems with the quality of financial information that the district is able to produce internally, its ability to manage finances is compromised.

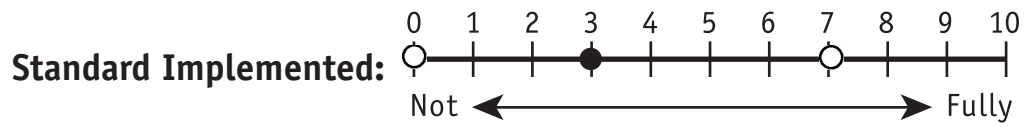
The interim reports continue to show the district's structural deficit in both the current and projection years. In order for the district to be financially viable without obtaining additional loans, it must aggressively address the ongoing gap between revenues and expenditures. This is particularly important given the district's steep and ongoing decline in enrollment.

The district needs to continue to improve its financial reporting processes by documenting policies and procedures, providing staff training, and increasing supervision and monitoring. These items should assist the district in monitoring its financial condition and preparing timely and accurate reports for the county. Timely and accurate information will help the district make the necessary financial adjustments to balance its budget and build its reserve. However, even with good financial information, the district must exhibit the will to make the necessary expenditure cuts to return to fiscal health.

The county office should continue its close review of the district's budget and interim reports. This review should help the district to ensure that its financial information is accurate by pointing out errors or unusual items. To that end, the district has meetings at least quarterly with the county office, the California Department of Education (CDE), and FCMAT to review the district's fiscal health and financial recovery plan. These meetings should be continued as the collaboration provides the opportunity for additional evaluation and information sharing.

Standard Implemented: Partially

January 2000 Rating: 7
September 2003 Rating: 0
March 2004 Rating: 3
September 2004 Self-Rating: 4
September 2004 New Rating: 3



7.7 Budget Adoption, Reporting and Audits – Audit Administration and Resolution, Audit Resolution

Legal Standard

The district should include in its audit report, but not later than March 15, a corrective action for all findings disclosed as required by Education Code section 41020.

Progress on Implementing the Recommendations of the Recovery Plan

1. Since the district's audit report for the 2002-03 fiscal year was not finalized until June 2004, it could not strictly comply with the Education Code requirement. However, the district stated that it did respond to audit findings during the audit process. Review of the audit report text indicated that the district did respond to the audit findings and in many cases, provided some discussion and information regarding planned activities. A copy of the audit report, including the district's responses to audit findings, was provided to the county office. It appears that the district has at least partially implemented the prior recommendation to provide detail in its responses to audit findings.

The district has assigned each of the findings to a specific manager/administrator to resolve issues and implement corrective action. The district has developed a tracking schedule for the findings and the implementation of planned corrective action, which should assist in managing the process. The district appears to be taking action to address the findings. However, it should be noted that the specific planned corrective actions have not been identified for many of the items, and to date, only a small number of items have been completed.

In order to ensure that the findings are adequately addressed, the district has scheduled an audit retreat for cabinet members and the appropriate staff on September 15, 2004, to develop solutions and corrective measures that will become the comprehensive plan for the remediation of the 2002-03 audit findings. The district then intends to submit the comprehensive plan to the State Controller's Office, which will determine if the recommendations are acceptable. In addition, the district appealed several apportionment findings. If successful, the monetary penalties will be eliminated.

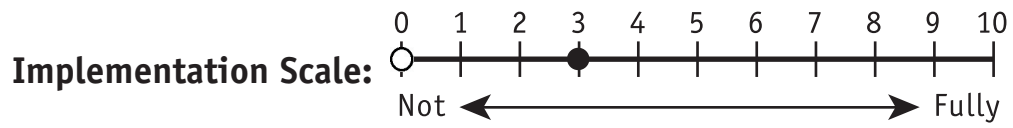
Since the district did not receive the audit report until June 18, 2004, it was still within the 90-day period to provide a supplemental corrective action plan to the county office.

The district should identify in detail the corrective action planned for each item, to the extent additional information/detail is required beyond the response provided in the audit report, and submit that information to the county office within the 90-day period. The district should implement necessary corrective measures to resolve all findings identified in its annual audit.

The district's compliance with this item should be evaluated in subsequent follow-up reviews as applicable.

Standard Implemented: Partially

January 2000 Rating: 3
September 2003 Rating: 0
March 2004 Rating: 0
September 2004 Self-Rating: 3
September 2004 New Rating: 3



7.9 Budget Adoption, Reporting and Audits — Compliance with Financial Reporting Requirements of GASB 34

This standard has been added since the 2000 report.

Legal Standard

The district must comply with Governmental Accounting Standard No. 34 (GASB 34) for the period ending June 30, 2003. GASB 34 requires the district to develop policies and procedures and report in the annual financial reports on the modified accrual basis of accounting and the accrual basis of accounting.

Progress on Implementing the Recommendations of the Recovery Plan

1. Consistent with GASB 34, the district prepared both funds and governmentwide financial statements for the 2002-03 fiscal year via the Standardized Account Code Structure (SACS) year-end reporting software. In addition, review of the 2002-03 audit report confirms that the district utilized the GASB 34 format for financial reporting. However, the audit disclosed several instances in which the district did not comply with the provisions of GASB 34. These are principally related to areas such as fixed assets, proper recording and capitalization of assets, asset valuation and records, and depreciation calculation.

More importantly, the audit states that the condition of records maintained was not sufficient to allow the auditors to express an opinion on the district's financial statements. Such significant issues related to documentation and controls call into question the district's ability to produce sufficiently accurate and timely information to manage financial operations.

In the intervening period, a new financial management team was brought in to address these basic financial accounting issues. It appears that some progress has been made in improving operations and controls. However, essentially all of the financial management team has recently left. While the new management staff appear to be very knowledgeable and technically proficient, the turnover nevertheless affects the district's ability in the short-term to make and continue improvements in financial accounting.

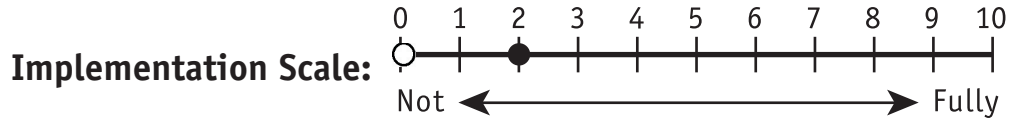
The district needs to specifically address the fixed asset issues related to GASB 34 implementation identified in the audit report. Additionally, the district needs to continue its efforts to improve financial accounting and reporting by:

- Providing ongoing staff training to increase technical proficiency
- Implementing formal accounting policies and procedures, including desk manuals
- Providing ongoing supervision of employees and periodic review of work
- Reviewing workflow and system controls in the IFAS system

Review and evaluation the district's progress should be made after the completion of the 2003-04 audit to determine if fundamental change and improvement is occurring.

Standard Implemented: Partially

| | |
|-----------------------------|--------------|
| January 2000 Rating: | Not Assessed |
| September 2003 Rating: | 0 |
| March 2004 Rating: | 2 |
| September 2004 Self-Rating: | 4 |
| September 2004 New Rating: | 2 |



7.10 Budget Adoption, Reporting and Audits—Interim Reports and Projection of Ending Fund Balance

This standard has been added since the 2000 report.

Professional Standard

The first and second interim reports should show an accurate projection of the ending fund balance. Material differences should be presented to the board of education with detailed explanations.

Progress on Implementing the Recommendations of the Recovery Plan

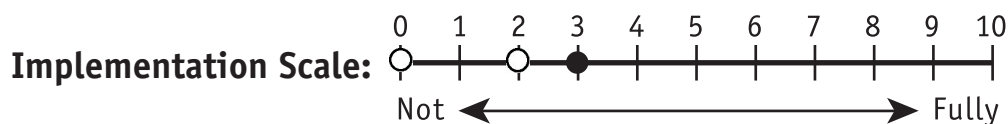
1. The district did update its projected ending balance at the first interim reporting period. This information was provided to the State Administrator and Governing Board at a board retreat. The information provided included identifying major changes in revenues and expenditures, such as salary expenditures, benefit costs, indirect costs, and reserve requirements. The first interim report was also presented at the December 10, 2003 board meeting.

The second and third interim report changes in revenues, expenditures, and ending fund balance show that the district is actively monitoring the budget. However, the significant changes in the amounts indicate that budgeting and monitoring processes still need to be improved.

The district should continue to monitor its revenues and expenditures on an ongoing basis in order to allow it to accurately project its ending fund balances. Revisions to revenues, expenditures, and ending fund balances should be provided to the Governing Board with supporting information and an explanation of the changes. The district should formalize the process for monitoring its budget, preparing the interim reports, and presenting the information to the Governing Board.

Standard Implemented: Partially

| | |
|-----------------------------|--------------|
| January 2000 Rating: | Not Assessed |
| September 2003 Rating: | 0 |
| March 2004 Rating: | 2 |
| September 2004 Self-Rating: | 4 |
| September 2004 New Rating: | 3 |



8.1 Budget Monitoring—Encumbrance of Overexpenditures

Professional Standard

All purchase orders are properly encumbered against the budget until payment. The district should have controls in place that ensure adequate funds are available prior to incurring financial obligations.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district did provide training for users of the financial system during the fall of 2003. The training covered topics such as purchase requisitions, online receiving and stores requisitions, system reports and online queries, and administrator training.

For the 2003-04 fiscal year, the district did not establish a formal process for holding principals and managers accountable for their budgets through performance appraisals that would address financial management as one of evaluative criteria.

However, for the 2004-05 fiscal year, the district is moving to a results-based budgeting process in which budget management moves to the site and department level. It is anticipated that implementation of this recommendation will occur naturally with the new budget model. For the 2004-05 fiscal year, the district should implement the prior recommendation to establish a formal process for holding principals and managers accountable for their budgets, where performance appraisals would address financial management as one of the evaluative criteria.

The district has not implemented the prior recommendation to discontinue the practice of processing paper budget transfers because sufficient controls have not been established in the IFAS financial system to prevent administrators and managers from transferring funds between resources, whether inadvertent or intentional. The district needs to implement adequate controls in the financial system to prevent administrators and managers from transferring funds between resources. The district should then implement the prior recommendation to discontinue the practice of processing paper budget transfers.

2. The district has not implemented the prior recommendation to research accounts that were overexpended in order to determine on an account-by-account, transaction-by-transaction basis a reason that the system was overridden.

The district has not yet revised or developed formal policies to prohibit system overrides. Questions remain on the adequacy of system controls since transactions can be processed without leaving an audit trail. This leaves the system open to manipulation or misuse, which would be difficult to identify or trace to a specific individual. This constitutes a significant control weakness.

The district needs to implement controls in the financial system that will preclude transactions from being processed without leaving an adequate audit trail.

The district implemented “budget blocking,” which is intended to prevent most administrators and managers from expending beyond the available budget. Budget blocking can be superseded, but such authority is limited to a small number of senior fiscal administrators. It could not be determined at the time of the review how successful the control was in preventing accounts from being overspent because the books had not been closed with all transactions posted.

The district should implement formal policies and procedures prohibiting administrators and managers from exceeding their budgets without approval from the district’s Chief Financial Officer or designee. The district should adopt a formal policy identifying those administrators with the authority to override budget blocking and require a formal report to the State Administrator/Superintendent and Governing Board when budget controls are overridden, explaining the need to do so. In order to evaluate the effectiveness of the budget blocking control, the district should also review its unaudited actuals to identify any accounts that exceeded their budget. Any instances identified should be reviewed to determine the circumstances and whether such expenditures had been properly authorized. If not, the control should be evaluated for modification to prevent future budget overruns.

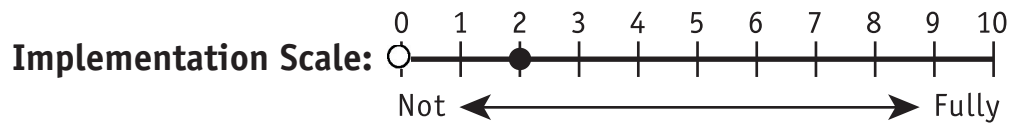
3. The district has partially implemented the prior recommendation to budget substitute and overtime/extra-duty costs at the site level. The district continues to have a pool of substitutes; however, they are not assigned to specific sites. They are assigned to sites by the district office as needed to cover absences and vacancies. The district should fully implement the prior recommendation to budget substitute and overtime/extra-duty costs at the site level.
4. The district has not implemented the previous recommendation to establish policies and procedures (i.e., limits) on the processing of purchase orders if the amount is greater than the amount identified in the purchase requisition. The district should implement the previous recommendation to establish policies and procedures (i.e., limits) on the processing of purchase orders..
5. The district previously indicated that it would eliminate the year-end practice of entering purchases as “received” on the financial system, even though the items have not been delivered. However, this practice was again continued at the 2003-04 year end. The district has not implemented the previous recommendation.

The district should adopt a formal policy to prohibit the year-end practice of entering purchases as “received” on the financial system when the items have not been delivered. The staff should be made aware of the policy, and employees violating the policy should be made subject to disciplinary action.

The district should also implement policies to prohibit, and procedures to verify, that such prereceiving is not done at year end.

Standard Implemented: Partially

January 2000 Rating: 0
September 2003 Rating: 0
March 2004 Rating: 2
September 2004 Self-Rating: 4
September 2004 New Rating: 2



8.2 Budget Monitoring—Monitoring of Department and Site Budgets

Professional Standard

There should be budget monitoring controls, such as periodic reports, to alert department and site managers of the potential for overexpenditure of budgeted amounts. Revenue and expenditures should be forecast and verified monthly.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district implemented the prior recommendation to implement the human resources/payroll module of the Bi-Tech system. One of the anticipated benefits of this implementation was to integrate the personnel/position control functions with the financial management systems and allow the integration of the budget and personnel systems. However, the district still has not moved to a fully integrated position control system and, as a result, control of FTEs, and personnel costs is still weak. In fact, positions and FTEs are commonly tracked by sites and departments outside the system on spreadsheets. To date, it is not clear that the process is more efficient or that information is more timely and accurate.

While the position control function is intended to reside within the budget office, the current system's set up allows the human resources staff access to position control and the ability to modify it. Because personnel costs are the largest part of the district's budget, and the district has a history of problems with budget overruns and controls being circumvented or overridden, the district must ensure that duties are appropriately segregated, and access to the system is carefully controlled.

The district has developed an add-on program for position budgeting instead of utilizing the IFAS system itself. While this program may be an effective way to perform position budgeting, it calls into question the benefits of the system and results in another process for which procedures and controls must be established.

The district should complete its implementation of the human resources/payroll system as quickly as possible. Priority items include fully implementing position control and position budgeting, establishing security controls and adequately separating the responsibility for position control from personnel, documenting the system, providing user documentation/desk manuals, and providing ongoing training for the staff.

The district should also monitor system modifications or implement other measures to identify when security protocols are changed or overridden.

2. The district has not implemented the prior recommendation to investigate instances where transactions were processed with insufficient funds available in the budget, nor has it identified by whom and why transactions were allowed to be processed and the budgetary control overridden.

The district does have budget blocking capabilities in the financial system that will prevent budgets from being overrun. However, while the district is in the process of establishing policies and procedures to ensure that system overrides are minimized and can be authorized only by specified management staff members, those policies and procedures have not yet been formalized nor are they in place.

The district should implement policies and procedures regarding budgetary control and the authority to override the financial system controls to prevent budget overruns.

3. The district has revised the budget office staff duties so that each staff member is responsible for monitoring the budgets of specific sites/departments at the resource level. The budget analysts use weekly reports to monitor categorical budgets by resource. Additionally, the district has created reports for principals, administrators, and department heads to assist them in monitoring their budgets. However, while the staff now has assigned responsibilities, which is a positive step, there are no formalized policies and procedures. As a result, the frequency of and processes used for reviewing and monitoring budgets varies by analyst, and each analyst may use different ad hoc reports in monitoring budget information rather than using standard system reports. The danger in using ad hoc reports is that, if parameters are not accurately and consistently set, the information being provided could be misleading. Managers readily admit that they do not have sufficient time currently to supervise and monitor the work performed by the analysts.

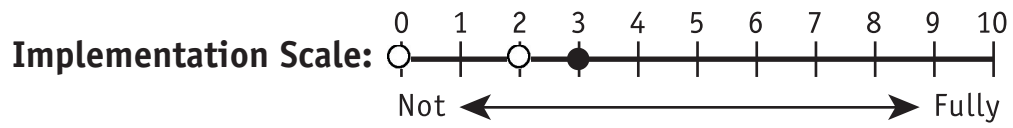
The district should implement formal policies and procedures regarding budget monitoring and the monthly review of site/department budgets at the resource level. The district needs to establish standardized budget reports that will be used by the staff in monitoring budgets and expenditures to ensure the accuracy and consistency of the information used by the staff.

4. The district has implemented the previous recommendation to forge a closer and more active working relationship between the Special Education Department and Fiscal Services, and there is monthly monitoring of the special education budget. However, the district has not implemented the previous recommendation to establish formal written policies and procedures to preclude the department from hiring staff members or entering into contracts without budget review and approval.

The district should continue its monitoring of special education revenues and expenditures to prevent budget overruns. The district should also formalize the budget monitoring process and responsibilities of the special education and the budget offices. Part of this process should include monthly meetings between special education, budget, and the personnel staff.

Standard Implemented: Partially

January 2000 Rating: 0
September 2003 Rating: 0
March 2004 Rating: 2
September 2004 Self-Rating: 4
September 2004 New Rating: 3



8.4 Budget Monitoring—Position Control

Professional Standard

The district uses an effective position control system, which tracks personnel allocations and expenditures. The position control system effectively establishes checks and balances between personnel decisions and budgeted appropriations.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district implemented the previous recommendation to implement the Bi-Tech IFAS human resources/payroll module in January 2004, which integrates the position control functions. While the district has been using the human resources/payroll module since January, it still has not implemented the previously identified steps required for the system to be completely functional and to provide the needed level of security and control (see standards 6.1 and 8.2). In fact, the district experienced significant problems in processing year-end payrolls and accruals since many of these items had not been addressed between January and August.

The district still needs to complete its implementation of the human resources/payroll module and related systems by addressing items such as the following:

- Implementing the absence reporting and substitute calling system
- Entering seniority information on the system
- Entering credentialing information on the system
- Formalizing, documenting, and communicating the payroll process and time lines
- Formalizing, documenting, and communicating human resource processes and time lines
- Developing and documenting security codes and other controls to ensure data integrity
- Identifying and developing needed payroll reports
- Verifying and correcting payroll calculations in the system

Many items are scheduled to be completed by the end of the 2004 calendar year, however, they have not been implemented to date.

2. Implementation of the human resources/payroll system provided the district with the capability of operating a fully-integrated position control and position budgeting system. However, the district still has not moved to a fully integrated position control system and, as a result, control of FTEs and personnel costs is still weak. In fact, it appears that FTEs and positions have not been fully reconciled with vacant/eliminated positions not closed on the system and other positions on the system without budgets. Site and funding information is not completely accurate. This situation has been exacerbated by the district's implementation of results-based budgeting. In addition, positions and FTEs are commonly tracked on spreadsheets by sites and departments outside the system.

To date, it is not clear that the process is more efficient or that information is more timely and accurate.

The district needs to fully implement the integrated position control system. To the extent possible, the district should validate the accuracy of position control information, particularly related to funding codes and FTEs, and closing/removing positions that have been eliminated.

3. The district has not implemented the prior recommendation to improve control over positions by restricting the access of the personnel staff to the position control screens and preventing them from being able to enter and modify data. As a result, there are insufficient access controls in place. The district needs to implement the prior recommendation to adequately segregate the personnel and position control functions and restrict the access of the personnel staff.

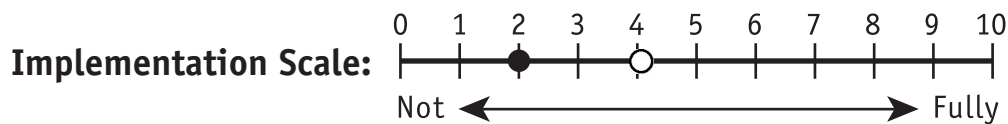
While the district has a task force to modify personnel requisitions, the task force has not completed its work to date. The district should implement the prior recommendation to streamline the personnel process by consolidating personnel forms to the extent possible.

4. The district did not implement the prior recommendation to validate the personnel/ position control data, such as the number of authorized, filled, and available positions and account coding before transferring that information to the new system. Some validation has taken place through the results-based budgeting process, but it has also created additional work by requiring additional changes to position information.

The district should validate all positions on its system to ensure accuracy, particularly related to location, FTE, and funding source.

Standard Implemented: Partially

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|-----------------------------|---|
| January 2000 Rating: | 4 |
| September 2003 Rating: | 2 |
| March 2004 Rating: | 2 |
| September 2004 Self-Rating: | 4 |
| September 2004 New Rating: | 2 |



8.5 Budget Monitoring—Management of the Routine Restricted Maintenance Account

This standard has been added since the 2000 report.

Professional Standard

The routine restricted maintenance account should be analyzed routinely to ensure that income has been properly claimed and expenditures are within the guidelines provided by the state Department of Education. The district budget should include specific budget information to reflect the expenditures against the routine maintenance account.

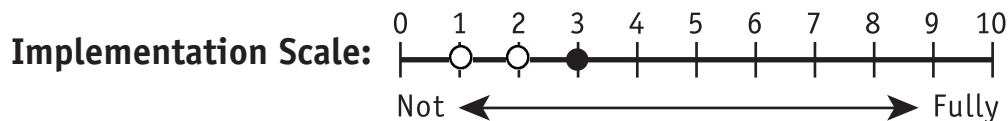
Progress on Implementing the Recommendations of the Recovery Plan

1. It is unclear whether the district implemented the prior recommendation to review its calculation of the required routine restricted maintenance contribution to ensure that it is meeting its 3 percent obligation. In addition, the district did not implement the prior recommendation to implement policies and procedures that require the review, analysis, and monitoring of expenditures to ensure that all expenditures meet the state's guidelines to qualify as routine restricted maintenance expenditures.

The district should implement the prior recommendations regarding the calculation of the routine restricted maintenance contribution and the monitoring of routine restricted maintenance expenditures.

Standard Implemented: Partially

| | |
|-----------------------------|--------------|
| January 2000 Rating: | Not Assessed |
| September 2003 Rating: | 1 |
| March 2004 Rating: | 2 |
| September 2004 Self-Rating: | 5 |
| September 2004 New Rating: | 3 |



10.1 Investments—Investment Policy and Quarterly Approvals

Legal Standard

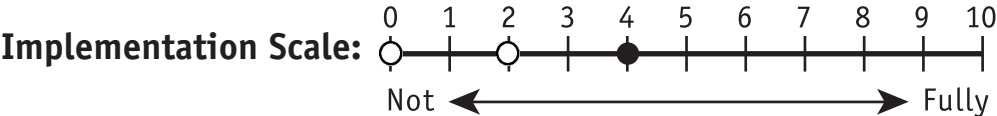
The Governing Board must review and approve, at a public meeting and on a quarterly basis, the district’s investment policy. [GC 53646]

Progress on Implementing the Recommendations of the Recovery Plan

- 1. The district implemented the prior recommendation to develop a formal investment policy. The district adopted board policy 3430 related to investment of funds.
- 2. The district’s board policy 3430 does address an annual review of the investment policy by the Governing Board. However, the policy should more explicitly state that the board must formally reauthorize the formal policy for the investment of surplus funds each year.
- 3. The district did not implement the prior recommendation to adopt a formal policy requiring that quarterly investment reports be provided in accordance with Government Code section 53646. The district should formalize the quarter-reporting requirement in its investment policy.

Standard Implemented: Partially

| | |
|-----------------------------|---|
| January 2000 Rating: | 0 |
| September 2003 Rating: | 0 |
| March 2004 Rating: | 2 |
| September 2004 Self-Rating: | 5 |
| September 2004 New Rating: | 4 |



11.1 Attendance Accounting—Accuracy of Attendance Accounting System

Professional Standard

An accurate record of daily enrollment and attendance is maintained at the sites and reconciled monthly.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has implemented the prior recommendation to establish an attendance accounting/student information system and has chosen Eagle software as its new system. The system is scheduled to be in place for the 2005-06 fiscal year, consistent with FCMAT's previous recommendation.

For 2004-05, the district will continue to operate with an outdated version of the SASI system. That version is not able to accommodate the recording and reporting of information for more than 99 school sites, even though the district operates more than 112 sites. As a result, the district must combine data for sites and then separate the information again to be able to report accurately. The need to manipulate the data increases the likelihood of errors in recording and reporting attendance data. Further, only one staff member handles the SASI system and attendance reporting. If this employee were to leave the district or otherwise be unable to perform the duties during the 2004-05 year, it would be difficult for the district to record and report attendance data.

2. The district has implemented the prior recommendation to increase training from a mandatory half day session for the site clerical/attendance staff to a full-day session. The district will have separate training for the site clerical/attendance staff and for site administrators. Training will provide information on legal attendance requirements, as well as on how to record and report attendance using the SASI system. Additional SASI training and help continues to be available through the Technology Department's help desk.
3. The district has not implemented the prior recommendation to formally establish the accurate and timely completion and submission of attendance reports as an evaluative criterion in the annual reviews of teachers and principals. The district is monitoring which sites are not sending attendance information to the district office on a timely basis, and this appears to have improved compliance. While the incidence of tardy information appears to be abating, it still is a material problem. In addition, there has been no action to date to link the monitoring data with the annual review process.

The district should implement the prior recommendation to make attendance reporting an evaluative criterion in the annual performance review for teachers and principals.

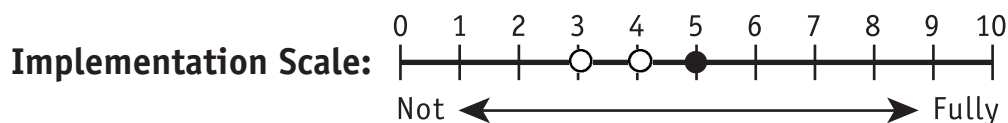
4. The district continues to implement the prior recommendation to monitor unscanned attendance roster reports for the prior period, i.e., the second prior week, to ensure that all sites have scanned the sheets.

5. The district has implemented the prior recommendation to continue assigning a person at each site to verify student absences with the parent/guardian on the same day. The district has implemented the prior recommendation to vigorously pursue its positive student attendance initiative, emphasizing students with excessive excused and unexcused absences. Much of the effort is focused on identifying and tracking students with attendance problems, utilizing truancy notices, student attendance review teams, and the student attendance review board.
6. The district implemented the prior recommendation to inform parents and the site staff of the difference between a parent-approved absence that is excused by Education Code and board policy definitions, from one that is unexcused and subject to compulsory education legal actions. This information was distributed in a letter to parents, is included in the parent handbook, and is available through the district's updated board policies and administrative regulations that are available on the district Web site. These address both student absences and truancy. The district also continues with a public information campaign aimed at improving student attendance.
7. The district did not implement the prior recommendation to develop attendance reports to identify independent study absences of less than five consecutive school days to ensure no apportionment is inadvertently claimed. The district should implement the prior recommendation on attendance reports.
8. The district did not implement the prior recommendation to replace/repair/service all attendance hardware, including scanners, to ensure that the equipment is in good working condition. Equipment failures result in late and inaccurate attendance reporting. The district should replace/repair/service all attendance hardware as recommended.

While the district believes that attendance for the 2003-04 school year improved by approximately 1 percent, it is not clear whether the improvement was related to the attendance-improvement program or more accurate reporting of enrollment. After the 2004-05 year, the district should evaluate all aspects of its attendance improvement efforts to determine if they sufficiently increased attendance and revenues to justify continuing the expenditures associated with this program.

Standard Implemented: Partially

| | |
|-----------------------------|---|
| January 2000 Rating: | 4 |
| September 2003 Rating: | 3 |
| March 2004 Rating: | 4 |
| September 2004 Self-Rating: | 5 |
| September 2004 New Rating: | 5 |



11.4 Attendance Accounting—Instructional Time Requirements

Professional Standard

At least annually, the district should verify that each school bell schedule meets instructional time requirements for minimum day, year and annual minute requirements.

Progress on Implementing the Recommendations of the Recovery Plan

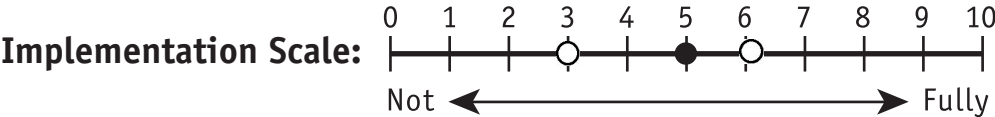
1. The district has implemented the prior recommendation to institute a formal process that documents that bell schedules meet instructional time requirements for the 2004-05 year. Currently, the executive directors are responsible for verifying that the bell schedules and school calendar result in the district meeting the various instructional time requirements related to number of days, minimum days, and annual minutes. The executive directors then submit the bell schedules for each school to the business office, showing their calculation/verification of compliance with legal requirements. There is now a dedicated Fiscal Analyst who reviews all the bell schedules for compliance with longer day/longer year (minute) requirements.

The district has not implemented the prior recommendation to establish a process to verify that each student is scheduled for the minimum day in order to qualify for apportionment purposes.

The district should continue its recently established process of having the business office verify instructional time and holding executive directors responsible for ensuring that instructional time requirements are met. The district should also formalize this process in the Business Services Guide and the procedures manual provided to site administrators. The procedures should identify the process if instructional time requirements are not met. The district should implement the prior recommendation on establishing a process to verify that each student is scheduled for the minimum day in order to qualify for apportionment.

Standard Implemented: Partially

| | |
|-----------------------------|---|
| January 2000 Rating: | 6 |
| September 2003 Rating: | 6 |
| March 2004 Rating: | 3 |
| September 2004 Self-Rating: | 6 |
| September 2004 New Rating: | 5 |



12.2 Accounting, Purchasing and Warehousing—Accounting Procedures, Timely and Accurate Recording of Transactions

Professional Standard

The district should timely and accurately record all information regarding financial activity for all programs (unrestricted and restricted).

Generally Accepted Accounting Principles (GAAP) require that in order for financial reporting to serve the needs of the users, it must be reliable and timely. Therefore, the timely and accurate recording of the underlying transactions (revenue and expenditures) is an essential function of the district's financial management.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district's 2002-03 audit report identified several significant issues in the recording of financial transactions and the maintenance of supporting documentation that resulted in the State Controller's Office disclaiming an opinion on whether the financial statements were fairly stated in accordance with Generally Accepted Accounting Principles (GAAP). This is a significant statement about the prior problems in the district accounting processes, procedures, systems, controls, and management oversight.

During the latter part of the 2002-03 fiscal year and the 2003-04 fiscal year, the district began to implement the prior recommendation to reorganize the Accounting Department and increase the overall technical proficiency and skill level of the staff. Specifically, the district hired new senior fiscal administrators and established new fiscal positions in the Budget Department. The job duties and minimum qualifications for the new Fiscal Analyst positions were evaluated and revised to align the position requirements with the actual work. In addition, the district has completed draft policies and procedures for most fiscal functions, which are to be implemented in the 2004-05 fiscal year. Recently, the district has had turnover in almost every financial management position. While the new management staff appear very knowledgeable, competent, and dedicated, the turnover nevertheless slows the district's progress in implementing these procedures, establishing consistent lines of authority and responsibility, establishing reasonable expectations for staff competency and performance, and providing adequate and consistent supervisory review and oversight.

The district previously was evaluating the use of standardized written tests for entry-level fiscal positions. To date, the district has not moved forward with developing or utilizing standardized written test or interview questions for any positions. The district should evaluate all positions and have the personnel and business offices work collaboratively to develop a group of standardized tests and questions to be used for evaluating candidates for all positions in the business office.

2. The district did not implement the prior recommendation to undertake a comprehensive program to improve the staff's technical capacity to ensure that work is processed

timely and accurately and supports proper financial reporting. The district still needs to perform a skills/training assessment for all fiscal employees and then develop an annual training plan for each staff member to improve technical skills and professional knowledge. This training plan should be supported with annual, or preferably semi-annual performance reviews that assess current performance and status of training. These reviews then provide the basis to upgrade the employee training plan.

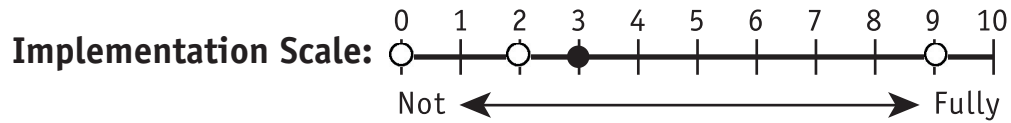
These individual training plans should be reviewed in aggregate to develop an overall training plan for the business office, in order to schedule and provide training in the most efficient and cost-effective manner. In addition, all business services employees should be evaluated at least annually. The evaluations should include consideration of the training needs/plans and progress in meeting training goals.

3. The district has partially implemented the prior recommendation to establish formal processes and procedures and desk manuals regarding accounting functions. The district has drafted procedures covering most areas, but the procedures have not been reviewed and adopted. The district needs to finalize its procedure manuals covering all areas, distribute the manuals to the staff, and provide training regarding the organization and use of the manuals.
4. The district had previously addressed the backlog in processing accounts payable and receivable. However, it appears that the staff may be having some difficulties in keeping current with all the duties, including filing of documents. This is a concern, given the state Controller's Office's disclaimer of opinion for the 2002-03 financial statements based on the district's lack of sufficient supporting documentation for many items. The district should review the current status of work in accounts payable and take steps to ensure that payments are authorized properly, processed timely, that there is adequate supporting documentation for all payments, and that such documentation is maintained and properly filed.
5. Given the ongoing issue of staff capacity and the large workload requirements on the senior administrators, it is not clear how much review and supervision is occurring, which was a significant problem in the past. This concern is heightened by the recent turnover in the management staff, which requires the district to clearly define the roles and responsibilities for each manager and inform all staff members of the appropriate relationships for review and authorization of work. The district needs to quickly and clearly define the responsibilities for the managers, inform the staff of the organizational lines, and increase the technical capacity of the staff.
6. With regard to the year-end closing process, the district staff received training from the county office and is using the materials provided to guide the process. However, due to problems with the human resources/payroll module and issues related to the processing of payroll and the related accruals, it will be difficult for the district to meet the statutory deadline for closing its books. The district did meet statutory deadlines for closing its books last fiscal year. The district needs to review those issues related to the payroll system to ensure that they have been corrected so the same problems do not occur at the end of 2004-05.

The district should establish a year-end closing schedule that starts early and includes activities, responsibilities, a calendar, time line for the activities, and imposes early cutoffs for transactions, particularly those related to payroll.

Standard Implemented: Partially

January 2000 Rating: 9
September 2003 Rating: 0
March 2004 Rating: 2
September 2004 Self-Rating: 4
September 2004 New Rating: 3



12.3 Accounting, Purchasing and Warehousing—Accounting Procedures: Cash

Professional Standard

The district should forecast its revenue and expenditures and verify those projections on a monthly basis in order to adequately manage its cash. In addition, the district should reconcile its cash to bank statements and reports from the county treasurer reports on a monthly basis. Standard accounting practice dictates that, in order to ensure that all cash receipts are deposited timely and recorded properly, cash be reconciled to bank statements on a monthly basis.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has partially implemented the prior recommendation to perform monthly reconciliations on a timely basis and to monitor and update cash forecasts on a monthly basis.

The district reconciles its cash records to those of the county office monthly. However, the county office lags in updating its records since it does not timely receive information from the Alameda County Treasurer's Office. As a result, the information is typically one month in arrears. This issue has not yet been resolved. The district should continue to work with the county office and the Alameda County Treasurer to establish a process that produces timelier bank statements.

During the 2003-04 year, the FCMAT fiscal advisors performed the reconciliations. For the 2004-05 year, the task will be assigned to one of the senior accountants, with oversight provided by one of the fiscal services officers and ultimate responsibility assigned to the Chief Financial Officer. It has not been determined which Accountant and Fiscal Services Officer will be given this responsibility. The district needs to identify the employee who will be assuming the responsibility for cash reconciliations as soon as possible to ensure that this person is properly trained.

The district implemented the prior recommendation to establish formal procedures for the processing of bank statements and reconciliations. The topic is addressed generally in the Business Services Guide and in more detail in the cash receipts/reconciliation desk manual.

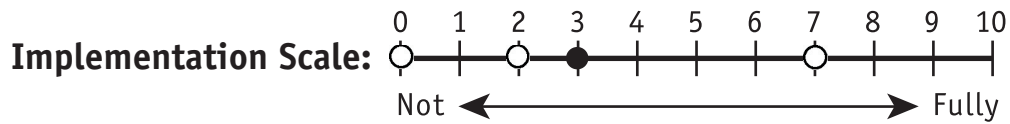
2. The district has partially implemented the prior recommendation to review changes in anticipated revenues and expenditures monthly to ensure that the assumptions for cash flow projections are accurate. The district considers anticipated expenditures in its monthly cash flow projections, but the process and procedures have not been formalized.

The district needs to formalize its policies and procedures regarding cash flow monitoring and projections to ensure that this function is performed timely and accurately. Given the district's current financial situation, it is important to be able to anticipate cash needs and have sufficient liquidity.

- The district needs to implement procedures for revenues and expenditures to be reviewed monthly to identify changes that will affect the district's cash needs and/or available cash. This information should then be incorporated into the monthly process of updating the cash flow projections.

Standard Implemented: Partially

January 2000 Rating: 7
September 2003 Rating: 0
March 2004 Rating: 2
September 2004 Self-Rating: 4
September 2004 New Rating: 3



12.4 Accounting, Purchasing and Warehousing—Accounting Procedures: Payroll

Professional Standard

The district's payroll procedures should be in compliance with the requirements established by the county office unless fiscally independent (Education Code Section 42646). Standard accounting practice dictates that the district implement procedures to ensure the timely and accurate processing of payroll.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district implemented the Bi-Tech/IFAS human resources/payroll module in January 2004. However, the district consistently continues to have problems in accurately and completely processing payroll each pay period. The problems appear to result from the need to correct software issues, erroneous personnel/payroll information in the employee master file, and input and processing errors by the Payroll Department. In addition, the district had issues related to running year-end payrolls and accruals.

In order to correct the problems, the district should log all payroll errors/issues occurring each month, including the cause of the error and the measures/steps taken to correct the error. Each item should be classified as a system issue, a personnel issue, or a payroll issue in order to track the source of the problems so that effective action can be taken to prevent recurrent problems. Potential corrective actions could include program modifications, additional staff training, job rotation, increased supervisory review, personnel file cleanup, or increased review and sign-off on payroll error reports by the responsible Fiscal Services Officer. Additionally, the district should implement a formal payroll reconciliation process for each payroll run.

2. The district has not implemented the prior recommendation to track incomplete and untimely payroll forms over a period of time to identify the problem work sites. Further, the district has not implemented policies and procedures to hold administrators and managers responsible for ensuring that paperwork for their staff is submitted timely. District leadership needs to hold those sites and departments accountable. Without consequences for managers and administrators, poorly prepared and tardy time sheets and payroll forms will continue to be a major cause of payroll errors.

The district has implemented an informal policy that employees submitting late, inaccurate or incomplete forms will not be paid until the next payroll. This has helped reduce the number of payroll forms that are submitted late or don't meet requirements.

The district should track late and incomplete/inaccurate time sheets to identify those sites/departments and managers where problems occur. Those administrators/managers should be held accountable to ensure that the information is submitted timely and accurately.

3. The district has partially implemented the prior recommendation that all employee overtime be properly approved and monitored to ensure that the cost remains within budget and that all time claimed is legitimate. All overtime must be approved by the fiscal advisors or the Chief Financial Officer. However, it does not appear that the process has been formalized in policies and procedures.

The district should formalize the policies and procedures regarding who must review and approve overtime. In addition, the procedures should require that a budget amount be available to pay for the overtime.

4. The district implemented the prior recommendation to implement the Bi-Tech IFAS human resources/payroll module. However, as noted in other standards, the district has additional areas to address before the module is completely and satisfactorily installed. The district should perform the following::
 - Implement the absence reporting and substitute calling system
 - Enter seniority information into the system
 - Enter credentialing information into the system
 - Formalize, document, and communicate the payroll process and time lines
 - Formalize, document, and communicate human resource processes and time lines
 - Develop and document security codes and other controls to ensure data integrity
 - Identify and develop needed payroll reports
 - Verify and correct payroll calculations in the system

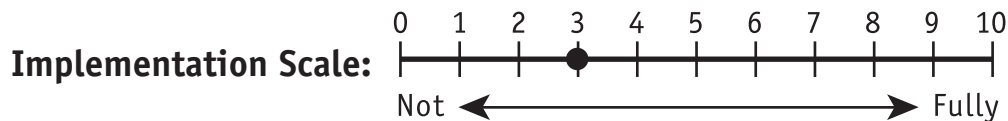
In addition, the district should continue to develop documentation, provide training materials and training, develop desk manuals, and establish work flow rules and security levels.

5. The district is planning to implement a districtwide automated substitute calling system that will be integrated with the human resources/payroll system. This system was scheduled to be implemented by April 2004, but that time line could not be met. Currently, the system is scheduled to be implemented by the end of the calendar year. An interface can result in increased efficiencies and reduction of errors. If the two systems are able to interface, those systems will automatically pay substitutes, update employee leave balances, and dock employee’s pay as necessary. In addition, the district would be able to reconcile substitute time and pay to the central office system to ensure that only authorized transactions are processed. Using an event number on the substitute calling system would ensure that categorical budgets are charged only for substitute pay when authorized. The district would also be able to reconcile employee’s leave time to the substitute pay event.

The district should continue its efforts to implement the integrated, districtwide sub-calling system as soon as possible.

Standard Implemented: Partially

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| January 2000 Rating: | 3 |
| September 2003 Rating: | 3 |
| March 2004 Rating: | 3 |
| September 2004 Self-Rating: | 3 |
| September 2004 New Rating: | 3 |



12.5 Accounting, Purchasing and Warehousing—Accounting Procedures, Supervision of Accounting

Professional Standard

Standard accounting practice dictates that the accounting work should be properly supervised and work reviewed in order to ensure that transactions are recorded timely and accurately, and allow the preparation of periodic financial statements.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has partially implemented the prior recommendation to establish formal policies, procedures, and internal controls regarding the processing and reporting of financial transactions. The district has drafted a Business Services Guide and some desk manuals. However, materials do not cover all areas and are still in draft form. The district is making progress in implementing formalized procedures.

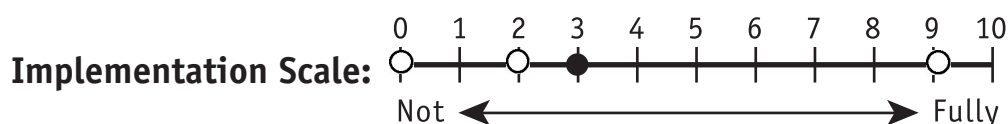
The district should finish its review of the draft policies, procedures, and internal controls to ensure that the proper checks and balances are in place so that accounting transactions and processes are timely and appropriate. In reviewing those policies, procedures, and controls, management should ensure that they focus on supervision, review, and monitoring of staff work. The district should implement the procedures as soon as possible and provide training to the staff to familiarize the organization and use of the manual, with specific emphasis on each employee's specific area of responsibility.

2. The district has reorganized the Business Department and has had some turnover in both management and staff employees. It appears that the new managers have good technical knowledge and skill. However, a high level of demand is still placed on the senior administrators and middle managers with regard to solving problems and actually doing staff work. It is not clear that the supervision and monitoring are occurring consistently throughout the department.

The district needs to continue efforts to improve the technical skills and capacities of the staff and supervisors through its hiring practices and staff training program. In addition, the district needs to ensure that the ratio of supervisors and managers to staff is appropriate to allow for the high level of supervision, review, and monitoring that the staff requires.

Standard Implemented: Partially

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|-----------------------------|---|
| January 2000 Rating: | 9 |
| September 2003 Rating: | 0 |
| March 2004 Rating: | 2 |
| September 2004 Self-Rating: | 3 |
| September 2004 New Rating: | 3 |



12.7 Accounting, Purchasing and Warehousing—Accounting Procedures, Yearend Closing

Professional Standard

Generally Accepted Accounting Principles dictate that, in order to ensure accurate recording of transactions, the district should have standard procedures for closing its books at fiscal year end. The district's yearend closing procedures should be in compliance with the procedures and requirements established by the county office.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district is in the process of formalizing its policies and procedures, including those for year-end closing. The draft Business Services Guide identifies year-end closing in passing. In addition, the district has essentially adopted the county office closing calendar, worksheets, and checklist for use by its staff. However, the district did not provide copies of the completed assignments, checklists, etc., to document the process for 2003-04.

At the time of FCMAT's fieldwork in mid to late August, the district had not closed its books. Factors such as management turnover and payroll issues related to the new human resources/payroll system have slowed the process.

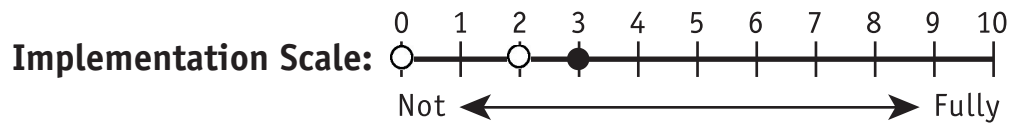
For 2004-05, the district should formalize year-end closing policies and procedures, and begin the planning process for year-end closing in April or May.

2. Communication between the budget office, accounting office, sites, and departments occurs through periodic meetings and e-mail. However, it does not appear that the district has implemented the previous recommendation to establish a formal communication process between budget, accounting, sites, and individual program departments in which the nature, frequency, and format of communication is identified to ensure the consistency of information. This is particularly important to maintain accurate budgets, especially in areas that encroach on unrestricted funds.

The district should formalize the frequency, nature, and format of communication that should take place between the various departments to ensure that timely and accurate budget and financial information is possessed by all. Methods such as standard reports, periodic meetings, year-to-year comparisons, or annualized current data, all serve to facilitate budget monitoring.

Standard Implemented: Partially

January 2000 Rating: 2
September 2003 Rating: 0
March 2004 Rating: 3
September 2004 Self-Rating: 5
September 2004 New Rating: 3



12.10 Accounting, Purchasing and Warehousing—System Controls to Prevent and Detect Errors and Irregularities

Professional Standard

The accounting system should have an appropriate level of controls to prevent and detect errors and irregularities.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has partially implemented the prior recommendation regarding the verification of invoices to be processed without a purchase order. The accounts payable staff processing the invoice will contact the administrator responsible for the purchase and require him or her to approve payment and identify the account code the purchase should be billed against. The invoice is then processed as a direct pay and the administrator is instructed to follow the standard purchasing process in the future. This manual process is sufficient. However, to the extent that these types of items are not identified in a standard report monthly and that report reviewed by the accounting manager, there is no assurance that the appropriate authorization and coding is provided. Further, there is no true accountability for the administrators violating the purchasing procedures.

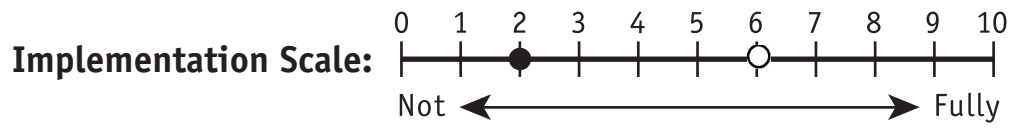
The district has not formalized these procedures in its draft manuals nor is it clear that this issue has yet been addressed with the new management staff.

The district should proceed with finalizing its accounting procedures manuals, including the issue related to accounts payable for invoices without a purchase order. In addition, the district should require that any invoices without a purchase order be processed only after approval of the site/department administrator and final approval by the Accounts Payable Manager. The district should establish a report of invoices paid as direct pays or on nonstandard purchase order number references. This report should be reviewed monthly by the Accounts Payable Manager and referrals made to the Director of Financial Services for those instances where site/department administrators repeatedly do not follow purchasing procedures.

2. The district has not implemented the prior recommendation to have the manager pick a sampling of invoices and review the backup for appropriateness and completeness as part of the standard review of the warrant listing. The district should implement this recommendation.

Standard Implemented: Partially

January 2000 Rating: 6
September 2003 Rating: 2
March 2004 Rating: 2
September 2004 Self-Rating: 2
September 2004 New Rating: 2



14.1 Multiyear Financial Projections—Computerized Multiyear Projection

Professional Standard

A reliable computer program that provides reliable multiyear financial projections is used.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has implemented the prior recommendation to use commercial software that is tailored to the district environment and has greater projection precision than the previous in-house model to develop its multiyear financial projections. The software selected allows the district to project its finances for five years.

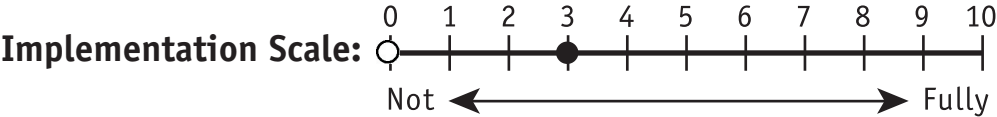
However, it is not clear which staff members are responsible for making financial projections and using the software. Further, it is not clear that the staff has been trained in the use of the software, nor how frequently the district utilizes the software to evaluate the financial effects of pending management decisions.

The district should implement the prior recommendations to do the following:

- Utilize the software to analyze the financial effects of pending management decisions, such as salary adjustments or enhancements, changes in health benefits programs offered, staffing additions or reductions, and any other items that could have significant financial implications.
- Make financial projections that cover periods of time from three to five years. Financial decisions that are feasible in the shorter term (current and two subsequent years) could become unsupportable over the longer period. The district should utilize the software to obtain the most information possible when making major management decisions.
- The district should train the financial staff members responsible for utilizing the software and making financial projections to ensure that the software is used effectively and financial projections are accurate.

Standard Implemented: Partially

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|-----------------------------|---|
| January 2000 Rating: | 3 |
| September 2003 Rating: | 0 |
| March 2004 Rating: | 3 |
| September 2004 Self-Rating: | 4 |
| September 2004 New Rating: | 3 |



14.2 Multiyear Financial Projections—Projection of Revenues, Expenditures and Fund Balances

Legal Standard

The district annually provides a multiyear revenue and expenditure projection for all funds of the district. Projected fund balance reserves should be disclosed. [EC 42131] The assumptions for revenues and expenditures should be reasonable and supportable.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district did not implement the prior recommendation to provide projections for all major funds in order to provide a more complete picture of its fiscal status.

The district should make projections for all major funds. These projections should then be used as a management tool in planning the operations and required budget allocations for expected service levels for the various programs the district operates. The projections should also be used to identify potential fiscal issues and craft appropriate responses.

2. The district partially implemented the prior recommendation to achieve greater precision and provide additional information about its multiyear financial projections by specifically defining the general assumptions used. However, the district could be more detailed and provide more specificity by analyzing program/resource and object/subobject code categories of revenues and expenditures and the assumptions associated with each. The district's Business Services Guide and Budget Manual does provide some information and guidance on information to be considered and addressed in preparing the budget, which would benefit the accuracy of multiyear projections. However, multiyear projections are not specifically addressed.

To the extent possible, in building its budget and making its financial projections, the district should make a more detailed analysis of revenues and expenditures by program/resource and object/subobject. As more information about program/resource revenues and expenditures becomes available, the projections should be revised and the change in assumptions identified and explained. This process should be formally identified in the district's Business Service Guide and/or desk manuals.

3. The district has partially implemented the prior recommendation to improve the accuracy of its projections by improving its financial management practices. Specifically it has done the following:
 - The district completed the basic implementation of the new human resources/payroll module. This conversion was intended to help the district manage and control personnel and related salary and benefit costs. It is not clear whether the district has access to better information given the problems with payroll, the fact that position control is now fully implemented/utilized, lingering questions regarding the accuracy of personnel and position data loaded onto the system, and the fact that position budgeting is done on a separate add-on system. As identified in previous standards, the district should complete

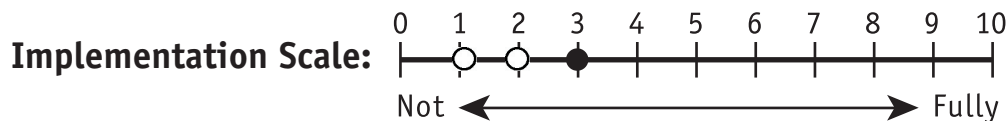
implementation of the human resources/payroll system. Particularly important are the full implementation and utilization of position control and position budgeting, validating personnel and position data on the system, and establishing controls in order to improve the district's ability to use the system to develop the budget, make projections, and monitor expenditures.

- The district has taken steps to improve its supervision of the accounting and budget functions so that transactions are recorded and reported timely. However, the district is still in the process of formalizing policies, procedures, and internal controls. Much of the control exercised in the current control environment still is dependent on the extensive efforts of the senior administrators/managers. The district needs to implement systems and procedures with more effective controls and improve the technical capacity of the staff and first level supervisors.

The district should implement formal policies, procedures, and controls as soon as possible. In addition, the district should attempt to use system capabilities and control mechanisms to the extent possible to improve supervision and monitoring of accounting and budget functions, and reduce the high level of reliance on the senior administrators for day-to-day monitoring.

Standard Implemented: Partially

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|-----------------------------|---|
| January 2000 Rating: | 2 |
| September 2003 Rating: | 1 |
| March 2004 Rating: | 3 |
| September 2004 Self-Rating: | 3 |
| September 2004 New Rating: | 3 |



16.1 Multiyear Impact of Collective Bargaining Agreements — Measurement and Evaluation of Agreement Implementation Costs and Assurance of Notice to the Public

Professional Standard

The State Administrator/Governing Board must ensure that any guideline that they develop for collective bargaining is fiscally aligned with the instructional and fiscal goals on a multiyear basis. The State Administrator/Governing Board must ensure that the district has a formal process where collective bargaining multiyear costs are identified and expenditure changes/reductions are identified and implemented as necessary prior to any imposition of new collective bargaining obligations. The State Administrator/Governing Board must ensure that there is a validation of the costs and the projected district revenues and expenditures on a multiyear basis so that the fiscal resources are sufficient to fund collective bargaining settlements on an ongoing basis. The public should be informed about budget reductions that will be required for a bargaining agreement prior to any contract acceptance by the Governing Board. The public should be given an opportunity to comment.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has partially implemented the prior recommendation to establish policies and procedures that require that potential bargaining positions be identified prior to the start of negotiations. The district currently identifies its bargaining positions prior to negotiations; however, there is no board policy or procedure requiring that this be done. Similarly, the district has all settlement items analyzed by the budget and accounting offices to identify both current and ongoing costs and the effect on the district's financial position. Again, this requirement is not documented in formal policies and procedures. The district should implement the prior recommendation on policies and procedures.

The district has implemented the prior recommendation to have the financial management staff involved in the negotiation process to ensure that fiscal issues are clearly delineated for the negotiator, State Administrator/Superintendent, and Governing Board. The district should establish a formal policy that requires the financial management staff to be involved in the negotiation process.

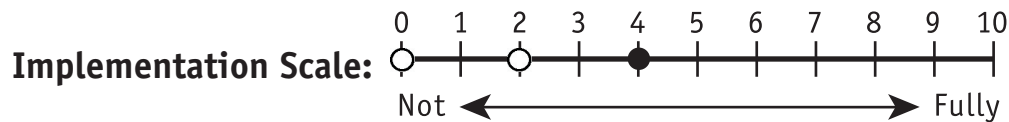
2. The district has partially implemented the prior recommendation that any proposed settlements should be analyzed by the budget and accounting offices to ensure that the district can fund the obligations on both a current-year and ongoing basis. However, there is no formal policy or procedure requiring such review and analysis.

The district should formally adopt policies and procedures to require that any proposed settlements must be analyzed by the budget and accounting offices to ensure that the district can fund the obligations on both a current-year and ongoing basis.

3. The district did not implement the prior recommendation to establish a policy that would preclude the adoption of a proposed settlement, if such settlement can only be financed by implementing offsetting expenditure reductions, until the necessary reductions have been identified and adopted. The district should implement the prior recommendation to establish a policy to that effect.
4. The district has implemented the prior recommendation to provide information regarding the financial impacts to the county office for review and comment prior to taking effect.
5. The district implemented the prior recommendation to prepare and provide to the State Administrator/Governing Board in public session financial information regarding the settlement.
6. The district has not implemented policies that preclude the Superintendent from negotiating an agreement on labor contracts without the involvement of the district's negotiating team and Fiscal Manager. The district should implement a policy to that effect.

Standard Implemented: Partially

| | |
|-----------------------------|---|
| January 2000 Rating: | 2 |
| September 2003 Rating: | 0 |
| March 2004 Rating: | 2 |
| September 2004 Self-Rating: | 5 |
| September 2004 New Rating: | 4 |



19.2 Food Service Fiscal Controls—Program Compliance

Professional Standard

The district should operate the food service programs in accordance with applicable laws and regulations.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district implemented the prior recommendation to have the food services program reviewed for compliance with legal and regulatory requirements. The program was reviewed by the CDE, Nutrition Services Division, in January 2003. At that time, the review disclosed that the operation of the Food Services program was seriously deficient. In response to the state's report, the district developed a corrective action plan and implemented changes consistent with the plan. The district was re-evaluated by the Nutrition Services Division in November 2003, and found no longer to be seriously deficient.

The cafeteria fund has been deficit spending for the last several years, and it appears that it will be in a deficit again when the books are closed for 2003-04. The fund has basically only a minimal ending balance. It also appears that year-end expenditures will be close to \$1 million higher than originally budgeted. The district needs to evaluate the food services program and the controls over expenditures and inventory in order for the program to become self-supporting.

The district needs to provide ongoing monitoring of the food services program to continue to improve its operations and controls and to ensure compliance with all laws, regulations, and reporting requirements. Specifically, the district must have policies, procedures, and controls that ensure the following:

- a. The department office and school sites maintain adequate eligibility documentation.
- b. New sites establish base year data for eligibility purposes.
- c. Amounts claimed for reimbursement are supported by the summarized meals counts and the supporting site meal counts.
- d. Expenditures are accurately budgeted, purchases are properly authorized, and budgets are not exceeded.
- e. Purchases are properly received, inventory records are accurately maintained, access to inventory is controlled, and physical inventory is taken monthly.

The district should provide annual training for food service workers to ensure they know and understand their job duties and obligations, and perform such in accordance with laws and regulations. As the program eliminates its deficit and builds reserves,

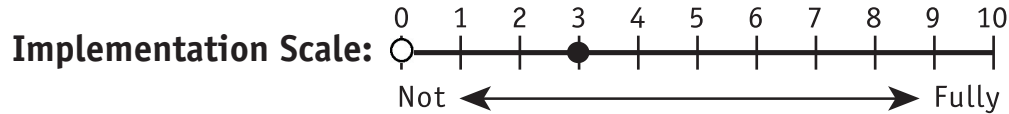
the district should consider using those funds to upgrade the program's systems and software to provide better management of sales, meal counts, eligibility, inventory, reimbursement, and general accounting and reporting.

Some turnover has occurred in the management of the food services program. Given the size of the program, the large and growing number of sites to serve, and the problems with compliance in the recent past, it is imperative that the program have a strong, knowledgeable, and active manager to ensure that the program operates in compliance with all laws and regulations, and does not have an operating deficit.

The district has not implemented the prior recommendation to have the state perform annual follow-up reviews. To ensure that the program remains in compliance, the district should implement the prior recommendation to have the state perform annual follow-up reviews for the next several years to ensure that the policy and procedural changes made are sustained.

Standard Implemented: Partially

| | |
|-----------------------------|---|
| January 2000 Rating: | 0 |
| September 2003 Rating: | 0 |
| March 2004 Rating: | 3 |
| September 2004 Self-Rating: | 4 |
| September 2004 New Rating: | 3 |



22.1 Special Education—Cost and Quality

Professional Standard

The district should actively take measures to contain the cost of special education services while still providing an appropriate level of quality instructional and pupil services to special education pupils.

Progress on Implementing the Recommendations of the Recovery Plan

1. It appears that the district is making concerted efforts to better manage the special education program, control costs and general fund encroachment, and hold the staff accountable. Specific activities include the following:
 - Training for site administrators regarding interventions, referrals to special education, individualized education plans (IEP), and classroom implementation.
 - Preparation of an updated handbook for site administrators regarding compliance issues and procedures, and site responsibilities.
 - Tracking of IEPs and annual and triennial reviews to reduce the number of late reviews.
 - Review of NPS/NPA placements to reduce the number and cost of these services. The estimated savings for 2003-04 was approximately \$500,000 and further reduction is expected for 2004-05.
 - Efforts to increase reimbursements for LCI/NPS placements (not relevant after 2003-04), medical services, and administrative activities.
 - Assignment of a dedicated Fiscal Analyst to assist in budget monitoring and reconciliation of positions and FTEs.

While these items are all positive and should help to improve the operation and management of the department in the long term, the district still has some significant issues pending. First, the district is still in the process of reconciling the special education positions, staffing, FTEs, and locations. It is not clear whether the district has made significant progress in reducing and controlling staffing and costs.

Second, the district's special education costs were reduced in 2003-04 as a result of the 4 percent salary rollback negotiated with the teachers' union. As a result, the district will not comply with federal maintenance-of-effort (MOE) requirements, and it does not appear that this situation meets the very specific exceptions to the MOE mandate. The district has submitted a waiver to the CDE and has stated that CDE will approve the waiver. However, this issue has not been resolved, and the matter is not settled. If the district cannot get a valid waiver, it could lose its federal funding, which would increase the general fund encroachment by several million dollars.

In addition, the district has attempted to identify positions that previously were funded by special education that could appropriately be charged to a categorical program. While the district has stated that it identified a significant amount of personnel costs that could be covered by categorical funding, neither the positions nor the amount were reviewed since the books had not been closed at the time of the follow-up review. There is some potential that the savings will not be as great as anticipated or that the positions cannot be appropriately charged to other categorical programs. Again, this would increase the program's general fund encroachment. It appears that some positions identified for 2003-04 were going to be paid for with fund balances of various categorical programs. To the extent that is the case, those would be onetime funds that would not be available in future years, and the savings could not be achieved in future years through this approach.

The district needs to reconcile its staffing and FTEs in order to ensure that it has adequate control over staffing and to reduce personnel costs. The district also needs to evaluate the use of categorical funding to ensure that the positions are appropriately charged, adequately documented, and can be funded on an ongoing basis. Finally, the district needs to continue to pursue the MOE waiver, monitor the situation, and have a contingency plan if the waiver is not approved.

2. The district has not implemented the prior recommendation to formally address the findings and recommendations contained in the FCMAT special education report. While the district has made changes and informally addressed some of the items in the FCMAT report, it has not established a formal process where the findings were prioritized, an action plan created, responsibility assigned to specific managers, and periodic reports made to the State Administrator.

To a great extent, the immediate job of managing the day-to-day operations of the Special Education Department, addressing the fiscal problems of the department, and attempting to ensure legal compliance have made the task of establishing a formalized process difficult. The district is clearly attempting to address the various issues. In addition, the district has been working with the CDE to improve its program and achieve compliance. A corrective action plan which prioritizes issues, assigns responsibility, and establishes accountability through ongoing monitoring and periodic reporting to the State Administrator would facilitate the district's efforts to resolve its significant problems.

Given that the district has addressed some of its issues, it should conduct a follow-up review to evaluate its progress. Based upon the findings and recommendations of the follow-up report, the district should then implement a corrective action plan which prioritizes findings and recommendations, assigns responsibility for each item to a specific manager, and provides for periodic monitoring and reporting to the State Administrator. This approach will assist the district in efficiently affecting necessary changes.

3. The district has informally addressed the prior recommendation to have the special education office work with the personnel and budget offices to identify and reconcile

all its positions, FTEs, and salary and benefit costs. The Special Education Department identified its positions, staffing, and FTE. The Special Education Department has its own Personnel Analyst, and its own Budget Analyst. In addition, the Director monitors positions on an ongoing basis.

The district has still not fully implemented position control. As a result, personnel/position information is maintained on a separate database maintained by the Special Education Department. The Special Education Department is still in the process of reconciling its information with personnel and position control records. This reconciliation is particularly critical given the district and department's previous problems managing personnel and the related costs. The district needs to reconcile the personnel information currently maintained by the Special Education Department to the personnel/position control records. Once reconciled, all personnel actions should be processed through position control in the budget office and then through personnel. Ultimately, the district needs to be operating with only one database for personnel positions. This will ensure that all departments and administrators are operating with the same information and will reduce the administrative burden of maintaining and reconciling multiple databases.

4. The district has not implemented the prior recommendation to have the Special Education Department, in conjunction with the budget office, evaluate its methods for projecting enrollment to ensure that all students are correctly identified. The district has been attempting to operate and staff its special education programs more effectively. Once the projected student population has been identified, a critical evaluation of student needs should be undertaken in order to determine the most effective manner for locating and operating the special education programs. The district should implement the prior recommendation.
5. The district has implemented the prior recommendation to evaluate the number of students in NPS/NPA programs to determine if those students still need to be placed in NPS/NPA programs, if the services could be delivered more effectively by the district staff, and if there are more cost-effective providers for the services needed.
6. The district has informally implemented the prior recommendation to have both the Special Education and Budget departments work to develop a realistic budget each year and closely monitor the budget throughout the year. However, neither the fiscal office nor the Special Education Department have established policies and procedures that formalize the relationship and process for joint budget development and monitoring. Such formalization is necessary to ensure that any progress made in the current year is carried forward and sustained in future years.

As the Business and Special Education departments develop and finalize their procedures, those procedures should specifically include the joint/collaborative process for budget development and monitoring of the special education program.

Standard Implemented: Partially

January 2000 Rating: 0
September 2003 Rating: 0
March 2004 Rating: 2
September 2004 Self-Rating: 4
September 2004 New Rating: 3

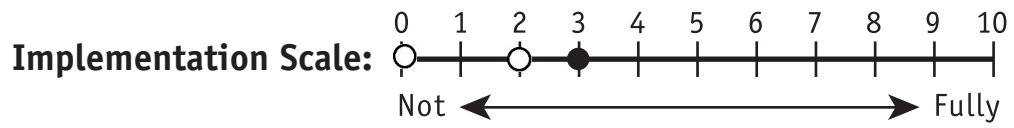


Table of Standards for Financial Management

| Standard to be addressed | | Jan. 2000 rating | Sept. 2003 rating | March 2004 rating | Sept. 2004 rating |
|---------------------------------|--|------------------------|-------------------------|-------------------------|-------------------------|
| 1.1 | Integrity and ethical behavior are the product of the district's ethical and behavioral standards, how they are communicated, and how they are reinforced in practice. All management-level personnel should exhibit high integrity and ethical values in carrying out their responsibilities and directing the work of others. [Statement Auditing Standards (SAS) -55, SAS-78] | 7 | 4 | NR | NR |
| 1.2 | The district should have an audit committee to: (1) help prevent internal controls from being overridden by management; (2) help ensure ongoing state and federal compliance; (3) provide assurance to management that the internal control system is sound; and, (4) help identify and correct inefficient processes. [SAS-55, SAS-78] | 0 | 0 | 0 | 0 |
| 1.3 | The attitude of the Governing Board and key administrators has a significant affect on an organization's internal control. An appropriate attitude should balance the programmatic and staff needs with fiscal realities in a manner that is neither too optimistic nor too pessimistic. [SAS-55, SAS-78] | 3 | 0 | NR | NR |
| 1.4 | The organizational structure should clearly identify key areas of authority and responsibility. Reporting lines should be clearly identified and logical within each area. [SAS-55, SAS-78] | 4 | 2 | NR | NR |
| 1.5 | Management should have the ability to evaluate job requirements and match the requirements to the employee's skills. [SAS-55, SAS-78] | 2 | 0 | NR | NR |
| 1.6 | The district should have procedures for recruiting capable financial management and staff, and hiring competent people. [SAS-55, SAS-78] | 2 | 2 | 3 | 4 |
| 1.7 | All employees should be evaluated on performance at least annually by a management-level employee knowledgeable about their work product. The evaluation criteria should be clearly communicated and, to the extent possible, measurable. The evaluation should include a follow-up on prior performance issues and establish goals to improve future performance. | 3 | 2 | 2 | 3 |
| 1.8 | The responsibility for reliable financial reporting resides first and foremost at the district level. Top management sets the tone and establishes the environment. Therefore, appropriate measures must be implemented to discourage and detect fraud (SAS 82; Treadway Commission). | 2 | 0 | NR | NR |

The identified subset of standards appears in bold print. Narratives for these standards are provided in this report. NR Indicates standard not reviewed

| Standard to be addressed | | Jan. 2000 rating | Sept. 2003 rating | March 2004 rating | Sept. 2004 rating |
|---------------------------------|---|------------------------|-------------------------|-------------------------|-------------------------|
| 2.1 | The business and operational departments should communicate regularly with internal staff and all user departments regarding their responsibilities for accounting procedures and internal controls. The communications should be written whenever possible, particularly when it (1) affects many staff or user groups; (2) is an issue of high importance; or, (3) when the communication reflects a change in procedures. Procedure manuals are necessary to communicate responsibilities. The departments also should be responsive to user department needs, thus encouraging a free exchange of information between the two (excluding items of a confidential nature). | 3 | 2 | NR | NR |
| 2.2 | The financial departments should communicate regularly with the Governing Board and community on the status of district finances and the financial impact of proposed expenditure decisions. The communications should be written whenever possible, particularly when it affects many community members, is an issue of high importance to the district and board, or reflects a change in policies. | 7 | 4 | NR | NR |
| 2.3 | The Governing Board should be engaged in understanding globally the fiscal status of the district, both current and as projected. The Governing Board should prioritize district fiscal issues among the top discussion items. | 8 | 0 | NR | NR |
| 2.4 | The District should have formal policies and procedures that provide a mechanism for individuals to report illegal acts, establish to whom illegal acts should be reported and provide a formal investigative process. | 0 | 0 | 0 | 2 |
| 3.1 | Develop and use a professional development plan, i.e., training business staff. The development of the plan should include the input of business office supervisors and managers. The staff development plan should at a minimum identify appropriate programs officewide. At best, each individual staff and management employee should have a plan designed to meet their individual professional development needs. | 0 | 0 | NR | NR |
| 3.2 | Develop and use a professional development plan for the in-service training of school site/department staff by business staff on relevant business procedures and internal controls. The development of the plan should include the input of the business office and the school sites/ departments, and be updated annually. | 2 | 2 | NR | NR |
| 4.1 | The Governing Board should adopt policies establishing an internal audit function that reports directly to the Superintendent and the audit committee or Governing Board. | 0 | 0 | NR | NR |
| 4.2 | Qualified staff should be assigned to conduct internal audits and be supervised by an independent body, such as an audit committee. | 0 | 0 | 0 | 1 |

The identified subset of standards appears in bold print. Narratives for these standards are provided in this report.
NR Indicates standard not reviewed

| Standard to be addressed | | Jan. 2000 rating | Sept. 2003 rating | March 2004 rating | Sept. 2004 rating |
|---------------------------------|--|------------------------|-------------------------|-------------------------|-------------------------|
| 4.3 | Internal audit findings should be reported on a timely basis to the audit committee, Governing Board and administration, as appropriate. Management should then take timely action to follow up and resolve audit findings. | 0 | 0 | NR | NR |
| 4.4 | Internal audit functions should be designed into the organizational structure of the district. These functions should include periodic internal audits of areas at high risk for non-compliance with laws and regulations and/or at high risk for monetary loss. (Added since the 2000 Report) | New | 0 | 0 | 1 |
| 5.1 | The budget development process requires a policy-oriented focus by the Governing Board to develop an expenditure plan, which fulfills the district's goals and objectives. The Governing Board should focus on expenditure standards and formulas that meet the district goals. The Governing Board should avoid specific line item focus, but should direct staff to design an overall expenditure plan focusing on student and district needs. | 4 | 0 | NR | NR |
| 5.2 | The budget development process includes input from staff, administrators, board and community. | 8 | 0 | NR | NR |
| 5.3 | Policies and regulations exist regarding budget development and monitoring. | 6 | 2 | NR | NR |
| 5.4 | The district should have a clear process to analyze resources and allocations to ensure that they are aligned with strategic planning objectives and that the budget reflects the priorities of the district. | 6 | 0 | NR | NR |
| 5.5 | Categorical funds are an integral part of the budget process and should be integrated into the entire budget development. The revenues and expenditures for categorical programs must be reviewed and evaluated in the same manner as unrestricted General Fund revenues and expenditures. Categorical program development should be integrated with the district's goals and should be used to respond to district student needs that cannot be met by unrestricted expenditures. The superintendent, superintendent's cabinet and fiscal office should establish procedures to ensure that categorical funds are expended effectively to meet district goals. Carry-over and unearned income of categorical programs should be monitored and evaluated in the same manner as General Fund unrestricted expenditures. | 2 | 2 | NR | NR |

The identified subset of standards appears in bold print. Narratives for these standards are provided in this report.
NR Indicates standard not reviewed

| Standard to be addressed | | Jan. 2000 rating | Sept. 2003 rating | March 2004 rating | Sept. 2004 rating |
|---------------------------------|--|------------------------|-------------------------|-------------------------|-------------------------|
| 5.6 | The district must have an ability to accurately reflect their net ending balance throughout the budget monitoring process. The first and second interim reports should provide valid up dates of the district's net ending balance. The district should have tools and processes that ensure that there is an early warning of any discrepancies between the budget projections and actual revenues or expenditures. | 0 | 0 | 2 | 3 |
| 5.7 | The district should have policies to facilitate development of budget that is understandable, meaningful, reflective of district priorities, and balanced in terms of revenues and expenditures. (Added since the 2000 Report) | New | 0 | NR | NR |
| 6.1 | The budget office should have a technical process to build the preliminary budget that includes: the forecast of revenues, the verification and projection of expenditures, the identification of known carry over and accruals, and the inclusion of expenditure plans. The process should clearly identify onetime sources and uses of funds. Reasonable Average Daily Attendance (ADA) and Cost of Living Adjustment (COLA) estimates should be used when planning and budgeting. This process should be applied to all funds. | 3 | 0 | 2 | 3 |
| 6.2 | An adopted budget calendar exists that meets legal and management requirements. At a minimum the calendar should identify statutory due dates and major budget development activities. | 8 | 8 | NR | NR |
| 6.3 | Standardized budget worksheets should be used in order to communicate budget requests, budget allocations, formulas applied and guidelines. | 7 | 7 | NR | NR |
| 7.1 | The district should adopt its annual budget within the statutory time lines established by Education Code Section 42103, which requires that on or before July 1, the Governing Board must hold a public hearing on the budget to be adopted for the subsequent fiscal year. Not later than five days after that adoption or by July 1, whichever occurs first, the Governing Board shall file the budget with the county superintendent of schools. [EC 42127(a)] | 8 | 8 | NR | NR |
| 7.2 | Revisions to expenditures based on the State Budget should be considered and adopted by the Governing Board. Not later than 45 days after the Governor signs the annual Budget Act, the district shall make available for public review any revisions in revenues and expenditures that it has made to its budget to reflect funding available by that Budget Act. [EC 42127(2) and 42127(i)(4)] | 5 | 0 | NR | NR |
| 7.3 | The district should have procedures that provide for the development and submission of a district budget and interim reports that adhere to criteria and standards and is approvable by the county office of education. | 7 | 0 | 3 | 3 |

The identified subset of standards appears in bold print. Narratives for these standards are provided in this report.
NR Indicates standard not reviewed

| Standard to be addressed | | Jan. 2000 rating | Sept. 2003 rating | March 2004 rating | Sept. 2004 rating |
|---------------------------------|--|------------------------|-------------------------|-------------------------|-------------------------|
| 7.4 | The district should complete and file its interim budget reports within the statutory deadlines established by Education Code Section 42130, et seq. | 4 | 0 | NR | NR |
| 7.5 | The district should arrange for an annual audit (single audit) within the deadlines established by Education Code Section 41020. | 8 | 8 | NR | NR |
| 7.6 | Standard management practice dictates the use of an audit committee. | 0 | 0 | NR | NR |
| 7.7 | The district should include in its audit report, but not later than March 15, a corrective action for all findings disclosed as required by Education Code Section 41020. | 3 | 0 | 0 | 3 |
| 7.8 | The district must file certain documents/reports with the state as follows: <ul style="list-style-type: none"> • J-200 series - (Education Code Section 42100) • J-380 series – CDE procedures • Interim financial reports - (Education Code Section 42130) • J-141 transportation report (Title V, article 5, Section 15270) | 3 | 2 | NR | NR |
| 7.9 | The district must comply with Governmental Accounting Standard No. 34 (GASB 34) for the period ending June 30, 2003. GASB 34 requires the district to develop policies and procedures and report in the annual financial reports on the modified accrual basis of accounting and the accrual basis of accounting. (Added since the 2000 Report) | New | 0 | 2 | 2 |
| 7.10 | The first and second interim reports should show an accurate projection of the ending fund balance. Material differences should be presented to the board of education with detailed explanations. (Added since the 2000 Report) | New | 0 | 2 | 3 |
| 7.11 | Education Code Section 410209(c)(d)(e)(g) establishes procedures for local agency audit obligations and standards. Pursuant to Education Code Section 41020(h), the district should submit to the county superintendent of schools in the county that the district resides, the State Department of Education, and the State Controller’s Office an audit report for the preceding fiscal year. This report must be submitted “no later than December 15.” (Added since the 2000 Report) | New | 0 | NR | NR |
| 8.1 | All purchase orders are properly encumbered against the budget until payment. The district should have controls in place that ensure adequate funds are available prior to incurring financial obligations (Reworded since the 2000 Report) | 0 | 0 | 2 | 2 |

The identified subset of standards appears in bold print. Narratives for these standards are provided in this report. NR Indicates standard not reviewed

| Standard to be addressed | | Jan. 2000 rating | Sept. 2003 rating | March 2004 rating | Sept. 2004 rating |
|---------------------------------|--|------------------------|-------------------------|-------------------------|-------------------------|
| 8.2 | There should be budget monitoring controls, such as periodic reports, to alert department and site managers of the potential for overexpenditure of budgeted amounts. Revenue and expenditures should be forecast and verified monthly. | 0 | 0 | 2 | 3 |
| 8.3 | Budget revisions are made on a regular basis and occur per established procedures and are approved by the board. | 8 | 2 | NR | NR |
| 8.4 | The district uses an effective position control system, which tracks personnel allocations and expenditures. The position control system effectively establishes checks and balances between personnel decisions and budgeted appropriations. | 4 | 2 | 2 | 2 |
| 8.5 | The routine restricted maintenance account should be analyzed routinely to ensure that income has been property claimed and expenditures within the guidelines provided by the State Department of Education. The district budget should include specific budget information to reflect the expenditures against the routine maintenance account. (Added since the 2000 Report) | New | 1 | 2 | 3 |
| 8.6 | The district should monitor both the revenue limit calculation and the special education calculation at least quarterly to adjust for any differences between the financial assumptions used in the initial calculations and the final actuals as they are known. (Added since the 2000 Report) | New | 0 | NR | NR |
| 8.7 | The district should be monitoring the site reports of revenues and expenditures provided. (Added since the 2000 Report) | New | 0 | NR | NR |
| 9.1 | The district budget should be a clear manifestation of district policies and should be presented in a manner that facilitates communication of those policies. | 2 | 0 | NR | NR |
| 9.2 | Clearly identify onetime source and use of funds. | 5 | 3 | NR | NR |
| 10.1 | The Governing Board must review and approve, at a public meeting and on a quarterly basis, the district's investment policy. [GC 53646] | 0 | 0 | 2 | 4 |
| 11.1 | An accurate record of daily enrollment and attendance is maintained at the sites and reconciled monthly. | 4 | 3 | 4 | 5 |
| 11.2 | Policies and regulations exist for Independent Study, Home Study, inter/intradistrict agreements and districts of choice, and should address fiscal impact. | 5 | 5 | NR | NR |
| 11.3 | Students should be enrolled by staff and entered into the attendance system in an efficient, accurate and timely manner. | 7 | 7 | NR | NR |

The identified subset of standards appears in bold print. Narratives for these standards are provided in this report.
NR Indicates standard not reviewed

| Standard to be addressed | | Jan. 2000 rating | Sept. 2003 rating | March 2004 rating | Sept. 2004 rating |
|---------------------------------|---|------------------------|-------------------------|-------------------------|-------------------------|
| 11.4 | At least annually, the district should verify that each school bell schedule meets instructional time requirements for minimum day, year and annual minute requirements. | 6 | 6 | 3 | 5 |
| 11.5 | Procedures should be in place to ensure that attendance accounting and reporting requirements are met for alternative programs, such as ROC/P and adult education. | 8 | 6 | NR | NR |
| 11.6 | The district should have standardized and mandatory programs to improve the attendance rate of pupils. Absences should be aggressively followed-up by district staff. | 0 | 3 | NR | NR |
| 11.7 | School site personnel should receive periodic and timely training on the district's attendance procedures, system procedures and changes in laws and regulations. | 4 | 3 | NR | NR |
| 11.8 | Attendance records shall not be destroyed until after the third July 1 succeeding the completion of the audit (Title V, CCR, Section 16026). | 4 | 4 | NR | NR |
| 11.9 | The district should make appropriate use of short-term independent study and Saturday school programs as alternative methods for pupils to keep current on classroom course work. | 8 | 6 | NR | NR |
| 12.1 | The district should adhere to the California School Accounting Manual (CSAM) and Generally Accepted Accounting Principles (GAAP) as required by Education Code Section 41010. Furthermore, adherence to CSAM and GAAP helps to ensure that transactions are accurately recorded and financial statements are fairly presented. | 9 | 0 | NR | NR |
| 12.2 | The district should timely and accurately record all information regarding financial activity for all programs (unrestricted and restricted). Generally Accepted Accounting Principles (GAAP) require that in order for financial reporting to serve the needs of the users, it must be reliable and timely. Therefore, the timely and accurate recording of the underlying transactions (revenue and expenditures) is an essential function of the district's financial management. | 9 | 0 | 2 | 3 |
| 12.3 | The district should forecast its revenue and expenditures and verify those projections on a monthly basis in order to adequately manage its cash. In addition, the district should reconcile its cash to bank statements and reports from the county treasurer reports on a monthly basis. Standard accounting practice dictates that, in order to ensure that all cash receipts are deposited timely and recorded properly, cash be reconciled to bank statements on a monthly basis. | 7 | 0 | 2 | 3 |

The identified subset of standards appears in bold print. Narratives for these standards are provided in this report.
NR Indicates standard not reviewed

| Standard to be addressed | | Jan. 2000 rating | Sept. 2003 rating | March 2004 rating | Sept. 2004 rating |
|---------------------------------|---|------------------------|-------------------------|-------------------------|-------------------------|
| 12.4 | The district's payroll procedures should be in compliance with the requirements established by the Alameda County Office of Education, unless fiscally independent (Education Code Section 42646). Standard accounting practice dictates that the district implement procedures to ensure the timely and accurate processing of payroll. | 3 | 3 | 3 | 3 |
| 12.5 | Standard accounting practice dictates that the accounting work should be properly supervised and work reviewed in order to ensure that transactions are recorded timely and accurately, and allow the preparation of periodic financial statements. | 9 | 0 | 2 | 3 |
| 12.6 | Federal and state categorical programs, either through specific program requirements or through general cost principles such as OMB Circular A-87, require that entities receiving such funds must have an adequate system to account for those revenues and related expenditures. | 9 | 0 | NR | NR |
| 12.7 | Generally accepted accounting practices dictate that, in order to ensure accurate recording of transactions, the district should have standard procedures for closing its books at fiscal year-end. The district's year-end closing procedures should be in compliance with the procedures and requirements established by the Alameda County Office of Education. | 2 | 0 | 3 | 3 |
| 12.8 | The district should comply with the bidding requirements of Public Contract Code Section 20111. Standard accounting practice dictates that the district have adequate purchasing and warehousing procedures to ensure that only properly authorized purchases are made, that authorized purchases are made consistent with district policies and management direction, that inventories are safeguarded, and that purchases and inventories are timely and accurately recorded. | 2 | 2 | NR | NR |
| 12.9 | The district has documented procedures for the receipt, expenditure and monitoring of all construction-related activities. Included in the procedures are specific requirements for the approval and payment of all construction-related expenditures. | 8 | 2 | NR | NR |
| 12.10 | The accounting system should have an appropriate level of controls to prevent and detect errors and irregularities. | 6 | 2 | 2 | 2 |
| 13.1 | The Governing Board adopts policies and procedures to ensure compliance regarding how student body organizations deposit, invest, spend, raise and audit student body funds. [EC 48930-48938] | 5 | 5 | NR | NR |

The identified subset of standards appears in bold print. Narratives for these standards are provided in this report.
NR Indicates standard not reviewed

| Standard to be addressed | | Jan. 2000 rating | Sept. 2003 rating | March 2004 rating | Sept. 2004 rating |
|---------------------------------|---|------------------------|-------------------------|-------------------------|-------------------------|
| 13.2 | Proper supervision of all student body funds shall be provided by the board. [EC 48937] This supervision includes establishing responsibilities for managing and overseeing the activities and funds of student organizations, including providing procedures for the proper handling, recording and reporting of revenues and expenditures. | 5 | 5 | NR | NR |
| 13.3 | In order to provide for oversight and control, the California Department of Education recommends that periodic financial reports be prepared by sites, and then summarized by the district office. | 0 | 0 | NR | NR |
| 13.4 | In order to provide adequate oversight of student funds and to ensure the proper handling and reporting, the California Department of Education recommends that internal audits be performed. Such audits should review the operation of student body funds at both district and site levels. | 0 | 0 | NR | NR |
| 14.1 | A reliable computer program that provides reliable multiyear financial projections is used. | 3 | 0 | 3 | 3 |
| 14.2 | The district annually provides a multiyear revenue and expenditure projection for all funds of the district. Projected fund balance reserves should be disclosed. [EC 42131] The assumptions for revenues and expenditures should be reasonable and supportable. | 2 | 1 | 3 | 3 |
| 14.3 | Multiyear financial projections should be prepared for use in the decision-making process, especially whenever a significant multiyear expenditure commitment is contemplated. [EC 42142] | 0 | 0 | NR | NR |
| 15.1 | Comply with public disclosure laws of fiscal obligations related to health and welfare benefits for retirees, self-insured workers compensation, and collective bargaining agreements. [GC 3540.2, 3547.5, EC 42142] | 2 | 2 | NR | NR |
| 15.2 | When authorized, the district should only use nonvoter approved, long-term financing such as certificates of participation (COPS), revenue bonds, and lease-purchase agreements (capital leases) to address capital needs, and not operations. Further, the general fund should be used to finance current school operations, and in general should not be used to pay for these types of long-term commitments. | 0 | 0 | NR | NR |
| 15.3 | For long-term liabilities/debt service, the district should prepare debt service schedules and identify the dedicated funding sources to make those debt service payments. The district should project cash receipts from the dedicated revenue sources to ensure that it will have sufficient funds to make periodic debt payments. The cash flow projections should be monitored on an ongoing basis to ensure that any variances from projected cash flows are identified as early as possible, in order to allow the district sufficient time to take appropriate measures or identify alternative funding sources. | 6 | 3 | NR | NR |

The identified subset of standards appears in bold print. Narratives for these standards are provided in this report.
NR Indicates standard not reviewed

| Standard to be addressed | | Jan. 2000 rating | Sept. 2003 rating | March 2004 rating | Sept. 2004 rating |
|---------------------------------|---|------------------------|-------------------------|-------------------------|-------------------------|
| 16.1 | The State Administrator/Governing Board must ensure that any guideline that they develop for collective bargaining is fiscally aligned with the instructional and fiscal goals on a multiyear basis. The State Administrator/Governing Board must ensure that the district has a formal process where collective bargaining multiyear costs are identified and expenditure changes/reductions are identified and implemented as necessary prior to any imposition of new collective bargaining obligations. The State Administrator/Governing Board must ensure that there is a validation of the costs and the projected district revenues and expenditures on a multiyear basis so that the fiscal resources are sufficient to fund collective bargaining settlements on an ongoing basis. The public should be informed about budget reductions that will be required for a bargaining agreement prior to any contract acceptance by the Governing Board. The public should be given an opportunity to comment. (Reworded since the 2000 Report). | 2 | 0 | 2 | 4 |
| 17.1 | There should be a process in place for fiscal input and planning of the district technology plan. The goals and objectives of the technology plan should be clearly defined. The plan should include both the administrative and instructional technology systems. There should be a summary of the costs of each objective and a financing plan should be in place. | 5 | 3 | NR | NR |
| 17.2 | Management information systems must support users with information that is relevant, timely, and accurate. Needs assessments must be performed to ensure that users are involved in the definition of needs, development of system specifications, and selection of appropriate systems. Additionally, district standards must be imposed to ensure the maintainability, compatibility, and supportability of the various systems. The district must also ensure that all systems are compliant with the new Standardized Account Code Structure (SACS), year 2000 requirements, and are compatible with county systems with which they must interface. | 5 | 5 | NR | NR |

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| Standard to be addressed | | Jan. 2000 rating | Sept. 2003 rating | March 2004 rating | Sept. 2004 rating |
|---------------------------------|--|------------------------|-------------------------|-------------------------|-------------------------|
| 17.3 | Automated systems should be used to improve accuracy, time liness, and efficiency of financial and reporting systems. Needs assessments should be performed to determine what systems are candidates for automation, whether standard hardware and software systems are available to meet the need, and whether or not the district would benefit. Automated financial systems should provide accurate, timely, relevant information and should conform to all accounting standards. The systems should also be designed to serve all of the various users inside and outside the district. Employees should receive appropriate training and supervision in the operation of the systems. Appropriate internal controls should be instituted and reviewed periodically. | 5 | 5 | NR | NR |
| 17.4 | Cost/benefit analyses provide an important basis upon which to determine which systems should be automated, which systems best meet defined needs, and whether internally generated savings can provide funding for the proposed system. Cost/benefit analyses should be complete, accurate, and include all relevant factors. | 9 | 5 | NR | NR |
| 17.5 | Selection of information systems technology should conform to legal procedures specified in the Public Contract Code. Additionally, there should be a process to ensure that needs analyses, cost/benefit analyses, and financing plans are in place prior to commitment of resources. The process should facilitate involvement by users, as well as information services staff, to ensure that training and support needs and costs are considered in the acquisition process. | 9 | 6 | NR | NR |
| 17.6 | Major technology systems should be supported by implementation and training plans. The cost of implementation and training should be included with other support costs in the cost/benefit analyses and financing plans supporting the acquisition. | 9 | 4 | NR | NR |
| 17.7 | Food service software should permit point-of-sale transaction processing for maximum efficiency. (Added since the 2000 Report) | New | 0 | NR | NR |
| 17.8 | Administrative system users should be adequately trained in the use of administrative systems and should receive periodic training updates to ensure that they remain aware of system changes and capabilities. (Added since the 2000 Report) | New | 0 | NR | NR |
| 17.9 | Business office computers, computer screens, operating systems, and software applications used for administrative system access should be kept up to date. (Added since the 2000 Report) | New | 2 | NR | NR |

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| Standard to be addressed | | Jan. 2000 rating | Sept. 2003 rating | March 2004 rating | Sept. 2004 rating |
|---------------------------------|--|------------------------|-------------------------|-------------------------|-------------------------|
| 18.1 | The district has a comprehensive risk management program. The district should have a program that monitors the various aspects of risk management including workers compensation, property and liability insurance, and maintains the financial well being of the district. | 3 | 3 | NR | NR |
| 18.2 | The district should have a work order system that tracks all maintenance requests, the worker assigned, dates of completion, labor time spent and the cost of materials. | 5 | 5 | NR | NR |
| 18.3 | The district should control the use of facilities and charge fees for usage in accordance with district policy. | 4 | 3 | NR | NR |
| 18.4 | The maintenance department should follow standard district purchasing protocols. Open purchase orders may be used if controlled by limiting the employees authorized to make the purchase and the amount. | 0 | 0 | NR | NR |
| 18.5 | District-owned vehicles should only be used for district purposes. Fuel should be inventoried and controlled as to use. | 3 | 3 | NR | NR |
| 18.6 | Vending machine operations are subject to policies and regulations set by the State Board of Education. All contracts specifying these should reflect these policies and regulations. An adequate system of inventory control should also exist. [EC 48931] | 2 | 2 | NR | NR |
| 18.7 | Capital equipment and furniture should be tagged as district-owned property and inventoried at least annually. | 7 | 7 | NR | NR |
| 18.8 | The district should adhere to bid and force account requirements found in the Public Contract Code (Sections 20111 and 20114). These requirements include formal bids for materials, equipment and maintenance projects that exceed \$50,000; capital projects of \$15,000 or more; and, labor when the job exceeds 750 hours or the materials exceed \$21,000. | 0 | 0 | NR | NR |
| 18.9 | Materials and equipment/tools inventory should be safeguarded from loss through appropriate physical and accounting controls. (Added since the 2000 Report) | New | 0 | NR | NR |
| 19.1 | In order to accurately record transactions and to ensure the accuracy of financial statements for the cafeteria fund in accordance with generally accepted accounting principles, the district should have adequate purchasing and warehousing procedures to ensure that: <ul style="list-style-type: none"> • Only properly authorized purchases are made consistent with district policies, federal guidelines, and management direction. • Adequate physical security measures are in place to prevent the loss/theft of food inventories. • Revenues, expenditures, inventories, and cash are recorded timely and accurately. | 3 | 3 | NR | NR |

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| Standard to be addressed | | Jan. 2000 rating | Sept. 2003 rating | March 2004 rating | Sept. 2004 rating |
|---------------------------------|--|------------------------|-------------------------|-------------------------|-------------------------|
| 19.2 | The district should operate the food service programs in accordance with applicable laws and regulations. | 0 | 0 | 3 | 3 |
| 20.1 | In the process of reviewing and approving Charter schools, the district should identify/establish minimal financial management and reporting standards that the Charter school will follow. These standards/procedures will provide some level of assurance that finances will be managed appropriately, and allow the district to monitor the Charter. The district should monitor the financial management and performance of the charter schools on an ongoing basis, in order to ensure that the resources are appropriately managed. | 9 | 6 | NR | NR |
| 21.1 | The district should have procedures that provide for the appropriate oversight and management of mandated cost claim reimbursement filing. Appropriate procedures would cover: the identification of new mandates for which the district might be eligible for reimbursement; identification of changes to existing mandates; training staff regarding the appropriate collection and submission of data to support the filing of mandated costs claims; forms, formats, and time lines for reporting mandated cost information; and, review of data and preparation of the actual claims. | 2 | 2 | NR | NR |
| 22.1 | The district should actively take measures to contain the cost of special education services while still providing an appropriate level of quality instructional and pupil services to special education pupils. | 0 | 0 | 2 | 3 |

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