

## 1.1 Internal Control Environment – Integrity and Ethical Values

### **Professional Standard**

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]

### **Sources and Documentation**

1. Discussions with the Superintendent, cabinet members and staff
2. Signed conflict of interest statements

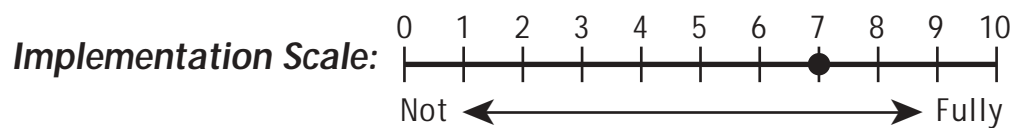
### **Findings**

1. Conflict of interest statements for the governing board members were reviewed and found to be complete and current, i.e., dated 1999. Nothing in our assessment caused us to believe that management exhibits less than high integrity and ethical values.
2. A number of internal control weaknesses exist in areas spanning budget monitoring, payroll and personnel, attendance reporting, student body funds, maintenance purchasing, and so forth. These weaknesses are described in the findings contained in this report. A higher level of commitment to stronger internal controls should be exhibited.

### **Recommendations and Recovery Steps**

1. The district should establish an audit committee and internal audit department. (Refer to standard 1.2 for recommended recovery steps). This high level commitment to fiscal accountability and oversight visibly and tangibly shows that the governing board and management are committed to a strong internal control environment.

### **Standard Implemented: Partially**



## 1.2 Internal Control Environment – Governing Board and Audit Committee

### **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]

### **Sources and Documentation**

1. Interview with the Deputy Superintendent, Administration and the Associate Superintendent, Business Services

### **Findings**

1. The district does not have an audit committee.

### **Recommendations and Recovery Steps**

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 on a regular basis.

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 comprised of five to seven people. Ideally, committee members should have business or legal backgrounds. While the committee may include members from the district, those district members should not dominate it. Rather, to ensure independence the committee should have a majority of its members from outside the district. In accordance with district policy, de minimus compensation and expense reimbursements may be given to committee members.
  3. The Committee's Charge  
Typically the audit committee's charge is to:
    - a. Oversee 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. Ensure 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. Encourage legal and ethical conduct of management and employees through the audit process. The audit committee, through its assignments to internal audit staff or by its evaluation of external audit findings, should hold management and staff accountable for adherence to board policy regarding legal and ethical conduct.
- d. Increase 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. Provide an annual report to the governing board, Superintendent and management. The report should identify significant issues related to the financial statements, the annual audit and internal audits (including findings) and the audit committee's recommendations.

4. Frequency of Meetings

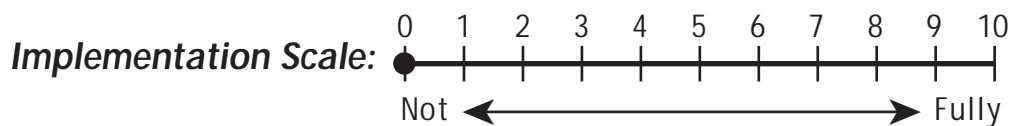
There are obvious times during the year when the audit committee should meet, such as:

- a. To select the independent auditor. This may not be an annual task, since most agencies have multi-year contracts for audit services.
- b. To meet with the independent auditor to review the audit findings. This is an annual task that includes follow-up 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. The audit committee should not function as a board of inquisition. While there is the potential for the committee to overstep its delegated powers, 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, as appropriate, offer management an opportunity to act on the facts or even resolve the issues.

**Standard Implemented: Not**



## 1.3 Internal Control Environment – Administration’s philosophy and operating style

### ***Professional Standard***

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]

### ***Sources and Documentation***

1. Interviews with the Superintendent, Associate Superintendent, Business Services, Controller and the Budget Director
2. Board minutes

### ***Findings***

1. There are processes to aid the governing board and administration in exercising appropriate balance between competing programmatic goals and fiscal realities. The district has established processes for staff, board and community input during the budget development stage. And, in a review of board minutes, it was found that the Business and Facilities Committee’s report is a regular agenda item. The committee makes specific recommendations on fiscal items to the governing board. (Note: both of these processes are discussed more fully under the standards on Budget Development.)
2. How effective these processes are is difficult to determine in isolation. New directions and efforts are needed in instruction, facilities, personnel and business. Prioritizing these efforts will require great skill given limited resources. We are concerned about the impact of the resignation of the Associate Superintendent, Business Services on the fiscal stability of the district. A void in business leadership could result in incomplete, inaccurate and/or untimely financial information being provided to the governing board and administration. Poor financial decisions could be made inadvertently as a result.
3. We are concerned about the impact of future collective bargaining settlements on the district’s resources. The district’s ability to maintain a two percent reserve for economic uncertainties is questionable given all the competing needs, including salary improvements.

### ***Recommendations and Recovery Steps***

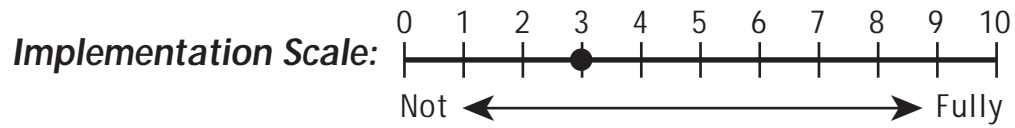
The governing board and administration fiscally must be cautious at a time when there will be great demands to provide resources to aid the district through the recovery steps in this report. Barely meeting the State’s minimum reserve requirement of two percent, combined with a void in business leadership and looming labor contract negotiations, places the district in a precarious position fiscally.

Identify the cost of all competing expenditure proposals to determine the potential impact on the district’s budget both in the current year and the next three years. The district should not spend a single dollar more without either cutting the budget commensurately or finding new resources.

1. The two percent reserve requirement is a minimum requirement and a cushion above the two percent would be considered fiscally prudent.

2. It will take strong fiscal management to find resources for all the competing needs, including salary improvements.
3. The district should reevaluate its interim certification to determine if a qualified or negative certification is warranted.

***Standard Implemented: Partially***



## 1.4 Internal Control Environment – Organizational Structure

### *Professional Standard*

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]

### *Sources and Documentation*

1. Organization chart
2. Interviews with management and staff

### *Findings*

1. The district was able to provide organizational charts. The charts were reviewed in order to determine whether or not functional areas of responsibility are described, primary management authority for the function is highlighted, supervisory responsibility is highlighted, and appropriate communication lines throughout the hierarchy are described.

In general, the overall organization of the Business Services Division appears to be adequate to carry out the basic business support functions such as general accounting, budget, food services, purchasing, facilities, custodial services, and building and grounds. However, some of the management responsibilities are grouped in such a way as to be unique and possibly not provide the best management structure. An example of this would be the pairing of food services and custodial services under the same director. Additionally, the areas of safety and loss control, and environmental health do not report to any director. Rather, these areas report directly to the Associate Superintendent. Therefore, the alignment of the departments and the lines of reporting could be organized more effectively. A strong and effective organizational structure is necessary to implement the recovery plan and provide for ongoing sustainability.

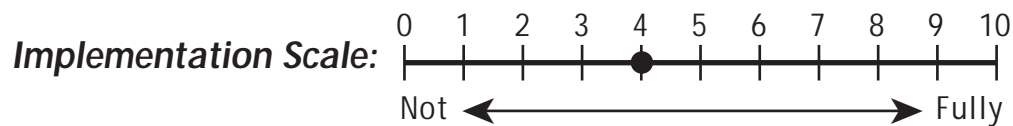
2. **Salary Structure:** The district's salary structure is not competitive in the local job market. This limits the district's ability to attract the caliber of candidates needed for effective and efficient operation.
3. **Technical Proficiency, Career Development, and Evaluation:** The division does not have a formal staff development, training, and evaluation program to ensure that staff maintains and increases technical proficiency.

### *Recommendations and Recovery Steps*

1. Rigorously evaluate the organizational structure both at the division and department levels. Management should evaluate the strengths and weaknesses in the Business Services Division organizational structure, and each individual department. Ideally, the structure should align functional areas to maximize the utilization of management's technical skills and to provide for coordination of activities.
2. Evaluate salaries for competitiveness with other districts. Evaluate the competitiveness of salaries compared to like districts in order to attract, hire and retain qualified staff.

3. Implement a formal staff training and development program. Establish a staff training and development program that includes:
  - a. An annual evaluation of training needs for individual staff members. During evaluations, supervisors and managers should help employees identify personal and professional goals that prepare them for professional advancement
  - b. An annual department training plan that includes incentives for bachelor's degrees, graduate degrees, and professional certifications (CPA, CGFM, etc.)
  - c. Incentives for participating in professional organization
  - d. The district should also establish career paths/job ladders for positions that identify the potential career advancements associated with each position. Further, the district should establish the basic training areas that must be taken and maintained for incumbents in the various job positions.

**Standard Implemented: Partially**



## 1.5 Internal Control Environment – Evaluation of Job Requirements and Employee Skills

### ***Professional Standard***

Management should have the ability to evaluate job requirements and match the requirements to the employee's skills. [SAS-55, SAS-78]

### ***Sources and Documentation***

1. Sample of personnel files from operational departments
2. All personnel files from the fiscal services office
3. Job descriptions for all business and operational staff
4. Inspection of staff work product
5. Interview with the Human Resource's Service Team Analyst

### ***Findings***

Managers should have an opportunity both in the hiring process and the evaluation process to match the job requirements to the employee's skills. A review of these two areas identified the following:

### ***Hiring Process***

1. Managers are not provided sufficient opportunity to review job postings for duty descriptions and minimum qualifications. Specifically, managers complete a Request to Post form for positions that need to be filled in their departments. The request goes to the assigned human resources service team and is entered into the computer system. The system has a database of position postings. If the manager requests a change be made to the posting, for example increasing the minimum qualifications, then the changes are made and the position is posted. Otherwise, the position is simply posted. The manager does receive a copy of the posting in advance. If the manager has a problem with the posting, then the job is reposted. The manager is not, however, given a copy for review prior to the actual posting. As a consequence, many of the job postings are outdated in terms of required skills and duties to be assigned.
2. Another problem in the hiring process that limits the manager's ability to match employee skills to the job requirements, is the ability of the employee to make an internal job transfer without any minimum tenureship in the prior position. For example, an employee can make a job change (within the district) and then immediately proceed to apply for another position that might come open and is more attractive. Thus, after spending time finding a qualified candidate, the manager soon may be looking for a new person to fill the same position.

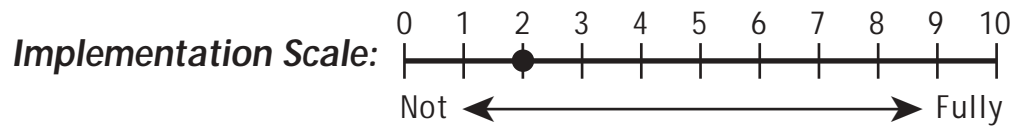
### ***Evaluation Process***

1. There is no evidence to substantiate that annual evaluations are performed on all employees. The employee evaluation process is not monitored centrally nor are managers trained in proper evaluation techniques. Thus, depending on the experience of the manager, opportunities to properly evaluate the employee's skills in light of job requirements might be missed.

### ***Recommendations and Recovery Steps***

1. Provide managers with current copies of job posting for review prior to posting the position. Explain to them the importance of keeping the job postings current for duties and qualifications. Minimum qualifications also should be standardized districtwide depending on the job classification and duties.
2. Establish a standard that employees are limited in the number or duration of elapsed time between job transfers. This would provide more stability and less turnover.
3. Require annual evaluations be performed on all employees. HR should be responsible to monitor this process.
4. Train managers in evaluation techniques. In addition, standardizing the evaluation processes will help managers to evaluate continually whether employee skills are matched to job requirements.

### ***Standard Implemented: Partially***



## 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]

### ***Sources and Documentation***

1. Recruitment materials and job advertisements
2. Discussion with the classified personnel director
3. Interview with the Recruitment Manager, Classified Personnel

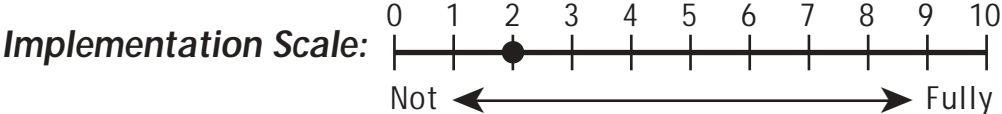
### ***Findings***

1. Our review of job descriptions for a sampling of positions in the finance and accounting areas showed that the duties are enumerated fairly specifically and that the minimum qualifications appear appropriate for the position requirements.
2. The hiring process starts with an in-house posting. Only if there are no qualified in-house applicants is the recruitment taken outside of the district. This practice limits the manager's ability to retain the best qualified applicant. In some instances, there is no interview of in-house applicant, just an assignment of personnel made directly to the department. This occurs most typically at the clerical level when there are excess FTEs in other departments.
3. Managers are not trained in interview techniques, raising the potential for legal issues. The background and reference check procedures lack consistency. Criminal background checks are done for all employees, but verification of past employment and communications with references is not being performed consistently. It was reported to be unclear at times who was responsible for conducting the reference checks.

### ***Recommendations and Recovery Steps***

1. If permissible by union contract, consider posting positions both in-house and outside the district at the same time and allow for more competition based on qualifications. If not permissible by union contract, negotiate language permitting the posting of positions both in-house and outside the district at the same time. There should always be an interview with the supervisor prior to making an assignment.
2. Provide training to managers in the legal issues evolving around the interviewing and hiring process.
3. Establish a consistent system of background and reference checks that designates the responsible employee to perform the check, what checks are made, and how the records are documented for the results of the checks.

**Standard Implemented: Partially**



## 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 follow-up on prior performance issues and establish goals to improve future performance.

### **Sources and Documentation**

1. Performance evaluations contained in personnel files
2. Interviews with business services staff and managers

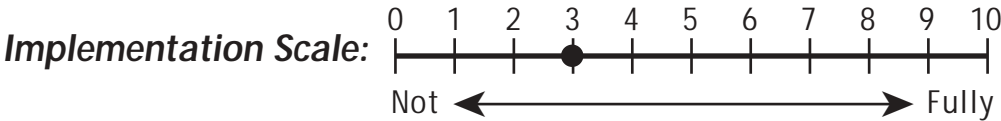
### **Findings**

1. Personnel files for core business services staff were requested but not received. However, according to our interviews with staff and managers, the evaluation process is not strongly managed. For example, not all staff and managers are evaluated on an annual basis.

### **Recommendations and Recovery Steps**

1. In conjunction with recommendations in the Personnel Assessment and Recovery Steps, take measures to ensure all evaluations are conducted on an annual basis. Also, review the evaluation process to ensure it measures job skills performance relevant and required of each specific job.

### **Standard Implemented: Partially**



## 1.8 Internal Control Environment – Responsibility for Fraud Prevention and Detection

### *Professional Standard*

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).

### *Sources and Documentation*

1. Discussion with Associate Superintendent, Business Services
2. Discussion with Controller

### *Findings*

1. There are no formal board policies that address the issue of employee theft and fraud.

However, there are semiformal processes in place regarding employee misconduct. These processes include reporting potential instances to the appropriate supervisor or manager, review of the situation by Human Resources (HR) if it is an employee conduct issue, and referral of the issue to the district Security Department if the issue involves potential criminal misconduct. The Security Department would then be responsible for evaluating the situation and coordinating with the Oakland Police Department and Alameda County District Attorney's Office, as appropriate.

While the procedures for employee misconduct are important, it does not appear that they have been communicated widely to employees. Further, these general policies essentially are geared more toward personnel issues as opposed to accounting, internal control, and fraud issues.

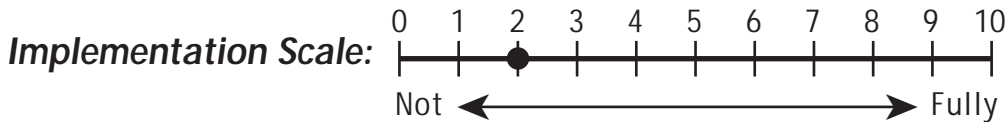
The district also has a "uniform complaint process" with specifically assigned compliance officers, but this program addresses issues of discrimination or program noncompliance committed by either the district or its employees. Again, while a valuable function, it is not related to fraud.

2. The accounting office has policies and procedures for most basic accounting functions. However, the level of monitoring and adherence to these policies is not clear. Further, these policies do not address the issue of fraud, employee responsibilities for fraud prevention, or options to report suspected fraud.
3. The district does not utilize an anonymous fraud hotline or other similar mechanism that would provide employees, students, parents and community members a simple method to report suspected fraudulent activity.
4. The district does not have an internal audit function.

## **Recommendations and Recovery Steps**

1. The governing board should adopt policies regarding its commitment to:
  - a. Legal and ethical conduct by all employees,
  - b. Implementing a system of policies and procedures to prevent and detect fraud
  - c. Pursuing all instances of fraud to the full extent of the law
  
2. The accounting office should review its procedures to ensure those procedures provide sufficient controls to reduce the likelihood to a low level, that fraudulent activity could occur and not be detected 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.
  
3. The district should implement an anonymous fraud hotline that provides easy access for reporting suspected fraudulent activity. The hotline should be a function of the internal audit unit. All hotline 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 district Security Department, as necessary.
  
4. The district should establish an internal audit unit that is organizationally independent and reports either to the Superintendent, or audit committee. (See recommendations in Section 4, Internal Audit.)

### **Standard Implemented: Partially**



## 2.1 Inter- and Intra-Departmental Communications – Timing, Content and Quality of Communications

### **Professional Standard**

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).

### **Sources and Documentation**

1. Interoffice memos
2. Interviews with department management and staff

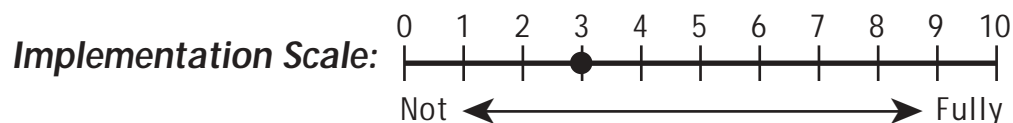
### **Findings**

1. Within the Business Services Division there are monthly meetings with all of the directors and one-on-one meetings between the directors and the Associate Superintendent. The directors then are responsible for communicating information to staff within their departments.
2. Intra-department communications occur on many levels. Cabinet meetings are held every Friday. Ad hoc meetings are called when coordination is needed between departments. Memos are issued on key business items.
3. However, a number of intra-departmental communication problems were observed. Interviews revealed that department supervisors were, at times, unclear about how their work affected other departments, who was responsible for different duties and who should be held accountable when things go wrong. For example, problems in the payroll and personnel communications have resulted in the periodic issuance of inaccurate paychecks. Another example is the excess costs needs in special education that were not identified until the books were closed. Thus, we found communication problems that both create the problem and create barriers towards satisfactory resolution. Overall, we did not observe an organizational structure in which a high degree of ownership is taken and where responsible departments work together as a team to resolve problems.

### **Recommendations and Recovery Steps**

1. Firm leadership is needed to require departments to work towards setting up workable systems and finding satisfactory resolution when problems occur.

### **Standard Implemented: Partially**



## 2.2 Inter- and Intra-Departmental Communications – Identification and Response to Governing Board and Community Audiences

### **Professional Standard**

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.

### **Sources and Documentation**

1. Governing board minutes and agenda materials
2. Discussions with the Controller and Budget Director

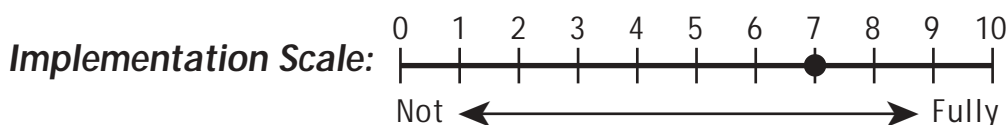
### **Findings**

1. The Associate Superintendent, Business Services communicates with the governing board on an ongoing basis. This communication is related essentially to special board requests for information.
2. The Controller and Budget Director meet with the board Budget and Finance Subcommittee on a regular basis. The subcommittee is provided with periodic financial reports. Further, summary reports are provided to the entire governing board, with additional information provided by the managers as necessary.
3. The governing board discusses expenditure decisions at public meetings, as enumerated in detail in the board minutes. The board minutes clearly define the business items and actions approved by the board members. It appears that the board is knowledgeable regarding district financial matters, and actively participates in policy decisions related to those matters.

### **Recommendations and Recovery Steps**

1. The district should continue to communicate on a monthly basis with the Budget and Finance Subcommittee and the governing board via written reports. Additional communication may be appropriate from the financial departments on an as-needed basis.
2. The district should consider bringing budget reports to the board on a monthly basis, to ensure that the board is apprised of significant changes to budget items in a timely manner.

### **Standard Implemented: Partially**



## 2.3 Inter- and Intra-Departmental Communications – Interest and Response by the Governing Board

### **Professional Standard**

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.

### **Sources and Documentation**

1. Governing Board agendas and minutes
2. Discussions with the Associate Superintendent, Business Services
3. Discussions with the Controller
4. Discussions with the Budget Director

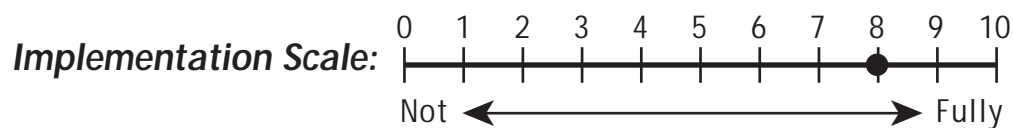
### **Findings**

1. A review of the board minutes for 1998-99 show that appropriate priority was given to business office agenda items. The board's financial concerns are given high priority. The minutes show that the board did discuss business office agenda items and the fiscal significance of other items was considered. The information presented to the board on particular issues was evaluated and considered in the decision making process.
2. The board utilizes a budget and finance subcommittee to monitor financial issues in detail, on an ongoing basis. This provides additional review, consideration and oversight for fiscal matters.

### **Recommendations and Recovery Steps**

No recommendations as this standard has been implemented.

### **Standard Implemented: Fully – Substantial**



## 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.

### *Sources and Documentation*

1. Discussion with the Associate Superintendent, Business Services
2. Discussion with the district's legal counsel
3. Discussion of sample cases of illegal acts reported and the disposition of those cases

### *Findings*

1. The district does not have formal policies regarding employee and management responsibility to report illegal acts.
2. There are no established policies or procedures regarding the types of potential illegal acts or how to report illegal acts, suspected or known.
3. The district does not have an internal audit function.
4. The district does not have an anonymous fraud hotline which employees can use to report suspected fraud.
5. Discussions regarding instances of potential fraud indicate that cases are addressed in an informal, case-by-case manner, which may result in a lack of consistency in pursuing such instances.

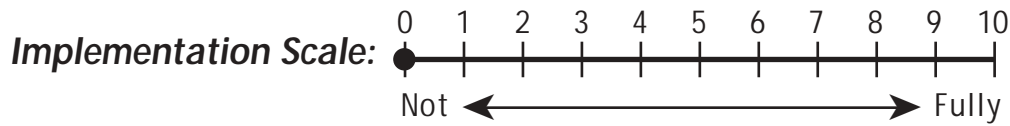
### *Recommendations and Recovery Steps*

1. The governing board should adopt a policy that establishes zero tolerance for employee theft or fraud. The policy should address the actions that will be taken when fraud is disclosed, including termination, criminal prosecution, and restitution. Strong policies that are adhered to consistently and vigorously pursued can have a significant deterrent effect.
2. The administration should develop an information program and specific procedures to inform staff regarding the common types of fraud and theft, red flags for potential fraud, employee responsibilities to deter and prevent fraud and theft, and processes and procedures for reporting suspected fraud.
3. The district should establish an internal audit function that provides ongoing review of district operations that would help to deter and detect fraud and theft. The internal audit unit would have primary responsibility for investigating reported instances of fraud and theft. The internal audit unit would also be responsible for contacting and coordinating with district security, law enforcement and the district attorney's office. (See related recommendations in Section 4, Internal Audit.)

4. As also recommended under “Responsibility for Fraud Prevention and detection,” establish an anonymous tip hotline that would encourage employees to report potential instances of theft and fraud. The hotline should be maintained by the internal audit unit, and all calls should be logged, assigned for investigation, and tracked until resolution. Information and statistics should be maintained and reported to the audit committee on a periodic basis, but at least annually.

Once established, the district must follow its own procedures in order to establish its commitment to preventing illegal acts. Also, consistent response and application of policies and procedures helps to ensure that the process is viewed as fair.

**Standard Implemented: Not**



## 3.1 Staff Professional Development – Training Programs and Plans

### **Professional Standard**

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.

### **Sources and Documentation**

1. Interview with the classified personnel director
2. Interview with the Associate Superintendent, Business Services

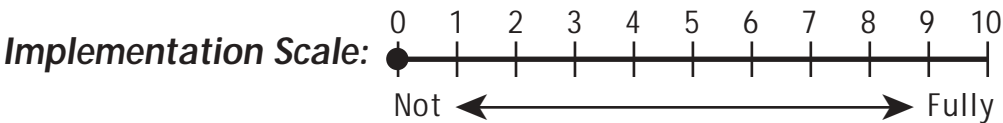
### **Findings**

1. There is no staff development plan for business and operational staff.
2. Staff is not always aware of potential training opportunities that might benefit their job performance.
3. Identification of individual staff training needs is not done.

### **Recommendations and Recovery Steps**

1. An annual staff development plan should be prepared for each department. The contents of the plan should be based on a needs assessment and should include both routine update training and specialized training.
2. Each employee should have an individual development plan that is consistent with the department's plan, the employee's job duties, and current skill and knowledge levels. The evaluation of employee training needs can be done as part of the annual performance appraisal.
3. Staff development can be conducted through a variety of methods, including in-house training, one-on-one mentoring and training, and outside workshops and conferences.

### **Standard Implemented: Not**



## 3.2 Staff Professional Development – Training Programs for School site Department Staff by Business Staff

### **Professional Standard**

Develop and use a professional development plan for the inservice 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.

### **Sources and Documentation**

1. Interviews with department staff

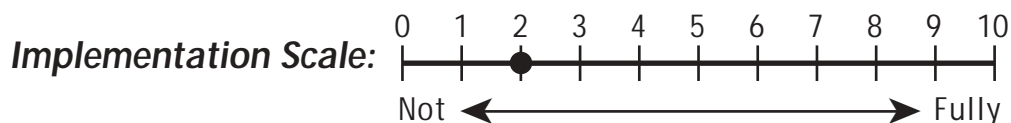
### **Findings**

1. Some training is provided to school site department staff. For example, changes in the attendance accounting system are communicated to attendance clerks. However, there are gaps in the training of school site department staff in general business areas, e.g., assignment of account codes, and accounting for student funds.
2. There is no centralized record of what training classes were provided and which staff members participated in such training classes.

### **Recommendations and Recovery Steps**

1. Prepare an annual staff development plan to keep school site department staff abreast of changes in business procedures and in the application of routine matters of internal control. The contents of the plan should include all business and operational functions that are delegated to the school site department level. Examples of items for which training should be provided include:
  - a. Changes in forms and processes related to personnel transactions, purchasing, or budget
  - b. Changes in account codes (e.g., conversion to SACS)
  - c. Update and refresher training for attendance accounting
  - d. Training on the use of the OBARS system for budget monitoring
2. The specific target audience for each class should be identified and the class should be designated as mandatory or optional.
3. Attendance at training classes should be tracked and a record of employee training received maintained in each employee's personnel files. Such tracking helps to ensure that employees have taken mandatory classes and provides necessary documentation for employee evaluations.
4. The staff development should be conducted in-house by managers and staff knowledgeable in the topical area addressed.

### **Standard Implemented: Partially**



## 4.1 Internal Audit – Policies and Procedures Governing Internal Audits

### *Professional Standard*

The governing board should adopt policies establishing an internal audit function that reports directly to the Superintendent and the audit committee or governing board.

### *Sources and Documentation*

1. Interview with the Associate Superintendent, Business Services

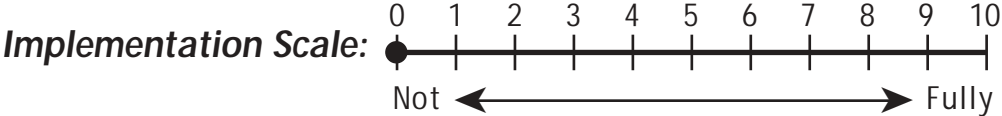
### *Findings*

1. The district does not have an internal audit unit or any board policies regarding the establishment of one. However, the district previously had an internal audit function.

### *Recommendations and Recovery Steps*

1. Similar to other large districts (Los Angeles, Fresno, San Juan, and Sacramento City), the board should adopt policies requiring the establishment of an internal audit function. A strong internal audit department can:
  - a. Strengthen the internal control system
  - b. Identify inefficiencies and update policies and procedures
  - c. Identify/recoup money the district is not recovering
    - Missed mandated cost reimbursements
    - Lost discounts
    - Duplicate payment of invoices
  - g. Prepare for and coordinate the annual audit to help keep costs down
  - h. Help improve public image by identifying and resolving problems before they become large, public issues
  - i. Provide review of high-risk areas such as:
    - Student body funds
    - Cafeteria receipts
    - Attendance accounting
    - Payroll
    - Other categorical programs, e.g., special education, Title I, etc.
2. The internal audit department should report to the audit committee. This provides for sufficient oversight, while allowing the department to maintain its independence. In the absence of an audit committee, the district should consider a dual reporting relationship with the Superintendent and board. The internal audit department would receive overall direction from the board which would review and approve its work plan, but would report to the Superintendent for day-to-day administrative matters.
3. Internal audit staff should have a strong accounting and audit background with a working knowledge of school finance. Potential candidates could come from CPA firms, county and state oversight agencies, and from similar positions at other district.

**Standard Implemented: Not**



## 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.

### ***Sources and Documentation***

1. Interviews with Associate Superintendent, Business Services
2. Interviews with Controller

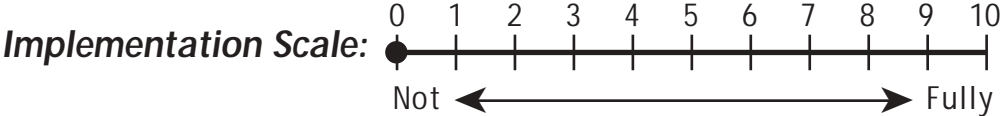
### ***Findings***

1. The district does not have an internal audit function.

### ***Recommendations and Recovery Steps***

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, CFE certification, or equivalent audit experience.
2. The internal audit department should have from one to three staff. 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:
  - a. Liaison to the Superintendent, CBO, Audit Committee and board
  - b. Preparing the annual audit plan
  - c. Scheduling work and coordinating with the other departments
  - d. Supervising work and reviewing work papers to ensure adherence to professional standards
  - e. Evaluating employees and preparing training plans to ensure compliance with continuing professional education requirements
3. The internal audit manager should present reports to 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:
  - a. Use planning memoranda to plan and manage audits
  - b. Use standard audit programs
  - c. Have standard requirements for workpaper documentation, cross-referencing, and maintenance of workpaper files
  - d. Have policies and procedures regarding sampling methodologies and materiality
  - e. Provide draft reports to the department/sites/programs being audited in order to obtain comments and additional information. If draft findings are not resolved, the department's comments should be included in the final report.

**Standard Implemented: Not**



## 4.3 Internal Audit – Follow-up and Response to Internal Audit Findings

### Professional Standard

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.

### Sources and Documentation

1. Interviews with Associate Superintendent, Business Services
2. Interviews with Controller

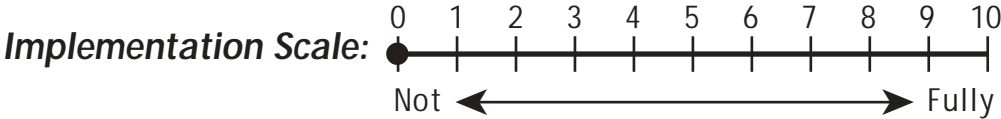
### Findings

1. The district currently does not have an internal audit function.

### Recommendations and Recovery Steps

1. The governing board should adopt policies establishing an internal function. Those policies should also establish the process for:
  - a. The internal audit unit to provide a draft report on findings
  - b. Management to respond to and address findings
  - c. The internal audit department to evaluate management’s response and modify the report as appropriate
  - d. The inclusion of management’s response in the final report for any unresolved findings
  - e. Reports to be presented to the audit committee or board
  - f. The internal audit department to make a follow-up report to the audit committee regarding resolutions of findings
  - g. The internal audit unit to verify the resolution of the findings.

### Standard Implemented: Not



## 5.1 Budget Development Process (Policy) – Board Leadership and Budget Participants

### ***Professional Standard***

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.

### ***Sources and Documentation***

1. Interview with the Budget Director
2. Review of the district budget document

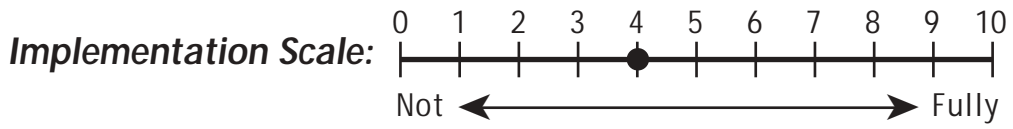
### ***Findings***

1. In order for the district to operate effectively, the board must focus on budget characteristics and expenditure plans to meet district goals. Currently, the board:
  - a. Appears to recognize its obligations and limitations in the development and administration of a district budget by identifying goals, while not interfering with the actual development of budget numbers.
  - b. Has attempted to develop a policy-focused district budget by soliciting broad constituent input and developing goals for the budget. However, the budget document itself does not demonstrate how the establish goals are met within the budget, or how specific budget expenditures tie to those goals.
2. While the district has a formal budget and established budget goals, the establishment of goals is not done in a multi-year, outcomes-based framework. As a result, goals may change from year-to-year and not provide clear and consistent direction. Such a lack of specific long-term goals/ outcomes may prevent the district from achieving meaningful progress and improvement in district operation and student performance.

### ***Recommendations and Recovery Steps***

1. The district's budget document should identify more clearly how it addresses and is consistent with the board's identified goals. This can be achieved by including the following information in the budget document:
  - a. A general discussion at the front of the budget document regarding the budget's relationship to the board's goals.
  - b. A discussion of the purpose and responsibilities of each program/department/ functional area, and activities included in its budget that specifically address the board's goals.
2. In developing its goals, the board should include both long-term (multi-year) goals, as well as incremental goals for the budget year that relate to the long-term goals. This provides concrete direction for each year, and provides a basis for evaluating results. The evaluation of prior year results then becomes part of each year's budget and provides the basis for the current year goals.

**Standard Implemented: Partially**



## 5.2 Budget Development Process (Policy) – Input from District and Community Interests

### *Professional Standard*

The budget development process includes input from staff, administrators, board and community.

### *Sources and Documentation*

1. Discussions with the Associate Superintendent, Business Services
2. Discussions with the Budget Director
3. Discussions with budget office staff
4. Review of the budget process/procedures
5. Review of budget documents

### *Findings*

The district's budget development process is very thorough and inclusive in its efforts to encourage participation and input by all constituent groups. In order to provide opportunities for input, the district has established the following processes and procedures:

1. A team comprised of staff from both the budget and personnel offices meets the principal of every site and the manager of every department to discuss the budget for that site or department. These meetings and follow-up conversations are intended to provide budget and staffing information to the administrators, and allow them input into the use of discretionary dollars. Also, sites and departments are able to request additional funds through the "critical needs" form and process.
2. The district utilizes a Budget Advisory Committee (BAC) to obtain input from the entire spectrum of its constituents regarding budget priorities. The is a standing committee that has scheduled monthly meetings throughout the year. However, the BAC holds additional meetings as necessary to address budget issues. Supplemental meetings most frequently occur from January through June when the budget development cycle is at its peak. The BAC has 16 members with the following groups represented:
  - One representative appointed by each member of the Governing Board (7 members)
  - One representative from the Oakland PTA District Council
  - One representative from the district Advisory Committee
  - One representative from the Alameda County Central Labor Council
  - One representative from the Oakland Chamber of Commerce
  - One representative from the All-City Council
  - One representative selected by the Superintendent
  - One representative each from the classified, certificated, and administrative employee groups (3 members)
3. The district mails out a "Budget Priorities Survey" to 20,000 residents living within its boundaries. These surveys provide citizens the opportunity to directly identify their budget priorities without having to attend board meetings or being appointed to the BAC. The survey questions are drafted based on input from the board, the BAC, and administration. The survey is mailed in December, with responses compiled in January.

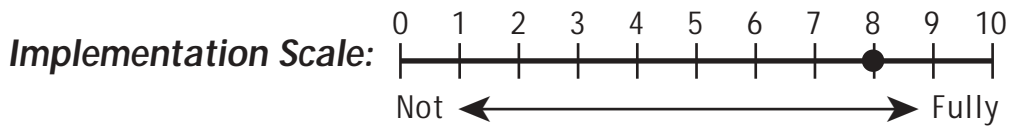
The results of this survey are compiled and utilized to help the board and administration make decisions on how to prioritize its budget.

4. The district holds three “Town Hall Meetings” in January, March/April, and May/June. The meetings are televised and provide information regarding the basics of school funding and budgeting. During these meetings, citizens can phone in with questions and comments regarding the district’s budget. The meetings also provide information regarding meetings of the BAC and Board’s Budget and Finance Committee.
5. The district also holds multiple governing board hearings regarding the budget, which provides another avenue for public participation and comment.

### ***Recommendations and Recovery Steps***

The district has met this standard. Accordingly, there are no recommendations.

### ***Standard Implemented: Fully – Substantial***



## 5.3 Budget Development Process (Policy) – Policies and Regulations

### *Professional Standard*

Policies and regulations exist regarding budget development and monitoring.

### *Sources and Documentation*

1. Discussions with the Budget Director
2. Discussions with budget office staff
3. Review of the budget policies and procedures
4. Review of budget documents

### *Findings*

1. The district has a relatively structured budget development process that provides adequate policies and procedures. The process includes policies and procedures for:
  - a. Community involvement: survey, Budget Advisory Committee, Town Hall meetings
  - b. Central Office involvement:
    - Management Information Services: rolls current year budget data (positions, etc.) to provide a basis for development of next year's budget
    - Personnel: provides staffing information
    - Budget: does enrollment projections, projects revenues and certain expenditures
    - State and Federal: provides data for categorical revenues and expenditures
  - c. Site and department involvement: administrators meet with a team from the budget and personnel office to review preliminary budget estimates, develop budget allocations for discretionary dollars, and submit requests for budget augmentations.
  - d. Formulas and ratios: budgeting for unrestricted funds is driven primarily by formulas and standard allocation methods. Staff, including teachers, administrators, custodians, clerical staff, is essentially determined based on set formulas. Discretionary dollars are budgeted on a fixed amount per student.

### *Recommendations and Recovery Steps*

While the district's current policies and procedures are adequate, the following items would further strengthen the process.

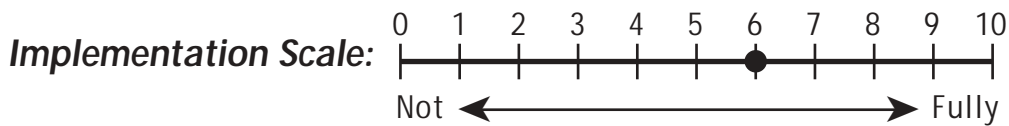
1. For departments, the district essentially rolls the budget over from year to year. In order to ensure that departments are not under or overfunded, it should consider analyzing those budgets and using an alternate methodology to allocate funds. Zero-based Budgeting (ZBB) is one method that has been suggested. However, for large governmental entities with a high level of mandatory functions, the cost versus benefit (in both time and dollars) typically does not justify utilizing the method on an annual basis. If ZBB is going to be used, it is more effective when used on a three-to-five year cycle. That is, each activity or department would undergo the ZBB process every three or five years, with the cycle staggered so that one-third (or one fifth) of the departments are reviewed annually. Further, only those activities or departments that are discretionary need to be reviewed.

An alternate methodology is to fund each department at 90 percent (or some other percentage as determined appropriate by the district) of its three-year average actual expenditures. If departments want or need additional funding, this could be requested through the formal critical needs

evaluation process. This methods attempts to equalize funding over time to the actual needs of each department. It provides sufficient funding for core services and frees up dollars that the district may be able to utilize more effectively in other areas. It also helps to better align funding to the board's goals.

2. For critical needs requests submitted, particularly during the year, the budget office should be reviewing the requests prior to being forwarded to the Deputy Superintendents for approval. The budget office should provide an analysis of the effects of the request on the budget, and verify the availability of funding.

**Standard Implemented: Partially**



## 5.4 Budget Development Process (Policy) – Strategic Process to Analyze all Resources and Allocations

### ***Professional Standard***

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.

### ***Sources and Documentation***

1. Discussions with administrative staff
2. Review of the budget policies and procedures
3. Review of budget documents

### ***Findings***

The district has a process that identifies goals and priorities, and develops budget numbers. The process is:

1. Goals are established by the board and identified in the budget document.
2. Input for budget priorities is obtained via the Budget Advisory Committee (BAC), the citizen survey, Town Hall meetings, and the open board meetings. Based on this information, preliminary expenditure allocations are revised as deemed appropriate by the board and Superintendent.
3. The budget office projects budgeted revenues and expenditures and makes preliminary allocations based on information provided by the personnel and state and federal programs offices.

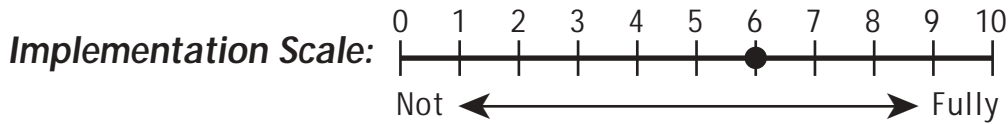
Essentially, the preliminary budget is put together and updated or modified to incorporate the citizen survey and the BAC input. However, there is not a strong link between the established goals and priorities, and the development of the department and site budgets. Further, the link between the goals and priorities and the adopted budget is not identified and documented clearly. Therefore, the community cannot identify how the budget facilitates the attainment of district goals, and cannot evaluate the appropriateness of the budget.

### ***Recommendations and Recovery Steps***

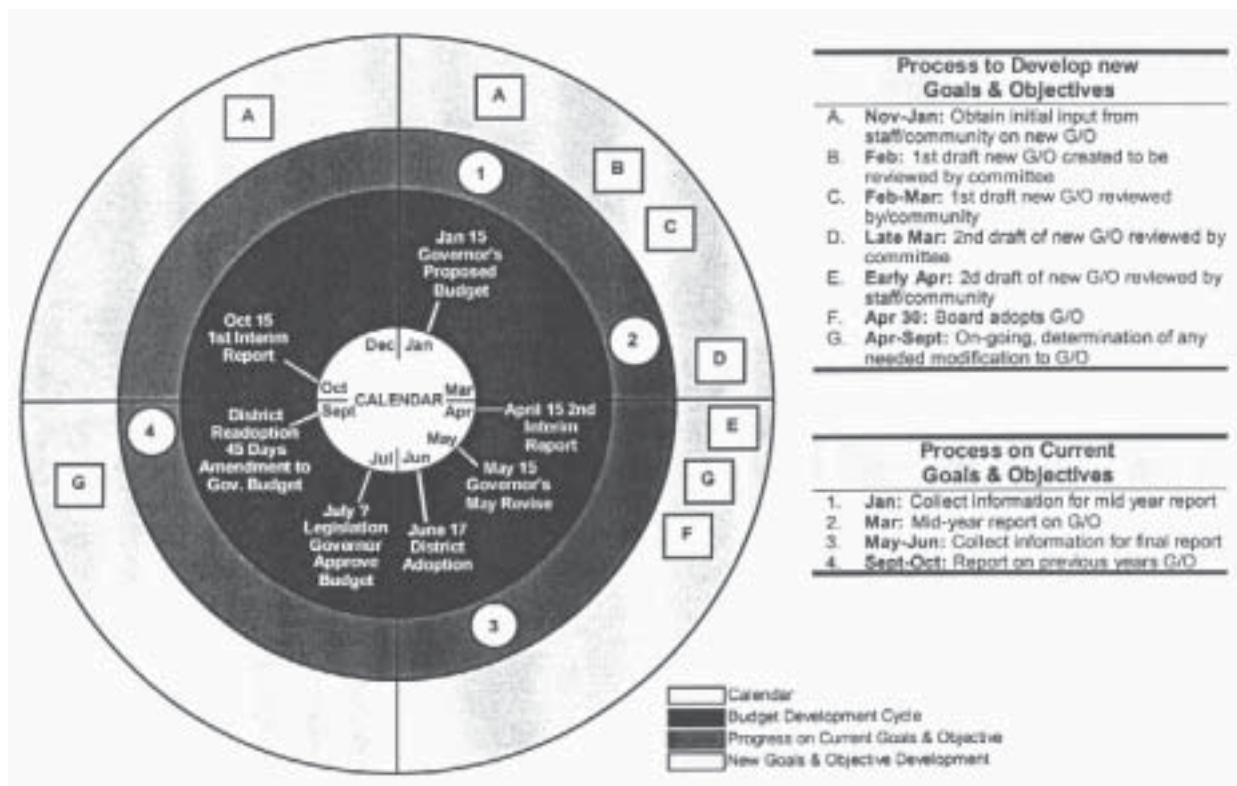
1. The board goals and priorities must be established and known prior to the start of the budget development process.
2. The BAC and citizen survey time frames should be moved up so that the information can be incorporated in the budget planning and development process from the very beginning. See Diagram FM 1. that displays time frames for multi-year budget cycle.
3. An assessment of progress made the prior year should be done and used as the starting point for the subsequent year's budget planning cycle.
4. Departments should identify their activities and document how such activities are related to board goals and spending priorities.

- Procedures should be implemented that require a conscious effort to evaluate the proposed budget specifically as it relates to the strategic planning objectives and other goals and priorities of the district.

**Standard Implemented: Partially**



**Diagram FM 1.  
Planning and Budgeting Cycle**



## 5.5 Budget Development Process (Policy) – Distribution of Categorical Funds

### ***Professional Standard***

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.

### ***Sources and Documentation***

1. Interview and discussion with district officials including the Associate Superintendent for Business Services, the Director of Budgets and the Superintendent
2. Review of district annual financial reports, including the 1998-99 Financial Report J-390

### ***Findings***

1. The instructional division, under the direction of the Associate Superintendent of Curriculum and Instruction, develops the district's categorical budget. The Director of Budget Preparation and Management inserts the categorical revenues and expenditures into the total district budget for final presentation to the governing board.
2. The district has a major charge from the Superintendent to develop a plan for the integration of categorical delivery into the entire district efforts. The categorical program goals can assist the district in responding to essential needs for student instructional delivery.
3. The district's 1998-99 J-390 reflects:
  - Federal "unearned income" totaling \$2,050,948
  - State grants that were "unused grants" totaling \$9,211,507
  - Entitlement carry over totaling \$3,271,095

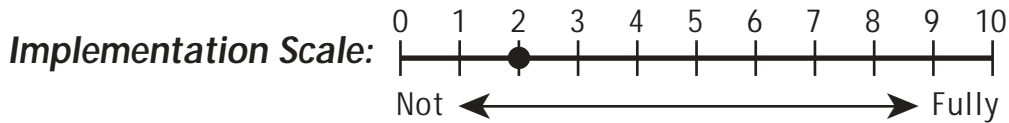
Thus, the total categorical amounts that were available for expenditure at the end of 1998-99 exceeded \$14.5 million.

### ***Recommendations and Recovery Steps***

1. The district's budget should reflect all revenues and expenditures including categorical expense. The balances in the categorical accounts should undergo all of the same analyses and monitoring as the unrestricted funds. The Associate Superintendent for Curriculum and Instruction and the Associate Superintendent for Business Services should deliver to the Superintendent within 90 days a plan for integrating the budgets of categorical services into the mainstream of the budget process. The new budget methods should provide for common evaluation, monitoring and review by the cabinet and the governing board.

2. The \$14.5 million of unearned, unused and carry over income should be evaluated by the Associate Superintendent for Curriculum and Instruction to ensure that all dollars available are used effectively by the departments and sites to respond to the district's needs. The Associate Superintendent should provide a report to the Superintendent on the findings and the availability of any of these funds to be redirected in order to reduce the carry over and unused balances. The Superintendent should, in turn, report to the governing board on the availability of all categorical carry over, regardless of classification, to respond to student needs.
  
3. The Superintendent should appoint a task force of the two Associate Superintendents for a report on the ability of categorical programs to be integrated with the entire district financial resources in order to create a seamless delivery system for responding to district program obligations, regardless of funding source. That is, the task force should respond to question of how the resources of categorical programs could be used to develop more effective student delivery.

***Standard Implemented: Partially***



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

### ***Professional Standard***

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.

### ***Sources and Documentation***

1. Discussions with the Budget Director
2. Second interim reports of the previous three years
3. Audit reports for the past three years

### ***Findings***

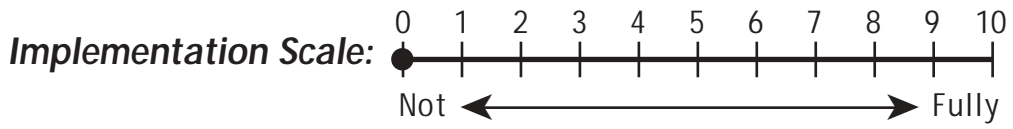
1. During the closing of the books for 1998-99, the district had \$1.3 million less income than estimated and numerous overruns in expenditures. As a consequence, closing of the books for the prior year was described by one district officer as “one of the most difficult in my career.” To close the books and ensure that the district had a two percent reserve, it was necessary to:
  - a. Transfer the contributions from self insurance to general purpose totaling \$1.2 million
  - b. Transfer qualifiable building and ground costs to Measure C interest totaling \$1.0 million
  - c. Transfer of general purpose class-size reduction costs to desegregation totaling \$0.8 million

These types of last-minute transfers to meet the minimum reserve for economic uncertainties is a result of not knowing in advance that the district would have significant overruns in special education, summer school and transportation.

### ***Recommendations and Recovery Steps***

1. Identify the characteristics of the budget overruns that occurred in 1998-99. Establish a task force of budget, personnel, and special education administrators to identify the factors that led to the lack of an early warning this last year. Require the task force to establish written policies to amend the current estimation and closing processes so that there is an assured accuracy in the district's Second and now Third Interim Report (see below).
2. Require a Third Interim Report for the 1999-2000 and the 2000-01 fiscal years. Use the Third Interim Report to forecast problems more accurately in the year-end closing so that the district has full advance knowledge of the issues that will be faced in the year-end closing. Require that the Third Interim Report reflects revenues and expenditures through April 30, and is 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 give the district advance notice regarding the year-end balances.
3. Provide a training program to the governing board on how to read an interim report, and characteristics that are vital focal points for governing board oversight.

**Standard Implemented: Not**



## 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 carry over and accruals, and the inclusion 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.

### ***Sources and Documentation***

1. District adopted budget
2. Budget worksheets
3. Interviews with the Budget Director

### ***Findings***

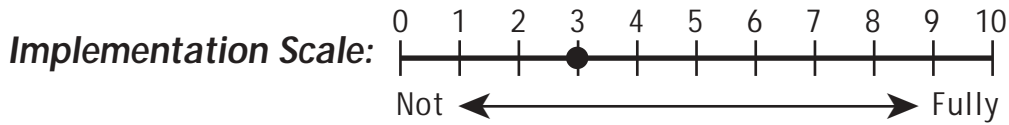
1. The district is doing an adequate job in preparing its budget. However, the budget office does not have a formal procedural manual that documents the various steps in the budget development process, the specific staff members responsible for the steps, and the procedures to accomplish the individual tasks.
2. The budget office does use some functions of the Organizational Budgeting, Accounting and Reporting System (OBARS), but utilizes many manual processes in the budget development process. The process is made more cumbersome and complicated by the fact that the budget and HR systems are not integrated and do not communicate effectively.
3. Some problems and inefficiencies noted in the budget development include:
  - HR does not provide data regarding retirees; the budget office has to make estimate of retirees, whereas additional information from HR could increase the accuracy of this estimate.
  - Curriculum and HR do not provide information regarding expected column movement for certificated employees.
  - The process for developing the special education budget does not provide for sufficient communication between the two departments. As a result, sufficient analysis is not done of staffing and other service issues, which has caused the budget estimates to be very low in previous years.

### ***Recommendations and Recovery Steps***

1. The budget office should formalize its development procedures in a manual, and also have “desk manuals” for each position that specify how the various tasks should be carried out. This type of reference material helps increase the efficiency and accuracy of budget data prepared, and also provides a resource to maintain continuity resulting from staff turnover.
2. The district should implement an integrated management information system that encompasses accounting, budget, purchasing, and personnel. Such an integrated system improves the efficiency of processes and helps ensure the accuracy of data produced.

3. The HR department should provide supporting information regarding column movement and retirees to the budget department, in order to produce the most accurate budget possible.
4. The budget office should develop and implement procedures that require the special education department to provide budget estimates and staff needs. In addition, the special education department should provide supporting worksheets and narratives explaining the assumptions embodied in the budget estimates. The budget office then should review and evaluate the estimates to ensure that they are reasonable.

***Standard Implemented: Partially***



## 6.2 Budget Development Process (Technical) – Budget Calendar

### **Professional Standard**

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.

### **Sources and Documentation**

1. Budget calendar
2. Interview with the Budget Director

### **Findings**

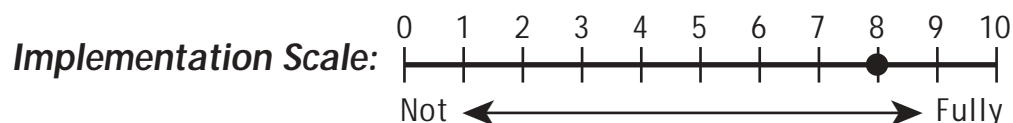
1. The district has a detailed budget calendar that identifies essentially every major activity that it undertakes in the preparation of the budget. The process begins in October of the preceding year with the development of the budget calendar itself, and details the time lines for the activities including:
  - a. Development, distribution, and analysis of the citizen survey
  - b. Interaction with the Budget Advisory Committee and the boards' Business and Finance Subcommittee
  - c. Revenue and expenditure projects – both unrestricted and restricted
  - d. Development of budget assumptions
  - e. Town Hall meetings
  - f. Budget study sessions for board members
  - g. Budget presentation to the board

The calendar identifies the office responsible for each major activity and, overall, is a comprehensive planning and control tool. However, it calendar did not identify the final date for submitting the budget to the county office of education, or note its obligation to make revisions within 45 days of the adoption of the state budget.

### **Recommendations and Recovery Steps**

1. The district essentially has met this standard. However, it would be prudent to have the calendar identify the final date for submitting the budget to county office of education, and note its obligation to make revisions within 45 days of the adoption of the state budget.

### **Standard Implemented: Fully – Substantial**



## 6.3 Budget Development Process (Technical) – Standardized Budget Worksheets

### *Professional Standard*

Standardized budget worksheets should be used in order to communicate budget requests, budget allocations, formulas applied and guidelines.

### *Sources and Documentation*

1. Budget worksheets and instructions
2. Interview with the Budget Director

### *Findings*

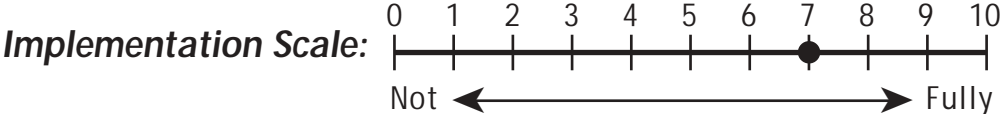
1. A budget package is sent out in February /March to all department heads and site administrators. The package includes:
  - Preliminary listing of positions and staff by location
  - Preliminary listing of positions and staff by funding source
  - Position control listing for staff by location
  - Projected staffing and financial allocations, including: supplies, books, and equipment budget preparation worksheets, restricted and unrestricted
  - Request for new budget account number form
  - Position action forms
  - Worksheet – substitute and extra pay
  - Worksheet – substitute, extra pay, students and academic mentors
  - Problems and special situations form
  - Request for authorization to increase/decrease school site staffing
  - Budget development categorical staffing worksheet
2. Meetings then are held with all sites and departments to review the preliminary budgets, staffing allocations, and package instructions. These meetings are conducted by teams that include representatives of the budget office, the curriculum and instruction office, and the human resources department. This arrangement provides the necessary resources and technical skills to answer any questions that the site administrators or department managers might have. The process is thorough, well documented, and likely beneficial for the sites and departments.

However, given the limited amount of input that departments and sites have over their budgets, the cost versus benefit may not warrant such meetings . Essentially, the administrators are being provided information regarding how the preliminary budget numbers were derived, and provided the opportunity to allocate their limited discretionary dollars.

### *Recommendations and Recovery Steps*

1. The district should evaluate the need for individual and small group meetings to disseminate the basic budget information to determine if the benefit derived by the sites and departments, as well as the central departments, justifies the cost of the meetings. It may be more efficient and equally effective to provide written explanations and directions with the budget packet and then answer questions on an as needed basis via phone calls or e-mail, or conduct one informational session that all administrators would attend.

**Standard Implemented: Partially**



## 7.1 Budget Adoption, Reporting and Audits – Budget Adoption and Reporting, Statutory Time lines and Procedures

### Professional Standard

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)]

### Sources and Documentation

1. Discussions with the district’s Budget Director
2. Board agendas
3. Board meeting minutes
4. Adopted district budget

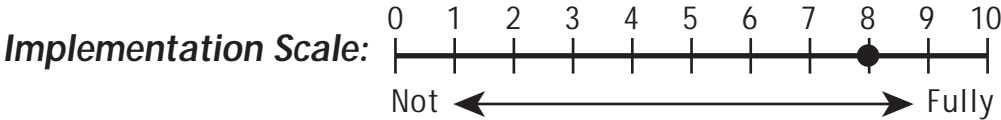
### Findings

1. Based on discussions with the Budget Director, the district held public hearings and adopted its budget prior to the July 1 deadline established by law. This was confirmed by review of the budget calendar and board minutes and agenda items.

### Recommendation and Recovery Steps

This standard is met.

### Standard Implemented: Fully – Substantial



## 7.2 Budget Adoption, Reporting and Audits – Budget Revision upon Adoption of State Budget

### **Professional Standard**

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)]

### **Sources and Documentation**

1. Board minutes
2. Board meeting agendas
3. Discussions with the Budget Director

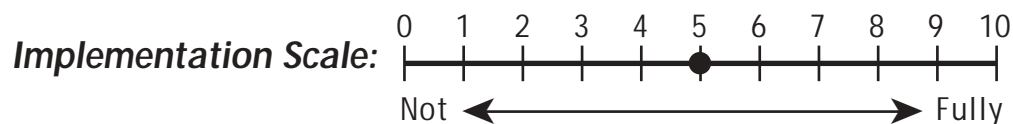
### **Findings**

1. The district revises its budget to reflect the effects of the state's adopted budget. The budget revisions are approved by the board, as documented by board agendas and minutes.
2. The district did not meet the 45-day deadline for making the revised budget available for public inspection. The revised budget was not presented to the board until September 2, 1999, after the 45-day deadline. Further, there is no formal written policy requiring that the revised budget be presented for public inspection within the 45-day time frame.

### **Recommendations and Recovery Steps**

1. The district should revise its board policies and detailed budget development procedures to reflect current requirements of Education Code Section 42127(j) regarding public review of revisions to the district budget resulting from the adopted state budget.  
Specifically, the budget procedures and calendar should formally include and identify:
  - a. The state budget process and the adoption of the state budget as an item to be formally evaluated in making revisions to the district budget.
  - b. The 45-day deadline for public review of revisions made to the district budget resulting from the adoption of the state budget.

### **Standard Implemented: Partially**



## 7.3 Budget Adoption, Reporting and Audits – AB1200 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 Alameda County Office of Education (ACOE).

### **Sources and Documentation**

1. The district's adopted budget and interim reports
2. Discussions with the district Budget Director and the Controller
3. Discussions with the county office
4. Correspondence between the district and county office

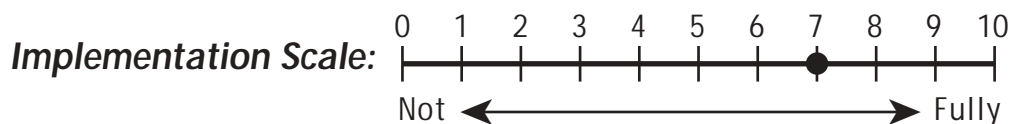
### **Findings**

1. The district produced a timely budget that was approved by the county office. The district's fiscal health may be deteriorating as it struggles to meet its two percent minimum reserve.
2. The 1999-00 Interim Report was submitted to the county office in a timely manner.
3. Due to fiscal uncertainties resulting from ongoing negotiations and the necessity to shift funds to meet the reserve for economic uncertainty, the integrity of the First Interim Report is questionable.

### **Recommendations and Recovery Steps**

1. The county office should review closely the district's first and second interim reports to ensure that the district remains fiscally healthy. The additional oversight is warranted as the district may be operating without a chief business official for several months.

### **Standard Implemented: Partially**



## 7.4 Budget Adoption, Reporting and Audits – Budget Adoption and Reporting, Completion and Filing of Interim reports

### **Professional Standard**

The district should complete and file its interim budget reports within the statutory deadlines established by Education Code Section 42130, et seq.

### **Sources and Documentation**

1. The district's second interim reports for the prior year.
2. Discussions with the district's Controller and the Budget Director
3. Discussions with the Alameda County Office of Education.

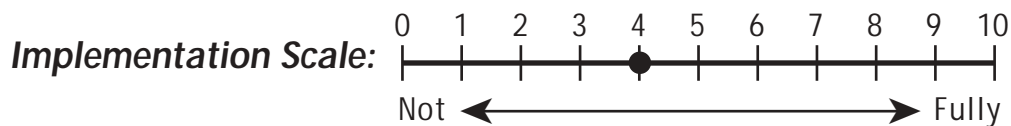
### **Findings**

1. The district did not file its Second Interim Report on a timely basis for the 1998-99 fiscal year. The First Interim Report is scheduled to go before the board on December 15. Therefore, it appears that the district will meet the statutory deadline.
2. The county office did not indicate that there has been a problem with the district's timely filing of the interim reports.
3. The district did not file qualified or negative interim reports in the prior year, nor will it file a negative First Interim Report.

### **Recommendations and Recovery Steps**

1. The district needs to complete its interim reports early enough to allow sufficient time for the reports to go before the board and still be filed with the county office by the statutory deadline.

### **Standard Implemented: Partially**



## 7.5 Budget Adoption, Reporting and Audits – Audit Administration and Resolution, Arranging for Audit

### Professional Standard

The district should arrange for an annual audit (single audit) within the deadlines established by Education Code Section 41020.

### Sources and Documentation

1. Board agenda approving the CPA firm
2. Copy of the letter amending the contract with the CPA firm
3. Discussions with the district's Controller

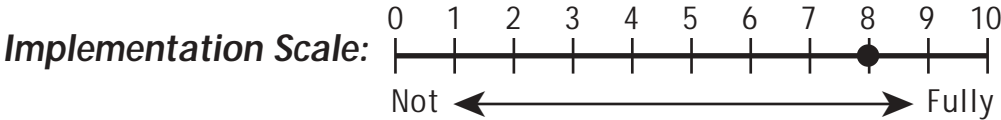
### Findings

1. The district arranged for its annual audit within the statutory deadline. In addition, the district timely informed the county office of its selection of an auditor to perform its single audit.

### Recommendations and Recovery Steps

The district met this standard.

### Standard Implemented: Fully – Substantial



## 7.6 Budget Adoption, Reporting and Audits – Audit Administration and Resolution, Audit Administration

### **Professional Standard**

Standard management practice dictates the use of an audit committee.

### **Sources and Documentation**

1. Discussions with the Associate Superintendent, Business Services

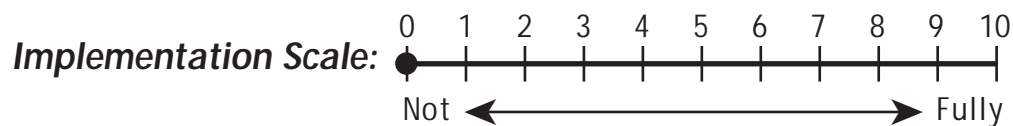
### **Findings**

1. The district does not have an audit committee.

### **Recommendations and Recovery Steps**

1. The governing board should establish an audit committee that provides ongoing, independent oversight and advice to the district regarding fiscal management issues. The board should:
  - a. Adopt a resolution to establish an audit committee. The resolution should establish the charter and bylaws, and define:
    - 1) The functions and objectives of the committee
    - 2) How members are appointed
    - 3) Terms for the committee members
    - 4) Voting and quorum requirements
    - 5) The desired technical knowledge expected of committee members
    - 6) The criteria for evaluating and selecting committee members
  - b. Advertise for audit committee members in both local and regional newspapers.
  - c. Have the audit committee in place by the start of the 2000-2001 fiscal year.
  - d. Compose the audit committee of members from both the district and the larger community. The members should come from careers in pertinent areas such as law, banking, finance, education, and accounting. The committee may include board members or other district employees, but should not be dominated by district employees.
  - e. Appoint the audit committee responsible for selecting the auditor, reviewing the audit report, reviewing and evaluating the district's response and corrective action plans for any audit findings. In addition, the audit committee should direct the activities of the internal auditor, and review the reports of internal auditor.

### **Standard Implemented: Not**



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

### ***Professional 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.

### ***Sources and Documentation***

1. The district's audit report
2. The district's corrective action plan provided to the Alameda County Office of Education

### ***Findings***

1. The district's audit report for the 1997-98 fiscal year (the most recent available) contained several findings that required corrective action. Accordingly, the district needed to establish an appropriate corrective action plan to address the findings. The corrective action plan can either be included with the district's response to the audit report, or submitted as a separate corrective action plan that must be forwarded to the county office by March 15. The district did provide a response to each of the individual findings, and those responses were included in the audit report. Some of those responses were adequate. However, several responses did not contain sufficient detail to serve effectively as a corrective action plan.
2. The district did not prepare or provide to the county office a separate corrective action plan for those findings contained in the 1997-98 audit report.
3. The district still needs to take corrective action in the following areas:
  - a. Policy and Procedure Manuals: Establishing and updating policy and procedure manuals, particularly at the department and job level.
  - b. Payroll: Establishing and enforcing procedures requiring employees and sites to complete and submit timesheets to the payroll office accurately and timely. Also, payroll should have a procedure to ensure the proper filing of timesheets in order to facilitate retrieval.
  - c. Internal Audit: Requiring the internal audit department to prepare an annual work plan prior to the start of the year that includes budgeted hours and completion dates for each project.
  - d. Student Body Funds: Establishing and enforcing accounting and reporting procedures and processes for these funds, as well as ensuring that staff has sufficient skills to perform duties.
  - e. Food Services: Establishing a system, preferably computer-based, to ensure the accurate recording of meals served, and the number of free or reduced lunches to be claimed for reimbursement.

### ***Recommendations and Recovery Steps***

1. The district should provide sufficient detail in its responses to all audit findings to function effectively as a comprehensive corrective action plan.

2. If the district does not or cannot provide a sufficiently comprehensive corrective action plan in its response to the audit report findings, it should submit a supplemental plan to the county office by March 15.
3. The district should implement the necessary corrective measures to resolve all findings identified in its annual audit report. In regards to specific measures to address unresolved audit findings, the district should implement the following recommendations:

- a. Policy and Procedure Manuals

The district should continue to develop fiscal accounting procedure manuals that document the processes, forms, time lines, and procedures for each transaction type and cycle within each department under the Associate Superintendent for Business Services. The manuals should identify which positions are responsible for supervising, reviewing, and reconciling each transaction. The manual also should address information necessary for processing and reporting transactions to the county office and CDE.

- b. Payroll

The district needs to communicate the policies for the preparation and submission of timesheets from sites and departments. The district also needs to hold administrators and employees responsible for not complying with those policies, either through withholding paychecks (employee and/or administrator) or giving negative performance evaluations.

- c. Internal Audit

The district should re-establish the internal audit department eliminated last year. In re-establishing the internal audit function, the department should be made accountable by requiring it to prepare an annual work plan prior to the start of each year. The work plan should identify all audit work planned for the year and include detail such as:

- Start and end dates for each project
- Total hours budgeted for each project
- Milestones
- Draft and final report dates

The work plan then would provide a basis for controlling work and evaluating performance.

- d. Student Body Funds

The district should establish procedures to ensure that adequate controls are in place at each school site. For example:

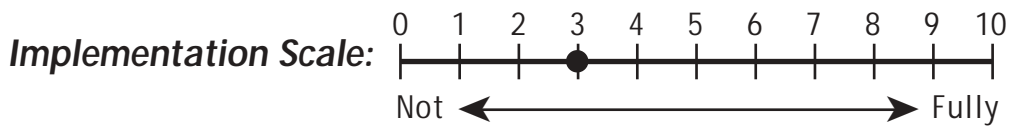
- Duties related to cash receipting, recording, depositing, reconciling, and disbursing should be segregated.
- Prenumbered receipts should be issued for all cash collected, and the recorded receipts should be reconciled to the deposit receipt.
- Sites should submit monthly financial reports to the account and district office staff should review the monthly reports

The district should provide annual training to activity coordinators, ASB accountants, principal, and vice-principals so they are aware of the appropriate methods and their individual responsibilities. In addition, the district should evaluate employees based on the performance of these duties.

e. Food Service

The district should implement a computer-based system to track the number of meals served and the number of free or reduced lunches served to facilitate accurate reporting for reimbursement purposes. To the extent that this system could be integrated with a point of sale system, it would also provide better cash control and management information. Absent the implementation of a computer based system, the district should provide training to food workers in the proper recording and reporting of total meals and free or reduced meals served. The cafeteria managers should be reviewing and reconciling reports to ensure the accuracy of information.

**Standard Implemented: Partially**



## 7.8 Budget Adoption, Reporting and Audits – Audit Administration and Resolution, State Reporting

### ***Professional Standard***

The district must file certain documents/reports with the state as follows:

- 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)

### ***Sources and Documentation***

1. Discussions with the district's Controller
2. The district's interim financial reports

### ***Findings***

1. The district did not file its J-200 forms for the 1998-99 fiscal year by September 15, 1999, as required by law. Evidently, the county office was aware of the district's need for additional time to close the book and granted a time extension. However, the fact that the district required additional time to close the books raises concerns about the procedures for processing transactions during the year, the knowledge of staff, the methods of communicating information between the central office, sites, and departments, and the overall fiscal health of the district. The inability to process transactions timely and accurately, and to timely close the books frequently is one of the first and most telling indicators of potential future financial problems. (See related recommendations under Standard 12.7 Accounting – Year-end Closing Procedures.)
2. The district did not file its J-380 forms in a timely manner as required by law.
3. The district is preparing to file its First Interim Report for the 1999-00 fiscal year, and it appears that it will file it on a timely basis. In reviewing the Second Interim Report for 1998-99, we did note that the date of the board hearing approving the report was March 24, 1999, nine days after the deadline. While this does not make the report significantly late, the board approval was after the legally prescribed date of March 15 nevertheless.

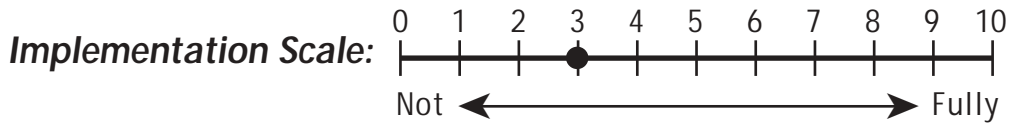
### ***Recommendations and Recovery Steps***

1. The district needs to implement procedures to ensure that the books are closed in a timely manner to allow the J-200 reports to be prepared and submitted on time. In order to achieve this goal, the district must require that transactions be processed on a timely basis throughout the year. This will require tasks and responsibilities to be assigned clearly to specific staff members in the accounting office, as well as at sites and in other departments – in particular, special education, purchasing, budget, and personnel. In addition, staff members should be evaluated on their adherence to established procedures and on meeting established deadlines.

The district should provide training regarding the appropriate procedures to process all transactions. If the district needs assistance in training its employees or closing its books, it should seek help from the county office at the earliest possible date.

2. The district must establish procedures for preparing the J-380 in a timely manner. Such procedures should identify the individual or individuals responsible for various facets of the work, including data collection and compilation, supervision, review, and approval. The accurate and timely completion of the assigned tasks should be included as factors that will be used to evaluate employee performance.
3. There does not appear to be a significant problem in the district preparing and submitting its interim reports to the county office. However, the district does need to be diligent about meeting statutory deadlines. In order to ensure the timely filing of its interim reports, at the beginning of each year, the district should identify the board date prior to the due dates for each report, and ensure that the interim reports are on those agendas. If the reports are completed sooner, they can be put on an earlier board agenda, which ensures a drop-dead date for completion and approval of the interim reports.

***Standard Implemented: Partially***



## 8.1 Budget Monitoring – Encumbrance of Overexpenditures

### *Professional Standard*

All purchase orders are properly encumbered against the budget until payment.

### *Sources and Documentation*

1. Financial reports of budget to actual activity, including encumbrances
2. Interviews with business staff and Purchasing Director

### *Findings*

1. The district utilizes an online purchasing system. This system allows sites and departments to prepare and transmit purchase requisitions online, eliminates the need for paper forms and intradistrict mail, and makes the process more efficient.

In addition, the purchasing system is integrated with the budget and accounting modules and is intended to verify automatically that there are sufficient funds available in the account. If there are insufficient funds available, the system will not process the purchase order. At that point, the initiating site or department administrator must submit a budget transfer form to transfer money into the account. This currently is a manual process where the form is reviewed by the budget office, and if there are available funds to be transferred, the transfer is processed. At that point, the site or department can resubmit its purchase request. When the purchase order is processed, the system automatically encumbers the funds.

After the item is received, accounts payable processes the payment, reducing available funds and liquidating the encumbrance.

2. However, in reviewing the 1998-99 accounts, we noted several accounts (object code series 4000 through 6000) where the accounts were overexpended at year-end. Theoretically, the system should not allow an expenditure or purchase to be made unless there are sufficient funds in the account. To the extent that we observed such overexpenditures, the system clearly is not operating as intended. When an explanation was requested, the potential explanations were:
  - a. The system was overridden during the purchasing requisition approval process;
  - b. The system was overridden during the encumbering process; and/or,
  - c. The expenditure was charged to the account at year-end.

The question was circulated through the purchasing, accounting and budget offices, but no specific answers or explanations were given for individual items and accounts. This indicates that there is a flaw either in the accounting, budget, and purchasing procedures, or an employee was overriding the system. Regardless, there is a weakness in the system that allows purchases to be made in excess of the authorized budget.

3. In the area of personnel, items such as substitutes, stipends, and extra-duty pay are not budgeted down to the site level. Rather, those items are budgeted on a districtwide basis. Requests to charge against these districtwide accounts are submitted by the sites, and reviewed and approved by the Curriculum and Instruction division. However, the funds are not encumbered when the request

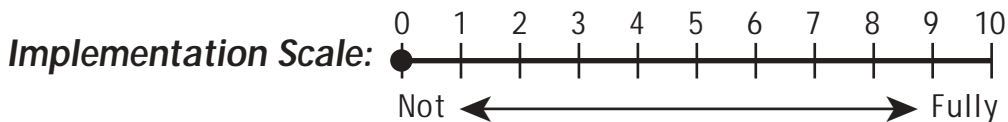
is approved. The available balance in any of these accounts is impacted only when personnel costs are actually paid.

This process has two basic flaws. First, since the sites are not budgeted, any funds for these items, they have no incentive to minimize the amounts charged to the account. As a result, the process discourages site administrators from being fiscally responsible for their own budgets. Second, since funds aren't encumbered when the additional pay is approved, one of the most fundamental ways to control expenditures is lost. And, as happened here, the accounts end up being over-drawn.

### **Recommendations and Recovery Steps**

1. The district should upgrade its system to allow for online budget transfers. This would increase the efficiency and effectiveness of the system and facilitate the processing of purchase orders and budget transfers. In addition, it should help to prevent data entry errors by limiting the number of individuals that have to prepare transfers or input data.
2. The district should research those accounts that were overexpended, in order to determine on an account-by-account, transaction-by-transaction basis why the system was overridden. Then, having identified how and why the transactions were processed, the district needs to revise or develop policies that prohibit system overrides, except for unusual circumstances. Further, the ability to override the system should be limited to the smallest number of individuals as possible, and those authorized should be at upper management levels. Once the new policies and procedures have been established, the district should provide staff training and reference materials in order to ensure that affected staff are aware of and understand the new or revised policies and procedures. Then, to ensure that the new policies and procedures are being followed during the year, the district should utilize an internal control review process.
3. In order to encourage sound financial management at sites, the district should budget substitutes and extra-duty stipends on a site-by-site basis. The availability of funds should be verified before these types of personnel expenditures are approved, and all approved amounts be should encumbered in order to minimize the risk of overexpenditures.

### **Standard Implemented: Not**



## 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.

### *Sources and Documentation*

1. Interview with the Budget Director

### *Findings*

1. The district utilizes an online budget system.
2. The accounts payable, budget, and purchasing modules are integrated. The budget office sets up and makes revisions to the budget. Purchasing encumbers funds when processing purchase orders. When accounts payable pays invoices, encumbrances are liquidated and the available budget is reduced.

However, budget revisions made by the budget office are not made directly. That is, MIS needs to run an update or new projection in order to set-up the revised budget amounts. As a result, if the budget office neglects to include a budget revision on its projection request to MIS, the request is not sent, or the projection request form becomes lost in transmittal to MIS, the budget will not be revised appropriately.

3. Theoretically, the purchasing system will not allow a purchase/expenditure that exceeds the available balance in the identified account. Budget transfers must be made before the purchase will be processed. The budget transfer process is a paper-based, manual process. However, we did note that there were instances where account budgets were exceeded.
4. All sites and departments have online access to their individual budget information. Therefore, sites and departments have real-time access to current budget information. As such, the responsibility for budget monitoring lies with site and department administrator. However, given the fact that the district did have budget overruns in several accounts, including a very large overrun in special education, there are not sufficient controls in place to move to a site-based management system. Further exacerbating the situation is the fact that significant dollars in personnel costs related to temporary assignments and extra-duty pay are not budgeted or managed at the site level, nor are there procedures currently in place that would allow effective management of these costs.
5. The budget office produces reports on an as-requested basis for sites and departments.

### *Recommendations and Recovery Steps*

1. The use of an online, computer-based budget package is positive. However, the system should be integrated and smoothly interface with all other financial management systems. The district should take measures to ensure that the budget and personnel systems are integrated. This would allow the budget office to enter changes directly to the budget accounts, without going through

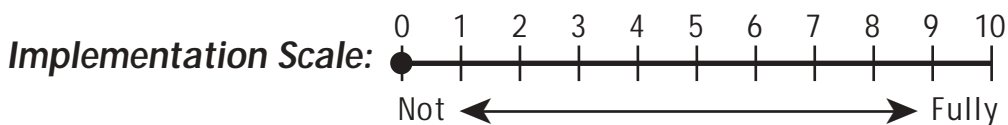
MIS. This also would provide for exchange of data that improves the efficiency of work, the accuracy of data maintained, and the quality of projections made. This would allow more efficient, accurate, and timely processing of budget transactions.

2. The district should implement an online budget revision process. This would allow more efficient, accurate, and timely processing of budget transactions. In addition, the district should investigate instances where transactions were processed with insufficient funds available in the budget. This will identify how and why the system allowed the transaction to be processed or be overridden. If the transactions were processed due to system error or flaw, the system should be corrected. If the system was overridden, the district needs to establish policies and procedures to ensure that system overrides are minimized and can be authorized only by specified management staff. If the overexpenditures occurred due to processing material transactions at year-end, then the issue of late or untimely processing of transactions will need to be addressed.
3. The budget office needs to take more responsibility for monitoring and managing the district's budget, and move toward greater central office budget management and away from site-based financial management. Therefore, the budget office should be monitoring all budgets monthly for unusual spending patterns. Once identified, the budget office should determine the underlying reasons and if they are problems that require corrective action.

In regards to special education, procedures should be established that preclude the department from hiring staff or entering into contracts without budget review and approval. Additionally, the budget office should meet monthly with the director of special education, the Assistant Superintendent for Human Resources, and the Controller to review the year-to-date expenditures and budget projections for the rest of the year. The district cannot afford to overexpend in any budget area by several million dollars, as it has in special education. Therefore, special education expenditures need to be controlled, and potential problems identified and addressed as early as possible

4. The budget office should coordinate with sites and departments in order to determine if there is additional information that the budget office could provide that would assist in managing finances.

**Standard Implemented: Not**



## 8.3 Budget Monitoring – Budget Revision Procedures

### ***Professional Standard***

Budget revisions are made on a regular basis and occur per established procedures and are approved by the board.

### ***Sources and Documentation***

1. Budget revisions
2. Board minutes
3. Discussions with the Budget Director

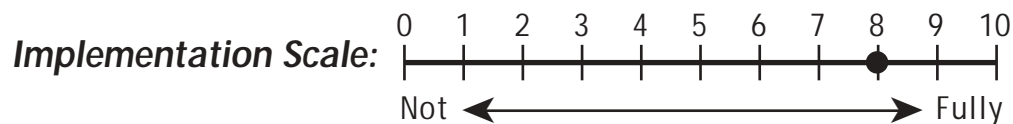
### ***Findings***

1. The district processes budget revisions on an as-needed basis, minimally at the time of the adoption of the state budget, and during the first and second interim reporting periods. All budget revisions are taken to the board for approval.
2. Board minutes showed that routine actions were taken to approve budget revisions.

### ***Recommendations and Recovery Steps***

The district met this standard.

### ***Standard Implemented: Fully – Substantial***



## 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.

### *Sources and Documentation*

1. Personnel action request forms
2. Position control systems documentation
3. Interviews with the Budget Director and budget staff
4. Interviews with the Assistant Superintendent – Human Resources
5. Interviews with payroll staff

### *Findings*

The following steps outline the district's position control system:

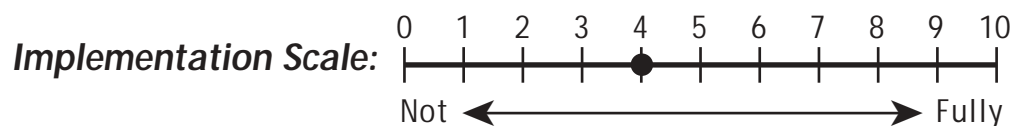
1. The position control system is maintained by the budget office and each position is given a unique number.
2. New positions are initiated using a Position Action Form (PAF). This form identifies all pertinent information regarding funding, location, and category, e.g., account code string. The form is prepared by the site, program, or department requesting the position.
3. New positions are approved by the site or department administrator – and for special positions, the Curriculum and Instruction Office – and then sent to human resources (HR). HR then reviews the PAF for completeness and accuracy of information.
4. After review, HR puts the new request on the agenda of the board's Budget & Finance Subcommittee. The subcommittee reviews and recommends approval or disapproval of the request.
5. Approved positions go to the board for final review and approval. All new positions require board approval.
6. After board approval, HR sets up the position and forwards the information to the budget office. However, due to staff turnover in the personnel office and the significant number of new employees that the district hires each year, there have been problems in putting new employees on the system timely and accurately. After HR sets up the position, the budget office assigns a position. Since the budget office is notified of the new position after the fact, control over salaries and benefits budget is diminished.
7. During the year, the budget office monitors the number of FTEs on a weekly basis. All changes in FTE are tracked and variances between the HR system and budget system are reconciled. This function is necessary as the budget and personnel systems are not integrated and do not interface.

8. The district does budget multiple positions under a single position control number, which makes the tracking of positions, individuals, and salary and benefit costs more difficult.
9. When the district eliminates a position during the year, the total budget for that position is eliminated from the budget system. Therefore, any salaries previously charged to the position account appear as overexpenditures in the budget reports .
10. When the district fills an existing position, the budget office is not involved in the process. The new employee's pay scale may be higher than the budgeted amount for the previous employee, yet the budget office would be unaware of this, a new budget projection is not run and the district does not know if it is going to exceed the budgeted amount. As a result, while FTEs may be valid, the bottom line dollar amount could change.

### ***Recommendations and Recovery Steps***

1. The position control function should be solely in the budget office, and all personnel transactions related to a position should be processed through the budget office first, in order to ensure both the availability of a position and the adequacy of funding.
2. The budget office should be responsible for verifying the completeness and accuracy of PAFs rather than the HR office, as account coding essentially is a budget function.
3. After review by the budget office, all personnel transactions should be forwarded to HR for review and agendizing.
4. The district should implement a completely integrated system integrating accounting, budget, personnel, and payroll, or make system modifications so that the HR system and the budget system are interfaced.
5. The district should use a unique position control number for each position, rather than having multiple positions under a single position control number. This would allow easier and more accurate monitoring of positions.
6. The district should modify its system to ensure that it accurately reflects budgeted amounts even if positions are eliminated during the year.

### ***Standard Implemented: Partially***



## 9.1 Budget Communications – Communicating Policy

### ***Professional Standard***

The district budget should be a clear manifestation of district policies and should be presented in a manner that facilitates communication of those policies.

### ***Sources and Documentation***

1. Discussions with the Budget Director
2. Discussions with budget staff
3. Review of budgeting policies and procedures
4. Review of budget documents

### ***Findings***

1. The district budget development process is comprehensive and provides significant opportunities for staff and community members to be informed and have input.
2. The budget is intended to reflect the strategic planning decisions of the district and communicate the vision of the district with regard to these decisions.
3. The budget document, like many district budgets, is prepared as if it serves only a single purpose, that of financial management. The budget document is essentially J-200 financial information. The document does not provide information to the community regarding the district's goals and priorities and how those items are embodied in the budget numbers. The budget provides no recap or assessment of the district's success in achieving prior-year goals. Further, the budget document does not provide significant information regarding the various programs the district operates.

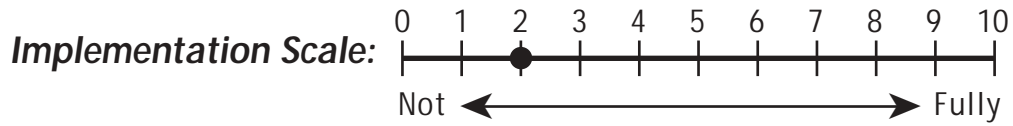
The budget document should also serve as a communication document; it should emphasize the goals and objectives of the district and be presented in a manner that is easily understood by nonfinancial managers. Emphasis is needed in this area.

### ***Recommendations and Recovery Steps***

1. The budget document should be revised in a manner that facilitates communication to the entire community, not just financial managers.
2. The district should consider adding more graphic displays and program descriptions to make the document more readable and complete. Items to include in the budget document are:
  - a. A message from the board President
  - b. A statement of the district's mission and goals
  - c. The budget development guidelines
  - d. The basic assumptions included in the budget
  - e. Pie charts and graphs depicting where the money comes from (revenue) and how it is spent (expenditure and fund balance).
  - f. Two-year financial presentation of prior-year projected actual amount and the adopted budget

- g. Additional overview information such as the district organization chart and demographic information
- h. Information regarding the budget development process and budget calendar
- i. A discussion of new programs and how those programs are funded
- j. Major budget changes over the prior year, categorized by object code for restricted and unrestricted general fund revenues and expenditures, and all special funds

***Standard Implemented: Partially***



## 9.2 Budget Communications – Identification of Onetime versus Ongoing Revenues and Expenditures

### **Professional Standard**

Clearly identify onetime source and use of funds.

### **Sources and Documentation**

1. Discussions with the Associate Superintendent, Business Services
2. Discussions with the Budget Director
3. Discussions with budget staff
4. Review of budgeting policies and procedures
5. Review of budget documents

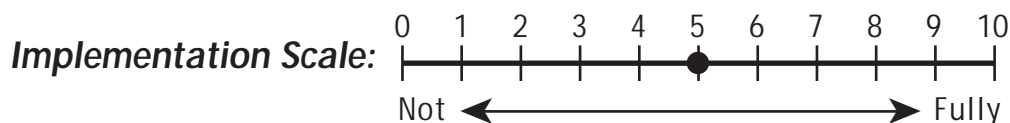
### **Findings**

1. The MIS department rolls over the prior year budget.
2. The budget department then reviews the prior-year budget assumptions and revisions for one-time items, revenues and expenditures. Based on this review, the current year budget is revised for the onetime items in the prior-year budget.
3. Then current budget information obtained from the Governor's January budget and other sources is reviewed to identify new onetime items to be added to the current year budget.
4. The categorical programs office also provides information regarding onetime program items that need to be adjusted or reflected in the restricted part of the budget.
5. This process is not documented formally.

### **Recommendations and Recovery Steps**

1. The district should formalize the actual process for identifying and adjusting the budget for onetime revenues and expenditures. The procedures should specify the position that is responsible for performing this function, as well as the sources for the necessary information. In addition, the procedures need to address the participation of other departments, such as MIS and the categorical programs office, which must be aware of the procedures and their role in the process.

### **Standard Implemented: Partially**



## 10.1 Investments – Investment Policy and Quarterly Approvals

### **Professional Standard**

The governing board must review and approve, at a public meeting and on a quarterly basis, the district's investment policy. [GC 53646]

### **Sources and Documentation**

1. Discussions with the Controller

### **Findings**

1. Currently, the district invests all funds in the county treasury or in the Local Agency Investment Fund (LAIF) maintained by the State Treasurer.
2. The district does not have a formal investment policy. Essentially, the district assumes the investment policies of the county or state, which are the custodians of its funds. However, since there is no formal investment policy, nothing precludes the district from investing its funds in other ways.
3. As the district does not have a formal investment policy, the governing board cannot review and approve it annually.
4. The district does not make quarterly reports regarding its investment.
5. As there is no formal policy or quarterly investment report, there can be no assurance that district funds will not be invested outside of the county treasury or LAIF. Further, if funds were invested in other types of investments, there would be no assurance that those investments would be consistent with applicable Government Code Sections 53601 or 16430.

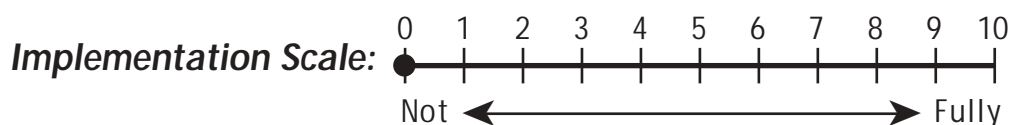
### **Recommendations and Recovery Steps**

In order to ensure that the district properly manages and invests its funds, the district should:

1. Develop a formal investment policy
2. Have the governing board adopt the formal policy for the investment of surplus funds. This policy should be reviewed and reauthorized by the board annually.
3. Establish procedures to report to the board on any investments, at least quarterly.
4. Periodically review its investments to ensure that any investments outside the county treasury are consistent with Government Code sections 53601 and 16430.

See Exhibit FM 2. for a sample quarterly report and Exhibit FM 3. for a sample investment policy.

### **Standard Implemented: Not**



**Exhibit FM 2.**

UNIFIED SCHOOL DISTRICT  
SAMPLE QUARTERLY INVESTMENT REPORT  
September 30, 1998

As of September 30, 1998, \_\_\_\_\_ Unified School District is in compliance with Board Policy 3430 (a) for investments. District funds are invested in a manner that meets the primary objective of safeguarding the principal of the funds and serving the district’s liquidity needs. District funds are invested as follows:

County Treasury Investment Pool	\$136,314,769
Certificates of Participation	\$124,230,576 **

\*\* This amount represents escrow funds held by trustees at \_\_\_\_\_. These funds are invested in United States Treasury Bills and Notes which are backed by the U.S. Federal Government.

In accordance with law and administrative regulations, this investment report also certifies that Unified School District has sufficient cash on hand to meet the district’s cash requirements for the next six months.

**Exhibit FM 3.**

SAMPLE INVESTMENT POLICY

The Superintendent or designee may invest as permitted by law all or part of the special reserve fund of the district or any surplus monies not required for the immediate district. Such investments must be made with care, skill, prudence and diligence.

Such investments shall be limited to county investment pools, U.S. Treasuries, sweep accounts and trustee banks and guaranteed investment contracts (GIC). They shall in no case extend outside those specified in Government Code 16430, 59601, and 536335.

The governing board recognizes that the Superintendent or designee has fiduciary responsibility and is subject to prudent investor standards for all investment decisions. As such, district investments must be made with skill, prudence and diligence, with the primary objective of safe guarding the principal of the funds and with the secondary objective of meeting the district’s liquidity needs.

The Superintendent or designee is authorized to invest district funds in county investment funds or U.S. Treasuries or other similar investments.

The board recognizes the importance of overseeing investments made with district funds, including investments by the county treasurer. The district shall participate with all school district and community college districts in the county to select a representative to the county treasury oversight committee. The Superintendent or designee shall maintain ongoing communication with this representative and shall keep the board well informed about the policies that guide the investment of these funds.

The Superintendent or designee shall annually provide to the board and any oversight committee a statement of the district's investment policy. In accordance with law and administrative regulations, the Superintendent or designee shall also provide the board quarterly reports with specified components, including a statement of how the district portfolio compares with the district's investment policy. (Government Code 53646)

(cf. 3020 – Fiscal Policy Team)

(cf. 3460 – Financial Reports and Accountability)

## **Legal Reference**

### EDUCATION CODE

41001 Deposit of money in county treasury

41002 General fund deposits and exceptions

41002.5 Deposit of certain funds in insured institutions

41003 Funds received from rental of real property

41015 Authorization of and limitation investment of district funds

41017 Deposit of miscellaneous receipts

41018 Disposition of money received

42840-42843 Special reserve fund

### GOVERNMENT CODE

16430 Eligible securities for investment of surplus moneys

27130-27137 County treasury oversight committees

53600-53609 Investment of surplus

53630-53684 Deposit of funds

53635 Local agency funds; deposit or investment

53646 Treasurer reports and statements of investment policy

53852.5 Investment term for funds designated for repayment of notes

53859.02 Borrowing by local agency

### CIVIL CODE

2261-2262 Obligations of trustees; investments

## Policy

UNIFIED SCHOOL DISTRICT

California

Adopted: June 23, 1994

Revised: October 31, 1996

## 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.

### *Sources and Documentation*

1. Attendance accounting system records, including input documents and reports
2. Interview with the management of the management information department
3. Interviews with attendance staff at sampled school sites

### *Findings*

1. There is no centralized control to ensure all sites are running the reports daily as required. Thus, there could be teachers that are not turning in scantron sheets. The attendance then would be incorrectly overstated. The district uses the SASI III student information system, which has been approved by the state. The system is scantron-driven and has control checks to ensure all teachers turn in a daily scantron by running an Unscanned Attendance Roster Report.

The enrollment process also is automated. New enrollees show up on the attendance lists by teacher, generated every other week. Teachers manually add the pupil's name to their rosters until the new list is generated by the system. There is a double-check by the attendance office to ensure that new enrollees' attendance is being recorded.

2. The absence verification process uses an automated calling system that leaves parents a message that their child was absent. Parents are called when students miss two or more periods. The parent is provided a personal identification number (PIN) number to verify online the absence. Only about 20 percent of parents use this option, while the balance are supposed to provide notes. Notes are spot checked for validity. However, as discussed more under Attendance Improvement Programs, any parent-approved absence is considered excused for compulsory education in spite of Education Code provisions that clearly delineate justifiable reasons for excused versus unexcused absences.

The independent study program at each school site is run through the site office. Separate codes and ledgers are used to identify independent study days. The system is credited for apportionment days upon the return of the completed contracts. There are no systems checks to recognize independent study days for five consecutive contract days or more.

For the class size reduction programs, a report is run every day to audit class sizes, and reports overage for grades K-3 and 9.

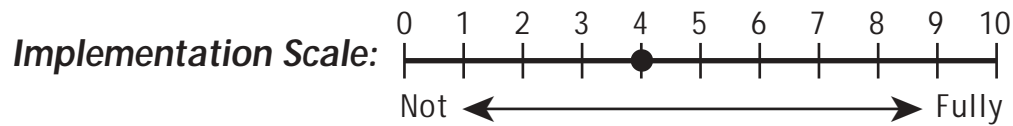
Attendance reports are generated monthly from the system and the Principal Apportionment reports are compiled to ensure all schools have submitted data.

### *Recommendations and Recovery Steps*

1. Centrally run the Unscanned Attendance Roster Reports for the prior period, i.e., the second prior week, to ensure that all sites have scanned the sheets. Follow-up with sites that have outstanding attendance rosters.

2. A better system of absence verification is needed. More follow-up should be made on students with excessive excused and unexcused absences. Changes in the system are needed to differentiate 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.
3. Develop attendance reports to identify independent study absences of less than five consecutive school days to ensure no apportionment is inadvertently claimed.

***Standard Implemented: Partially***



## 11.2 Attendance Accounting – Policies and Fiscal Impact of Independent Study, Inter- and Intradistrict Agreements

### Professional Standard

Policies and regulations exist for Independent Study, Home Study, inter/intradistrict agreements and districts of choice, and should address fiscal impact.

### Sources and Documentation

- 1. Policies and regulations for Independent Study, Home Study, and inter/intradistrict agreements
- 2. Interview with attendance secretary at schoolsite

### Findings

- 1. Board Policy 3013 provides authority to enter into interdistrict agreements. Administrative Bulletin 3020 covers in detail the system of both inter- and intradistrict attendance. The Superintendent is designated by the board to establish intradistrict attendance polices.

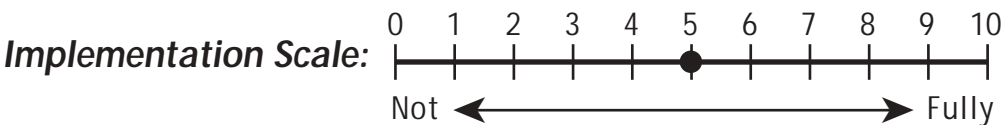
Administrative Bulletin 5021 provides regulation covering the independent study program. The regulation has not been updated for the change in independent study law that limits apportionable days to five consecutive school days or more.

The change in law limiting independent study ADA to five or more consecutive school days was not communicated to the school site secretaries interviewed. Lack of a districtwide attendance coordinator means that policies and regulatory changes may not be communicated or communicated timely. The MIS function and compilation of state reports centrally does not meet the need for an overall coordinator.

### Recommendations and Recovery Steps

- 1. There needs to be a coordinated leadership effort at the district office to keep track of changes in attendance law and the manner in which local board policies and regulations should be changed in response. This individual then should ensure there is timely and complete communication of the changes to the school sites and the MIS department.

### Standard Implemented: Partially



## 11.3 Attendance Accounting – Enrollment of Students into Attendance System

### **Professional Standard**

Students should be enrolled by staff and entered into the attendance system in an efficient, accurate and timely manner.

### **Sources and Documentation**

1. Enrollment input forms
2. Interviews with management in the management information system department
3. Interviews with attendance staff at sampled school sites

### **Findings**

1. The enrollment registration packet is uniform and given to each student. The packet includes verification of residency requiring two forms of identification, language identification, immunization records and transfer of transcripts. If a pupil already is enrolled in the district, then the records are transferred online. Once the pupil's schedule has been made, then the pupil shows up in the system next the day on the teacher's roster within two weeks. In the intervening time period, the teacher writes in the name of the pupil and takes attendance as usual.

The SASI system has logical checks to identify when the teacher's manual input does not match the system input and to find any pupil not assigned to an active teacher.

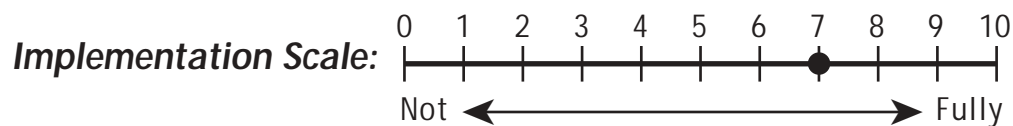
There is no formal drop policy. However, at the beginning of the school year, the "no show" lists are reviewed. Students with no attendance are dropped and those with some attendance receive follow-up.

There is no standard procedure to reconcile the teachers' rosters to enrollment in the system. However, most teachers do reconcile their rosters, particularly at the being of the school year.

### **Recommendations and Recovery Steps**

1. Develop a procedure to ensure that all pupils on individual teacher rosters are in the attendance system, and that all pupils in the system are on a teacher's roster.

### **Standard Implemented: Partially**



## 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.

### Sources and Documentation

1. Interview with management of the student services department
2. Independent audit report
3. Worksheets recomputing instructional time by schoolsite

### Findings

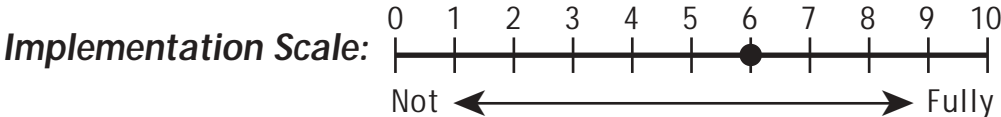
1. Annually, a packet is sent out to each school site for completion. The packet contains detailed worksheets to compute instructional minutes on a daily and annual basis. The student services office makes sure that each site turns in the worksheets and that they are in compliance with instructional time requirements.

The attendance system does not have a feature that is used to check for compliance with minimum day requirements on a student-by-student basis. This job is left up to the counselors.

### Recommendations and Recovery Steps

1. Determine whether the system is ensuring each pupil is scheduled for a minimum day in order to be reported for apportionment. If not, quantify the noncompliance and, if material, make program changes to correct future deficiencies.

### Standard Implemented: Partially



## 11.5 Attendance Accounting – Attendance Systems for Alternative Programs

### **Professional Standard**

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.

### **Sources and Documentation**

1. Attendance records and reports for the adult education program
2. Interview with the attendance staff at the adult education center

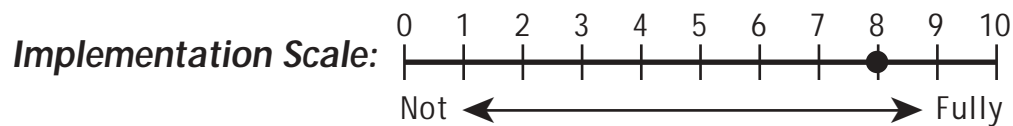
### **Findings**

1. Adult Education has its own attendance accounting system. Three of the alternative schools and the summer school program use the SASI system and run hourly reports. The charter schools have their own systems and the ROC/P is investigating the use of SASI.

### **Recommendations and Recovery Steps**

1. Review whether the system is ensuring each pupil is scheduled for a minimum day for apportionment. If not, quantify the noncompliance and, if material, make changes to correct.

### **Standard Implemented: Fully – Substantial**



## 11.6 Attendance Accounting – Attendance Improvement Programs

### *Professional Standard*

The district should have standardized and mandatory programs to improve the attendance rate of pupils. Absences should be aggressively followed-up by district staff.

### *Sources and Documentation*

1. Interviews with management of the student information department
2. Interview with management of the student services department
3. Interviews with attendance staff and administrators at sampled school sites
4. Policies on compulsory education
5. Attendance records at school sites
6. Samples of correspondence between the district and parents/guardians regarding compulsory education policies and actions

### *Findings*

The student services department is responsible for compulsory education.

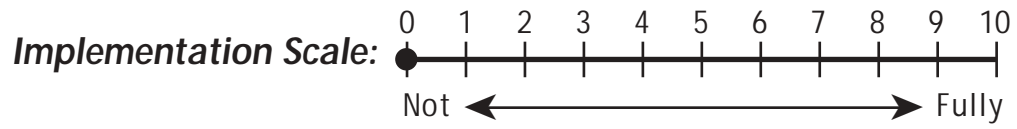
1. Board policies on student attendance are broad and not specific in the identification of justifiable personal absences. We are concerned about the effective communications of compulsory education requirements to parents and school officials. At the school sites visited, attendance secretaries believed that any absence permitted by the parent was a justifiable personal absence. There appears to be no communication to the sites on what constitutes a justifiable personal absence (beyond Education Code provisions). Thus, some secretaries believed, for example, that keeping a child home to baby-sit a sibling or because their clothes were not clean was a justifiable personal absence because the parent gave permission for the absence.

There are no districtwide ADA attendance improvement programs. There are, however, truancy prevention programs, which indirectly affect ADA. There are truancy reduction centers and the governing board has focused discussion on a program for truancy reduction. District employees are working in the program, but there is a lack of training and knowledge of compulsory education laws and the positions are being used effectively. For example, one aide was not taking full advantage of SASI reporting of absences to identify pupils with truancy problems early. The aide interviewed was unknowledgeable in what constitutes a truancy and what specific actions are to be taken once identified. It was evident that many students are lost in the system and may not be provided with early intervention programs.

### *Recommendations and Recovery Steps*

1. A major effort should be made to strengthen district procedures to identify truants and take appropriate actions early on in the identification process. This effort should be tied with an overall ADA improvement program that has measurable goals for attendance improvements, incentives to participate, and a stronger disciplinary system.

**Standard Implemented: Not**



## 11.7 Attendance Accounting – Systems Training of Site Personnel

### Professional Standard

School site personnel should receive periodic and timely training on the district’s attendance procedures, system procedures and changes in laws and regulations.

### Sources and Documentation

1. Sample attendance training materials
2. Training schedule
3. Interview with management of the Management Information Services (MIS) department
4. Interview with school site attendance secretaries

### Findings

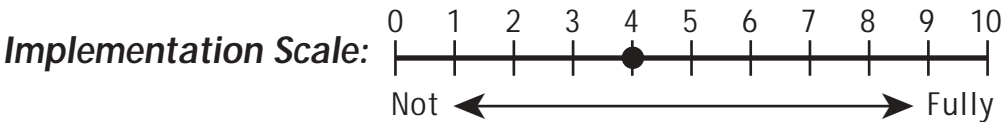
1. The system is supported by the MIS department. The department fields user calls and provides systems training. New clerks are provided with two days of systems training. A review of the training materials showed the course content to be well rounded and factual. Annual training is provided to all staff on system changes.

The district used to have an internal audit department that kept abreast of changes in attendance laws and regulations. However, with the elimination of the department, there is no single source of information and training on changes in laws and regulations. MIS has unofficially assumed some of these duties but the function is not placed properly within the MIS department. This void was noticeable when visiting school sites and interviewing attendance personnel about their knowledge of the recent laws that limits independent study to five consecutive school days or more. The clerks interviewed were not aware of the change in law.

### Recommendations and Recovery Steps

1. The training of site personnel should be expanded to include changes in laws and regulations, and reinforcement of the basic laws and regulations governing school attendance. There needs to be a position designated at the district level to be responsible for identifying and communicating attendance law changes.

### Standard Implemented: Partially



## 11.8 Attendance Accounting – Records Retention

### **Legal Standard**

Attendance records shall not be destroyed until after the third July 1 succeeding the completion of the audit (Title V, CCR, Section 16026).

### **Sources and Documentation**

1. Record retention policy
2. Interview with attendance secretaries at sampled school sites

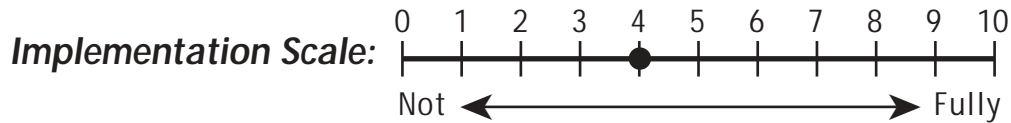
### **Findings**

1. Attendance records are stored for three years according to the secretaries interviewed. They did not know that records shall not be destroyed until after the third July 1 succeeding completion of the audit. Thus, it is possible for records to be destroyed prematurely.

### **Recommendations and Recovery Steps**

1. Communicate that the record retention requirement is longer than three years, i.e., four years following the fiscal year-end.

### **Standard Implemented: Partially**



## 11.9 Attendance Accounting – Appropriate use of Short-term Independent Study and Saturday School

### **Professional Standard**

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.

### **Sources and Documentation**

1. District policies on short-term independent study and Saturday school
2. Interview with attendance secretaries at school sites

### **Findings**

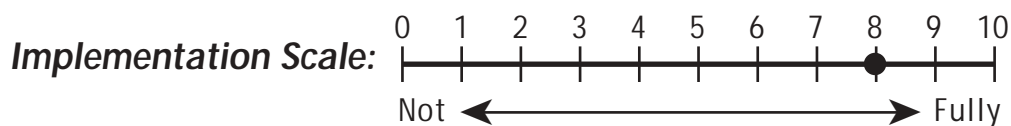
1. Independent study contracts are arranged through the Assistant Principal's office at the high school sites. The contracts are standardized and completed in advance of the work performed. The attendance secretary received the completed contract and credits the days earned per the teacher's evaluation.

Saturday school is used primarily for truants. While anyone with an absence can participate in the program, it is not known widely for those with excused absences. The attendance is posted back student-by-student for the makeup day completed.

### **Recommendations and Recovery Steps**

1. As part of the recommended attendance improvement program, encourage pupils with excused absences to makeup the absence through Saturday school.

### **Standard Implemented: Fully - Substantial**



## 12.1 Accounting, Purchasing and Warehousing – General (Adherence to Legal and Professional requirements)

### **Professional Standard**

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.

### **Sources and Documentation**

1. Discussion with the district's Controller
2. Physical observation of the district's offices and professional library
3. The district's accounting procedures manual
4. The district's most recent Single Audit report
5. Discussion with Alameda County Office of Education

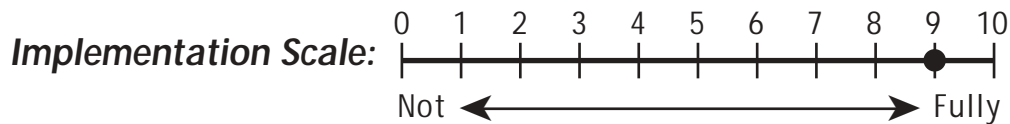
### **Findings**

1. The district adheres to the CSAM and GAAP as evidenced by discussions with the Controller and maintenance of professional guides. No concerns over the inappropriate application of generally accepted accounting principles were raised by either the independent auditor's report nor the county office.

### **Recommendations and Recovery Steps**

No recommendations.

### **Standard Implemented: Fully – Substantial**



## 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.

### Sources and Documentation

1. Discussions with the district's Controller
2. Review of financial statements and state reports
3. Discussions with staff regarding the systems of cash receipts and cash disbursements

### Findings

1. According to Alameda County Office of Education, the district submits state-required financial reports timely. Our review of the reports showed that they are properly certified by district officials.

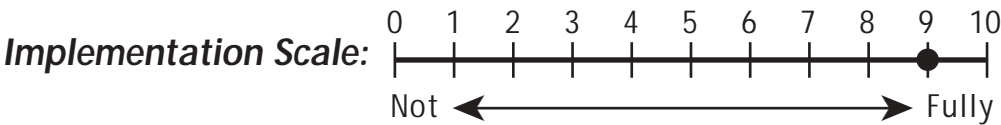
The day-to-day accounting functions are undertaken in a timely fashion. For example, the processing of invoices is current, and the accounts payable are up-to-date. Only an insignificant number were past due 30 or more days. There are reported backlogs in certain work areas, such a purchase order processing, but these delays did not appear atypical of a large district with seasonal work cycles.

The accountants do, however, spend a significant amount of time reconciling the county system to the district accounts.

### Recommendations and Recovery Steps

1. If the district continues to operate a financial system separate from the county, consider methods such as a data download capability to ease the reconciliation. Refer to the Management Information System assessment, in which the district is recommend to consider conversion to the county system.

### Standard Implemented: Fully – Substantial



## 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.

### **Sources and Documentation**

- Discussions with Controller
- Review of cash flow projections and bank reconciliations

### **Findings**

1. The district prepares a monthly cash flow projection related to revenue and expenditures to manage its cash flow. Cash, along with the other general ledger accounts, is reconciled on a monthly basis. Cash reconciliations are handled monthly for all accounts including the county, cafeteria, clearing account, child care (the food program portion), and self-insurance. In addition, the cash reconciliations for the associated student body funds are reviewed at the district office level.

Cashiering functions are handled in the following manner. An accountant logs checks received, a second senior account clerk then makes the deposit on a daily basis and records the cash. The entire transaction is reviewed by another senior accountant who determines how to distribute the money according to department. This accountant also checks the log to make sure the cash was deposited. Copies of the receipts are sent to the departments that manage the project budget.

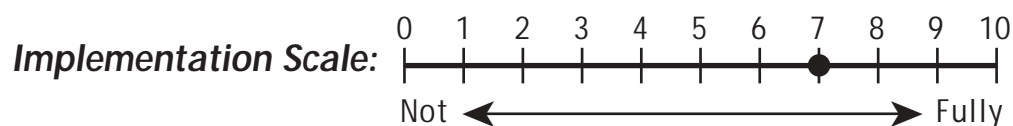
If cash is collected (i.e., paper and coins), the cash is counted twice and receipts given. The deposit is made and the transaction is recorded the same way as checks described above.

Signatures on the revolving account include the Superintendent, the Deputy Superintendent, the Associate Superintendent of Business Services, the Controller and the Accounting Supervisor. County warrants are signed with facsimiles that the management information systems department and the Alameda County Office of Education run.

### **Recommendations and Recovery Steps**

1. Careful monitoring of cash is critical, given the low reserve maintained by the district.
2. All anticipated expenditures should be built into the projection assumptions.

### **Standard Implemented: Partially**



## 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 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.

#### **Sources and Documentation**

1. Discussions with district's Controller
2. Discussions with Payroll Manager
3. Discussions with Human Resources
4. Sample payroll reports

#### **Findings**

The following payroll procedural areas were reviewed:

##### **Payroll Verification by School sites and Departments**

Each pay period, the school sites and departments are instructed to submit a verification of active employees at the location, called a payroll summary. Any terminated or relocated employees should be noted and the absence records should be attached. Some sites do not submit the reports on a regular basis. Payroll has been instructed to run the payroll despite these records not being submitted, which means terminated employees could be paid due to lack of notification to payroll about the termination.

##### **Absence Reporting**

Each site or department is supposed to submit absence reports for every employee prior to each payroll. Some sites do not submit the reports on a regular basis. Payroll has been instructed to run the payroll despite these records not being submitted. For the sites not submitting reports, leave balances are not charged for absences, allowing employees whose pay should be docked to be overpaid. However, advances have been made recently in automating the system of scanning absence reports.

##### **Terminations**

An Employee Action Form should be completed for every terminated employee by the site or department administrator. The form is not used consistently. Sometimes there is verbal communications to the human resources department or the payroll department and sometimes there is no communications at all regarding terminations. As a result, terminated employees have been paid inadvertently.

##### **Overtime Controls**

The district previously had a policy requiring preapproval of overtime but that policy is no longer in force. As a result, overtime in various departments is excessive. Overtime may be unavoidable, such as during opening of a new school, but stricter controls could help limit the costs.

##### **Substitute Controls**

There is no district level matching of substitute timesheets to leave records. This means that substitutes possibly could be claiming time not worked. Some school sites do track the authenticity of substitute time but there are no districtwide controls.

##### **Timekeeping System**

The payroll system is manual in that timesheets are carried around and signed-off instead of a fully automated time keeping system.

### **Payroll Setup**

An employment action form comes from the human resources department after they setup the employee master file information, assign the FTE, and enter the hire date. Payroll clerks cannot setup a new employee. The payroll supervisor does review edit reports for wrong codes. Problems occurred at the beginning of school year in getting everyone paid since some employee action forms were either not timely or accurately entered into the system. Incomplete and/or inaccurate data resulted in some employee checks not being issued. There also are problems with improper salary schedule placement. These problems were amplified in the current year due to the high number of new employees in the human resources department. Improvements are expected in the coming year.

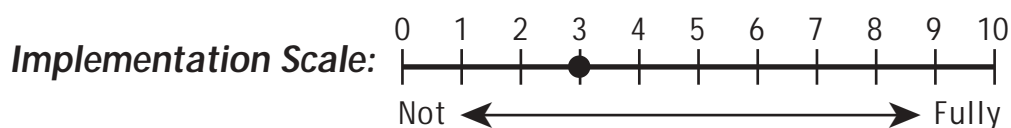
### **Payroll Review**

The county office reviews the payroll, but prior to this review, the Payroll Supervisor runs edit reports to look for duplicate entries and fatal errors. A report comparing gross payroll to net payroll also helps spot withholding errors. The regular pay rate is hardcoded and unchangeable for regular employees by the payroll clerks. Pay clerks cannot access their own payroll records.

## ***Recommendations and Recovery Steps***

1. Payroll reports due from the site must be submitted timely. Specifically:
  - Require every administrator to submit the bimonthly payroll summary to verify that each employee currently is working.
  - Require every administrator to submit the absence records prior to payday.Consider withholding the administrator's pay check if these reports are not submitted in a timely fashion.
2. Strengthen controls over overtime use. Establish a policy of preapproval, strict budgetary controls and monitoring on a department-by-department basis. Consider setting a goal to reduce overtime costs by a fixed percentage in a given fiscal period.
3. Consider the acquisition of an automated timekeeping system to improve efficiency and internal controls.
4. Establish controls over the substitute payroll system by ensuring all substitute timesheets are matched to leave records. The automated sub-calling system should have this capability.
5. Consider designating an individual on each human resource team as a salary specialist to help raise the skill level of identified positions that are required to setup new employees timely and accurately.

### ***Standard Implemented: Partially***



## 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.

### **Sources and Documentation**

1. The district's organization chart/structure
2. The district's accounting procedures manual
3. Observation of employees and work
4. Reconciliations for G/L and subsidiary ledgers
5. Monthly budget reports

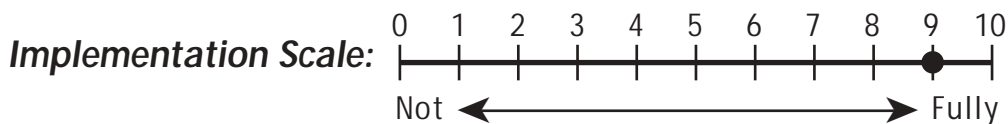
### **Findings**

1. The district has a formal organizational structure with working supervisors assigned to each major accounting area. The responsibility of the supervisor includes verification of account reconciliations, adherence to district accounting procedures and preparation of timely financial reports. Based on our discussions with staff and observations, there is no evidence that supervision of accounting is less than adequate.

### **Recommendations and Recovery Steps**

No recommendations.

### **Standard Implemented: Fully – Substantial**



## 12.6 Accounting, Purchasing and Warehousing – Accounting Procedures, Categorical and Program Accounting

### ***Professional Standard***

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.

### ***Sources and Documentation***

1. The district's accounting manual and chart of accounts
2. Interview with the district's Controller
3. Interview with the categorical program account supervisor

### ***Findings***

1. The system of categorical accounting works in the following manner: When a school is the recipient of a grant, the budget is submitted to the budget office with a copy of the grant letter. It is the budget office's responsibility to setup the accounts, notify the accounting office, track the revenues, and submit required financial reports. The assigned staff works closely with the assigned project director.

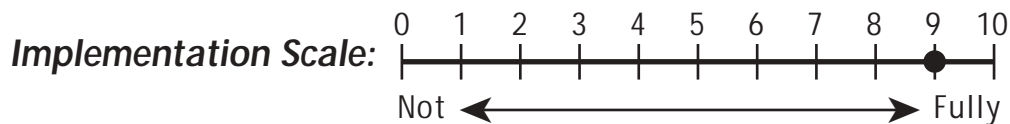
It is each project director's responsibility to determine grant compliance since it is a program function and not an accounting function.

Indirect costs are applied by the budget office.

### ***Recommendations and Recovery Steps***

No recommendations.

### ***Standard Implemented: Fully – Substantial***



## 12.7 Accounting, Purchasing and Warehousing – Accounting Procedures, Year-end Closing

### ***Professional Standard***

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.

### ***Sources and Documentation***

1. Board Policy
2. The district's accounting procedures manual
3. The Alameda County Office of Education (ACOE) accounting procedures manual
4. Discussions with the district's Controller
5. Discussions with accounting staff
6. Sample postings for year-end accruals

### ***Findings***

Board Policy 10080 states:

“The fiscal policy of the Board of Education is as follows: The district's annual expenditures shall not exceed the annual income; the district shall maintain adequate reserves as determined by board; and no expenditures shall be authorized in excess of appropriations. See Administrative Bulletin 10000 – Fiscal Management. (Approved October 23, 1985)”

1. We did not find this policy to be documented by the multi-page negative expenditure printout for the fiscal year ending June 30, 1999. There were hundreds of individual program expenditures that either exceeded the board-approved budget or had no budgeted amount.
2. The Alameda County Office of Education does an annual year-end closing workshop. The first half is presented by a CPA firm using year-end closing workshop materials. Then, the county office presents specific procedures to be used by the districts. The district uses the checklists included in the training manual and adds specific dates for internal use by sites and program personnel.

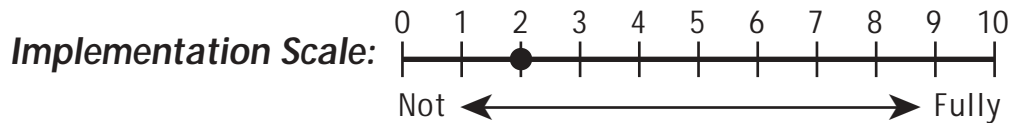
Many offices are involved with year-end closing. They include general accounting, categorical programs, the Controller, the Associate Superintendent of Business Services, and other program employees. They have meetings daily with all staff to review progress object-by-object, and when a major object is closed. However, due dates are not established firmly, and no one position is responsible for the total year-end closing process. A clear communication system was not obvious and written expectations for each position were not clear.

3. During the interview with the district's Controller, the large "unanticipated" special education encroachment was discussed. There was a lack of communication between the budget department, the accounting unit and the special education department, which resulted in an ending balance that could not be estimated accurately. A \$4 million increase in special education expenditures should have been recognized much earlier in the year and the funds appropriated.

### ***Recommendations and Recovery Steps***

1. Commence discussions about year-end closing procedures in April and May.
2. Establish specific deadlines and tasks to be met, and hold accountable each position involved in the year-end closing process.
3. Establish a communication system between budget, accounting and individual program departments to maintain a more accurate budget, especially in areas that encroach on the unrestricted funds.

### ***Standard Implemented: Partially***



## 12.8 Accounting, Purchasing and Warehousing – Accounting Procedures, Purchasing and Warehousing

### **Professional Standard**

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.

### **Sources and Documentation**

1. The district's organizational chart
2. Discussion with the Purchasing Manager
3. Sample transactions
4. Administrative Bulletins

### **Findings**

The purchasing and warehousing system was evaluated in the following key areas:

#### **Bid Requirements**

A number of major projects and purchases routinely are bid, for example, major food products or paper. Nonroutine purchases that should be bid are easily picked up if the purchase request exceeds the statutory bid limits. However, if the project spans multiple purchase requests that are individually below the bid limit, then it becomes difficult for purchasing to identify projects that should be bid unless the project manager alerts the purchasing department of the requirement.

Purchasing attempts to be vigilant and raise questions about requisitions that might need to be consolidated for formal bid. However, it was hypothesized to us that managers realize going through the formal bid process will slow the purchasing process and may deliberately make attempts to split the bids to expedite the purchase. We did not substantiate any particular instance of deliberate bid splitting, but concerns were raised internally during our interviews.

#### **Contract-letting**

A concern was raised with regards to the district's contract-letting procedures when the former Superintendent let a contract to a Fresno investigator without the knowledge of the governing board. Facts surrounding the contract included issues of confidentiality, as a current employee was the target of an embezzlement investigation. Subsequent to the incidence, procedures have been strengthened in the area of contracts. Specifically, if a request to hire consultants at a cost exceeding \$25,000 is brought forward, purchasing pulls the request and forwards it to the Board Relations Office. Two signatures are required to approve the requisition and it goes before the governing board.

#### **Price Shopping**

By policy, if a requisition is over \$8,000, but under formal bid limits, then three or more written quotes are received (ref. Administrative Bulletin #10030). Phone quotes are obtained for most items under \$8,000 and there are preset prices on certain commodities. The district has not used aggressively piggyback purchasing methods because they limit the district's ability to be involved actively in the vendor selection process. Thus, piggyback arrangements are used in an emergency to meet certain deadlines. The district also buys off of state contracts.

## **Vendor Selection**

Vendors request to be part of the purchasing system by providing references. The purchasing department checks these references through a screening process. All things being equal, there is a preference to use local vendors, but low price ultimately drives the purchasing decision.

Only the purchasing department can setup new vendors in the system, which is a good internal control. Accounts payable might request a new vendor to be setup, but this would be unusual and subject to close review by the purchasing buyer. More likely are requests from accounts payable to change the address of a vendor. Another good internal control that is being established is the ability to flag employees that are in the vendor file for special review.

## **Purchase Requisitions**

In 1995, the district went to electronic online purchase and stores warehouse requisitions. The system works well, and purchasing trains new users. The system assigns automatically sequential numbers and there are three levels of authorization: the site or department administrator, the program manager (if applicable) and purchasing for consultant contracts (see discussion above on contract-letting).

When the purchase requisition system is used properly it works. However, there are a significant number of requests for personal reimbursement for goods already purchased or for goods vendors sold on credit without official school district authorization. Approximately one-third of all purchase requisitions fall into this category. Some reimbursements are appropriate, for example, travel reimbursements, while others are not.

## **Encumbrances**

The system pre-encumbers funds with the requisitions and then encumbers with the purchase order. If insufficient funds exist in the budget, a transfer of funds is required in order to process the purchase order. Travel and conference requests are pre-authorized but not encumbered on the system.

## **Warehousing**

All goods are to be received through the warehouse, except for some limited direct delivery to school sites by major office supply companies. There is approximately \$500,000 in stores inventory. No findings were noted in this area.

## **Receiving and Purchase Order Follow-up**

There is a three-way match procedure between the receiving document, the purchase order and the invoice before any invoice payment will be made. Every Monday, an exception report is run that shows items invoiced but not received. Purchasing then follows-up with the vendor as to delivery status. Purchasing also runs open purchase order reports by expected delivery date and follows-up on past due orders. The three-way match is a good control procedure.

## **Physical Inventory**

A physical count of stores inventory is made annually. Purchasing also does random audits on certain commodities. These procedures appear adequate to meet the professional standards.

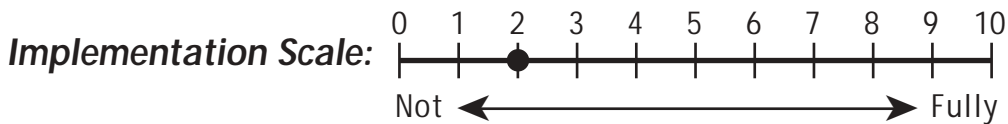
## **Open Purchase Orders**

Open purchase orders are used but are limited to specific, authorized positions and a maximum dollar amount. However, some vendors will sell goods on credit to unauthorized district employees and will allow them to exceed the preset dollar limits.

## **Recommendations and Recovery Steps**

1. **Bid Requirements:** Conduct an internal audit of bidding practices to ensure that project managers are not splitting the project requisitions in an attempt to avoid formal bid requirements. Based on the results of the audit, provide instruction and training to project managers on bid requirements and follow up to ensure ongoing compliance.
2. **Purchase Requisitions:** Strict policies need to be put into place to not pay personal reimbursement (except for pre-authorized requests). Vendors should also be told that unless the district employee is authorized on a purchase order, no payment for goods will be made.
3. **Travel and Conference:** When authorizing travel and conferences, have the employee estimate reimbursable expenses based on per diem rates and encumber an amount for budgetary control.
4. **Piggyback Bids:** We recommend greater use of piggyback bid arrangements when there is a high likelihood that the cost of the product will be the same or less than if the district initiated the formal bid process. Piggyback bids save the district money by avoiding formal in-house bid procedures and by consolidating the purchases with other districts, better overall prices can be obtained.

### **Standard Implemented: Partially**



## 12.9 Accounting, Purchasing and Warehousing – Accounting Procedures, Construction Accounting

### **Professional Standard**

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.

### **Sources and Documentation**

1. Board policy
2. Interview with the Interim Director of Architectural Services
3. Sample 1998-99 general ledger documents
4. Sample accounts payable warrants

### **Findings**

1. The only board policies regarding the facilities program relate to the need for compliance with the Minority, Women and Disabled Veteran Business Enterprises (M/W/DVBE) requirements. There are no policies, administrative bulletins, or documented procedures regarding internal control requirements for processing construction payments or budgetary controls.

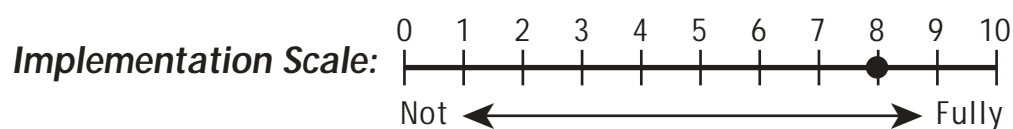
The district has a well-designed accounts payable procedure with multiple authorizations prior to submission for payment. The facilities department authorizes the payment and enters it into the computer system for payment, but has no access to generate a warrant. The authorization documents are forwarded to accounts payable who has no access to enter the payment, but can generate the warrant. Once accounts payable determines sufficient documentation and authorization has been provided, the warrant is generated. The warrant is either mailed or picked up from accounts payable by the vendor who signs for the warrant.

In reviewing sample payments to construction and architectural companies, it was verified that there were sufficient authorizations from the facilities department attached to all accounts payable warrants.

### **Recommendations and Recovery Steps**

1. Prepare a procedures guide for the fiscal monitoring and accounting for construction projects. Consider backing up the procedures with administrative regulations.

### **Standard Implemented: Fully - Substantial**



## 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.

### *Sources and Documentation*

1. Discussions with business office staff
2. Systems documentation
3. Independent audit report

### *Findings*

We evaluated the levels of controls to prevent and detect error and irregularities in the following areas:

#### **Accounts Payable**

The processing of accounts payable warrants is highly automated using a three way match system between the purchase order, the receiving document and the invoice – a good control feature. As invoices are received and entered into the system the bill warrant is generated automatically when all three documents match. If there is no receiving information, then the invoice goes into a suspense account. A weekly report is generated of invoices in suspense and the clerks research the items.

Accounts payable systems controls appear to be good. The system will not let you pay without sufficient budget. There is the ability to override the system but it would require approval. There must also be a purchase order number. However, the system could be overridden by entering the invoice number as the PO number. This is a potential internal control weakness as an invoice could be paid without an approved purchase order on file.

The department manager reviews the warrant listing prior to submission to the county office of education. The review consists of surveying vendor names, amounts and dates. Backup documentation is not routinely looked at unless the warrant appears suspicious in nature. The accounts payable clerks do not have the ability to add a vendor, as this can only be done in the purchasing department.

#### **Accounts Receivable/Cash Receipts**

The cash receipt duties are segregated from accounts receivable. Deposits are verified by a supervisor and matched to a check log. Deposits are also verified for accuracy. Any cash deposits are recounted twice prior to deposit. Also as described under the standard “Cash,” there are regular reconciliations of all accounts.

#### **Payroll**

The payroll cycle is described in greater detail under its own standard, however, there have been errors made in payroll that apparently stem primarily from the data input process or lack of input. For example, the lack of timely submission of payroll information from all school sites means that the payroll files are not up-to-date. Also, while the system has reportedly improved, incomplete or inaccurate input by the human resources department means that errors and/or irregularities could occur in the payroll cycle.

**Recommendations and Recovery Steps**

**Accounts Payable:**

- 1. Periodically review the invoices processed without a purchase order for appropriateness. Identify these invoices by running a custom report of invoices paid on nonstandard purchase order number references.
- 2. During the manager’s review of the warrant listing, pick a sample of invoices and review the backup for appropriateness and completeness.

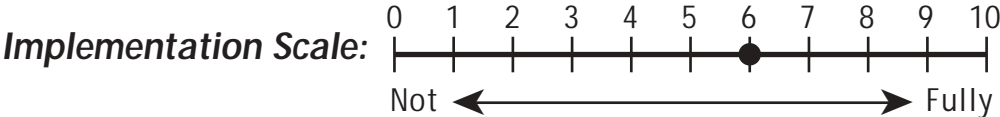
**Accounts Receivable/Cash Receipts:**

No recommendations.

**Payroll**

Refer to recommendations in the Payroll standards area.

**Standard Implemented: Partially**



## 13.1 Student Body Funds – Management of Student Body Funds

### Professional Standard

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]

### Sources and Documentation

1. Discussions with the district Controller
2. Discussions with site staff

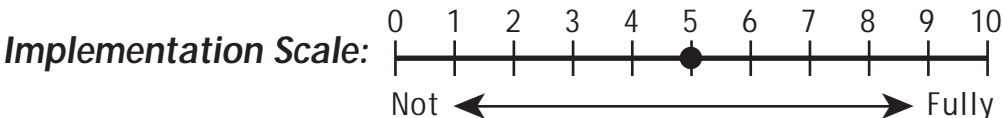
### Findings

1. The district has policies and procedures regarding the establishment and oversight of student organizations. In addition, the district holds training sessions. However, many staff do not attend this training and are not aware of the policies and procedures.
2. The district has formal procedures for the management of student body activities and funds. Again, staff are not necessarily aware of these procedures, and may not understand them. Clearly, the management of ASB funds varies from site to site.

### Recommendations and Recovery Steps

1. The district should periodically review and update policies and procedures for student body funds. The governing board should then approve general policies and procedures regarding the establishment and oversight of student organizations. The district should ensure that the policies address items such as:
  - a. The purpose of student body organizations;
  - b. The policies governing the establishment of student organizations, including the adoption of a constitution and the holding of meetings;
  - c. The supervision of activities including the role of student advisors, principals, and student councils;
  - d. The operation and management of the student organization finances; and,
  - e. The audit of student funds.
2. The district business office should develop, distribute, and oversee the implementation of accounting procedures for student body funds. It is imperative that all staff be aware of the policies/procedures, understand them, and be held responsible for adhering to them. Annual training is held, but is not universally attended. This training should be mandatory for all ASB directors, student activity coordinators, bookkeepers, and student council members. The district should utilize internal audit staff to review/monitor the operation of student body funds and organizations.

### Standard Implemented: Partially



## 13.2 Student Body Funds – Supervision of Student Body Funds

### ***Professional Standard***

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.

### ***Sources and Documentation***

1. Discussions with the district Controller
2. Discussions with ASB staff regarding the procedures/controls actually in place for revenues, expenditures, and inventory

### ***Findings***

1. The school site student organizations are not are required to prepare budgets at the beginning of the school year.
2. Overall student organization budgets are not monitored, nor are periodic budget reports prepared. The sites are required to submit monthly reports to the accounting office, but it appears that there is no review.
3. In general, budgets or revenue potentials are not prepared for individual organization functions.
4. The level of controls over revenue/cash receipts in place for student organizations varies from school site to school site. However, there are some weaknesses over cash handling. The common problems are:
  - a. Lack of segregation of duties over cash receipts (i.e., the same person typically handles both cash and the records)
  - b. Lack of control over ticket stock and receipt books;
  - c. Cash is not deposited the same day it is received.
  - d. Access to inventory is not tightly controlled. In addition, inventory records are not consistently maintained, nor is a physical inventory consistently taken.
  - e. Not all sites require student council approval of expenditures.

### ***Recommendations and Recovery Steps***

1. Student organizations should be required to prepare budgets and a list of potential activities for the year.
2. Budgets should be monitored monthly, with budget to actual statements sent to the central office at least quarterly.
3. Budgets and/or revenue potentials should be prepared for each student activity.

4. The district should establish comprehensive procedures for the management of student body funds that incorporate the standards identified above. The manuals should be distributed to all sites, with mandatory training provided to principals, vice principals, activity coordinators, and ASB accountants. The procedures should include the following controls:

**Receipts/revenues**

- a. The use of pre-numbered tickets or duplicate receipts
- b. Physical control over ticket stock and/or receipts books, and rewording and monitoring of to whom the books are issued
- c. The use of ticket control sheets that record the number of the first ticket when the ticket stock is signed out, the number of the last ticket when the ticket stock is returned, the signature of the person responsible for the tickets and cash, and a reconciliation of tickets to cash remitted
- d. The deposit of cash daily
- e. The use of locking cash bags and the use of an armored car service
- f. The use of duplicate deposit slips
- g. The restrictive endorsement of checks received
- h. The preparation of bank statements monthly, by the central office

**Inventory**

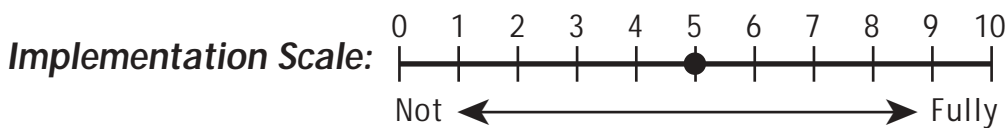
- a. Adequate physical security measures for all inventory
- b. The maintenance of perpetual inventory records
- c. Periodic physical inventory counts
- d. Reconciliation of inventory records to the physical count

**Expenditures**

- a. Establishing budgets for each student functions/activity
- b. Requiring approval by the student council for purchases
- c. Using the standard purchase order process
- d. Making payments only after the receipt of merchandise
- e. Disbursements made with pre-numbered checks that require two signatures

Adherence to the established procedures should be monitored, and be included as an evaluation criteria in the annual performance appraisals for these administrators.

**Standard Implemented: Partially**



## 13.3 Student Body Funds – Periodic Financial Reporting

### ***Professional Standard***

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.

### ***Sources and Documentation***

1. Discussions with the district Controller
2. Discussions with ASB staff

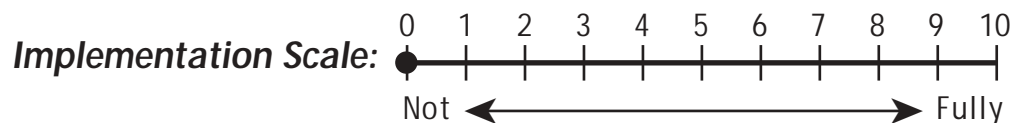
### ***Findings***

1. The sites typically do not prepare budgets or budget reports.
2. The sites do prepare periodic trial balances and/or financial statements, which are sent to the district office. However, the reports are not reviewed or monitored by accounting staff.
3. The district office does not prepare monthly financial statement for the student body funds.

### ***Recommendations and Recovery Steps***

1. Sites should be required to prepare periodic budget reports and submit them to the district office.
2. The monthly financial reports should be distributed to club advisors and reviewed by the district office.
3. The district office should reconcile student fund bank accounts on a monthly basis, and a copy of the reconciliation should be sent to the related site.
4. The district should recap monthly financial statements for student body funds.

### ***Standard Implemented: Not***



## 13.4 Student Body Funds – Internal Audit Functions

### **Professional Standard**

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.

### **Sources and Documentation**

1. Interview with the Associate Superintendent, Business Services

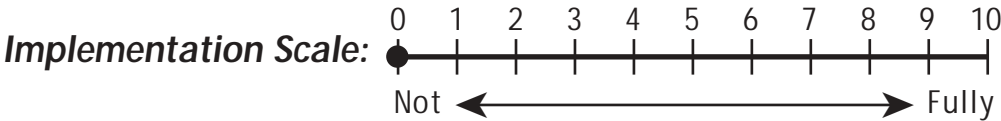
### **Findings**

1. The district does not have or utilize an internal audit function. Therefore, no internal audits are performed regarding the student body funds.

### **Recommendations and Recovery Steps**

1. The district should establish an internal audit function. The duties of the internal audit unit should include review of the student body funds, especially the financial management occurring at the site level.

### **Standard Implemented: Not**



## 14.1 Multi-Year Financial Projections – Computerized Multi-year Projection

### **Professional Standard**

A reliable computer program that provides reliable multi-year financial projections is used.

### **Sources and Documentation**

1. Computerized spreadsheet multi-year projection model
2. Sample projections
3. Interview with Budget Director

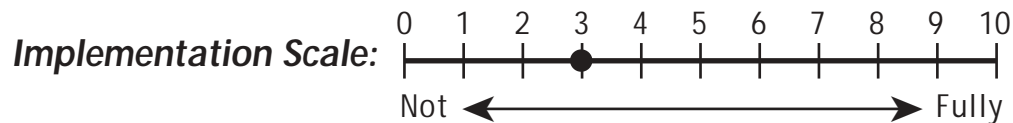
### **Findings**

1. The district uses an internally developed spreadsheet that projects only one year beyond the budget year. The spreadsheet has limitations in that it does not automatically compute frequently used variables (i.e., the change in enrollment) nor easily handle multiple projection variables, lacks the level of detail found in commercial software and requires manual adjustment for one-time expenditures.

### **Recommendations and Recovery Steps**

1. We recommend the district consider acquisition of commercial software that is tailored to the school district environment and has greater projection precision than the current in-house model.
2. Any projection model used should be able to project for at least two years beyond the budget year (as required by law) and preferably up to five.

### **Standard Implemented: Partially**



## 14.2 Multi-Year Financial Projections – Projection of Revenues, Expenditures and Fund Balances

### Professional Standard

The district annually provides a multi-year 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.

### Sources and Documentation

1. Sample multi-year financial projections
2. 1999-00 draft First Interim report

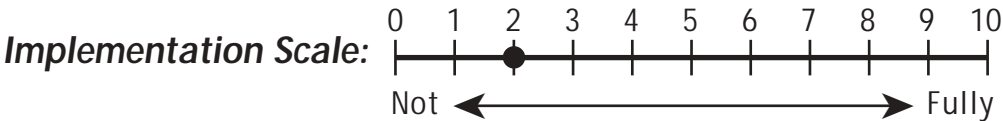
### Findings

1. The district only projects the General Fund and not other funds. The assumptions used are not clearly documented for the reader. For example, a .80 percent increase is applied to all salary lines without explanation on how that increase relates to step and column costs, retiree savings, negotiated settlements and hiring plans. Many accounts are projected at the same level as in the base year, again without explanation. In sum, the projections appear to be prepared at a very high level and lacks refinement. This makes the projections inherently less accurate and less useful for management planning and fiscal assessment.

### Recommendations and Recovery Steps

1. Multi-year projections should be prepared for all major fund groups, especially special revenue funds such as: adult education, child development and child nutrition. The projections are useful management tools in planning the operations and required budget allocations for planned service levels.
2. Greater precision could be built into the multi-year financial projection process by thinking through rationales for each object code category of revenues and expenditures. The resultant assumptions should be described in an attachment to the projections.

### Standard Implemented: Partially



## 14.3 Multi-Year Financial Projections – Use of Projections in Planning and Decision-making

### ***Professional Standard***

Multi-year financial projections should be prepared for use in the decision-making process, especially whenever a significant multi-year expenditure commitment is contemplated. [EC 42142]

### ***Sources and Documentation***

1. Interviews with the Associate Superintendent, Business Services

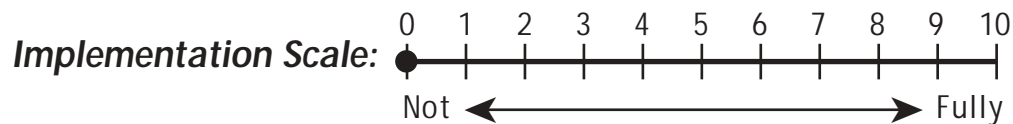
### ***Findings***

1. The district only prepares multi-year financial projections three times a year at budget adoption and each of the two interim reporting periods. The projections are not used as decision-making tools when contemplating major fiscal decisions, such as the impact of proposed negotiated settlements. The cost of major decisions, such as stems from collective bargaining, is quantified but not viewed in the overall context of a multi-year financial plan.

### ***Recommendations and Recovery Steps***

1. Utilize multi-year financial projections in the management decision-making process to determine the projected fiscal impact on the district's budget.

### ***Standard Implemented: Not***



## 15.1 Long-Term Debt Obligations – Public Disclosure Requirements

### *Legal Standards*

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]

### *Sources and Documentation*

1. Discussions with the district Controller
2. The district's Single Audit Report
3. The district's actuarial evaluation report for accrued unfunded workers' compensation claims
4. Discussion with the Budget Director

### *Findings*

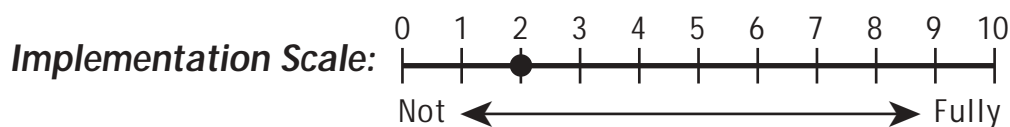
1. The district provides limited post-retirement health and welfare benefits to employees.
  - a. The district has an actuarial evaluation performed as required by law.
  - b. No, it does not appear that the actuarial report is presented at a board meeting, nor was there a separate agenda item for reserving amounts relative to the unfunded liability.
2. The district self-insures for worker's compensation.
  - a. The district does not have a formal policy requiring an actuarial evaluation of its accrued unfunded cost for workers' compensation claims. However, the district does have periodic actuarial studies performed, the most recent in Fall 1999.
  - b. The district does not have a policy requiring the presentation of actuarial reports at public board meetings, nor are the results presented to the board.
  - c. The district does not have a policy requiring a separate board agenda item regarding the sufficiency of amounts budgeted for the present value of accrued, but unpaid workers' compensation claims.
3. The district typically enters into new/modified collective bargaining agreement with at least one of its bargaining units during each fiscal year.
  - a. The district revises its budget as a result of collective bargaining agreements entered into during the year. However, it does not appear that there is a formal policy requiring the budget revision.
  - b. It appears that the district does not submit the proposed agreements to the county office.
  - c. Since the district does not submit the proposed agreements, it does not meet the 45-day period.
  - d. The district does include the revised budget information in subsequent interim reports made to the county office.

### *Recommendations and Recovery Steps*

1. Post-retirement health and welfare benefits
  - a. The district should establish and follow procedures requiring presentation of the actuarial report regarding the accrued unfunded liability for post-retirement health and welfare benefits. In addition, there should be a separate agenda item to address whether there is a sufficient reserve in the budget to fund the present value of the health and welfare benefits of existing retirees, the future cost of employees who are eligible for benefits in the current year, or both.

2. Workers' compensation self-insurance
  - a. While the district is meeting the substantive requirement of having periodic actuarial studies performed, there is no formal policy addressing this requirement. Therefore, the district should adopt a policy requiring that an actuarial study be performed of its workers' compensation self-insurance fund, at least every three years in accordance with legal requirements.
  - b. The district should establish and follow procedures requiring presentation of the actuarial report regarding the workers' compensation self-insurance fund.
  - c. The district should establish policies regarding the operation of the workers' compensation insurance fund. These policies should include the following items in order to comply with the Education Code:
    - A requirement that an estimate of accrued but unfunded costs be provided to the board at least annually.
    - A requirement that the cost information be disclosed at a public meeting.
    - A requirement that the board disclose as a separate agenda item whether or not it will reserve a sufficient amount to fund the present value of accrued but unfunded liabilities.
  
3. Collective bargaining agreements
  - a. While the district is meeting the substantive requirement of revising its budget as a result of entering into collective bargaining agreements during the year, there is no formal policy addressing this requirement. Therefore, the district should adopt a policy requiring that anytime the district enters into a new or modified collective bargaining agreement during a year, that the budget be revised to reflect the effects of such new or modified collective bargaining agreements.
  - b. The district should submit its proposed agreement to the county office.
  - c. The district should submit its budget revisions related to collective bargaining agreements to the county office within 45 days as required by law.

**Standard Implemented: Partially**



## 15.2 Long-term Debt Obligations – Policies Regarding Unsecured Debt

### Professional Standard

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.

### Sources and Documentation

1. Discussions with the district’s Controller
2. The district’s Single Audit Report

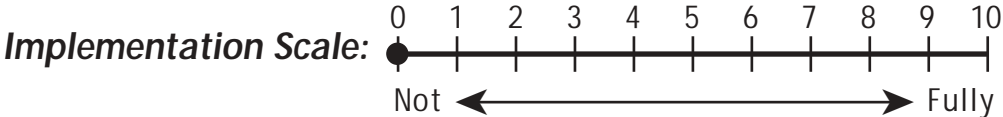
### Findings

1. The district uses several forms of nonvoter approved long-term financing including capital leases and COPS. However, the district does not have specific policies/procedures to address the appropriate use of nonvoter approved debt.

### Recommendations and Recovery Steps

1. The district should evaluate the current and potential future uses of nonvoter approved, long-term financing. Based upon this review, the district should develop appropriate procedures regarding the use, funding, and approval of such financing. These procedures should be:
  - a. Initially reviewed and approved by the board.
  - b. Annually reviewed by the district and the board, and revised as appropriate.
  - c. Require an annual evaluation by the board of the district’s actual, ongoing use of these financing mechanisms to determine that such use is appropriate and consistent with established policies.

### Standard Implemented: Not



## 15.3 Long-term Debt Obligations – Debt Service Cash Flow Projections and Plans

### **Professional Standard**

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.

### **Sources and Documentation**

1. The district's schedule of outstanding long-term debt
2. Discussions with the district's Controller
3. The district's comprehensive monthly cash-flow projections
4. The district's Single Audit Report

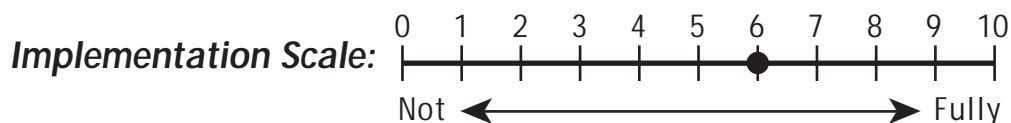
### **Findings**

1. The district does have several types of long-term obligations including general obligation bond debt, capital leases, certificates of participation, and State School Building loans.
2. The district prepares debt service schedules for its long-term obligations.
3. The district updates debt service schedules to reflect changes in long-term debt.
4. The district typically attempts to identify sources of revenue for the repayment of long-term debt. However, there is no formal policy requiring that a funding source be identified before taking on long-term debt.
5. The district prepares monthly cash-flow statements, however, those statements do not specifically address the revenue sources dedicated to repaying long-term obligations.

### **Recommendations and Recovery Steps:**

1. The district should be establish a policy that requires that the specific revenue sources that will be used to repay long-term obligations be identified prior to the debt being issued.
2. Funds from sources identified as being dedicated to fund long-term debt should be reserved to specifically repay those obligations, and the cash flow for those sources should specifically be projected and monitored.

### **Standard Implemented: Partially**



## 16.1 Multi-Year Impact of Collective Bargaining Agreements – Measurement and Evaluation of Agreement Implementation Costs and Assurance of Notice to the Public

### *Professional Standard*

The governing board must ensure that any guideline that they develop for collective bargaining is fiscally aligned with the instructional and fiscal goals on a multi-year basis. The superintendent must ensure that the district has a formal process where collective bargaining multi-year costs are identified to the governing board and those expenditure changes are identified and implemented as necessary prior to any imposition of new collective bargaining obligations. The governing board must ensure that there is a validation of the costs and the projected district revenues and expenditures on a multi year basis so that the fiscal issues faced by the district are not strained further due to bargaining settlements. 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 advance notice of the provisions of the final proposed bargaining settlement and be given an opportunity to comment.

### *Sources and Documentation*

1. Interviews with the Superintendent and the Assistant Superintendent, Business Services
2. Cost worksheets and analysis

### *Findings*

1. The district governing board has expressed a commitment to accomplishing a catch-up in district salaries to a group of comparable districts over a period of the current and an additional two fiscal years. Since it is assumed that the other districts will be providing increases during this time period, it will be necessary for the district to exceed other district increases in order to move the district's salaries up on the comparative scale.

It is assumed that other districts will be giving an average increase of three percent each year for the three-year period. The district would like to match that 9 percent increase plus provide a catch up increase of an additional 12 percent. On a compounded basis the total increase over the three-year period would be 22.5 percent.

2. There are no prospects that the State of California will provide a 22.5 percent revenue increase over the three-year period and, thus, if the district intends to meet this goal, cuts and reallocation of existing resources will be required.
3. The 1998-99 actual year end revenues and expenditures reflect that the district expended 90.9 percent of its total unrestricted expenditures on personnel salary and benefits. It is not possible to accomplish the district's dramatic goal of providing the significant salary increase unless there are changes in the staffing patterns of the district.
4. California Basic Education Data System (CBEDS) for Information Day, (1997 last year readily available) reflected that the district's certificated staffing pattern compared very favorably with the staffing patterns of California's 20 largest unified school districts. CBEDS data reflects that the district had 18.17 students per nonadministrative certificated employee. This ratio of enrollment

per employee gave the district the second best staffing ratio of any of the “Big 20” unified school districts in California.

If the district intends to provide 22.5 percent salary increases – or anywhere near that level – over the next three years, the bargaining unit will have to agree to contract amendments that give the district an ability to reduce bargaining unit expenditures. It is not possible to accomplish the expenditure reductions that are necessary to fund a 22.5 percent increase without reducing costs for implementation of the bargaining unit contract.

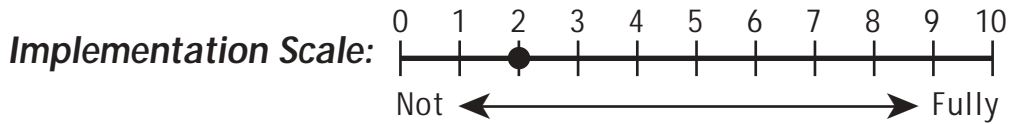
5. Concurrent with the governing board’s commitment to dramatically increase certificated salaries, the district struggled to close the books for 1998-99 fiscal year. The district had to use unique methods to reach the required 2 percent Reserve for Economic Uncertainties. The district, in effect, used up all of its budget wiggle room just to meet State requirements. It is unrealistic to anticipate that there will be any opportunity for the district to use its net beginning balance to assist in accomplishing the salary goal.
6. Accomplishment of the salary goal, as expressed by the board, will require district and bargaining unit expenditure reductions in 1999-00 and each of the subsequent two years.

### ***Recommendations and Recovery Steps***

1. Closed sessions between the board and the district’s chief negotiator and fiscal officer should include regular updates on the acceptance by the bargaining unit of their obligation to jointly participate in the reductions that may be required to accomplish the district’s challenging salary goal.
2. The district’s fiscal officer should provide clear and concise public information, on a multi-year basis, of the cost of annual expenditures necessary to accomplish the salary catch-up. There should also be an analysis of the extent of any reductions that may be required in order to accomplish the salary catch-up.
3. The governing board should make it clear that the goal is not reachable without additional contract flexibility and the opportunity to reduce costs that are currently required by the collective bargaining agreement.
4. Concurrent with any final settlement, the governing board must adopt budget amendments to accomplish the expenditure reductions that are required to implement the agreement. The district fiscal officer should prepare and provide to the board in public session a multi year projection that reflects revenues and expenditure that meet all requirements of the multi year collective bargaining agreement. The fiscal officer should provide written assurances to certify to the board that the adopted expenditure reductions will cover any projected three-year gap between district revenues and district expenses.
5. Prior to final contract settlement, requirements should be imposed to ensure a sign-off by the superintendent and the fiscal officer that the expenditure reductions and a realistic projection of state revenues will cover the costs of any new settlement. These assurances of financial coverage should be provided to the governing board and the public in public session and in writing.

- The public must be given notice of any proposed bargaining settlement and an opportunity to view the contract language, along with the Superintendent and fiscal officer's certification as required above. Following a minimum of five business days for public evaluation, the public must be given an opportunity to comment in public session on the agreement. Following public comment the governing board may, in public session, consider the proposed bargaining conclusions.

**Standard Implemented: Partially**



## 17.1 Management Information Systems – Planning and Fiscal Input

### ***Professional Standard***

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.

### ***Sources and Documentation***

1. Draft technology plan
2. Interviews with Information Technology department management and staff
3. Interview with Associate Superintendent, Business Services

### ***Findings***

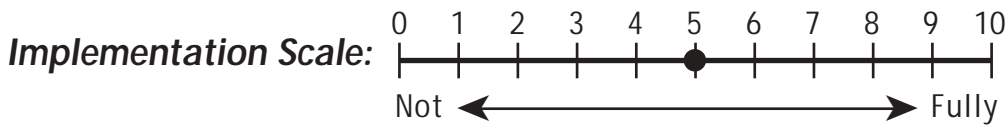
1. Oakland USD is in the process of revising its district technology plan. The parts of the plan dealing with plan preparation, staff development, teaching and learning, establishment of district standards, network infrastructure and classroom hardware and software are very well done. The plan focuses on student/school/teacher outcomes in a very positive way. It does not address some important administrative system needs, beyond the networking standards, as well. The district financial system, OBARS, for example is an aging system that is no longer supported by the vendor. The district will need to carefully plan for the replacement of this system with another third-party supported financial package. However, this important system was not addressed in the plans the district provided.
2. Major site-oriented goals are well defined, but since the plan is under revision, no formal adoption of the new plan has occurred. Also because the plan has not been adopted, there has been no tracking or reporting system established to allow the district to track progress. The revised 1999 plan does however highlight the progress made as a result of actions taken in accordance with the 1995 plan.
3. The district did not have a complete financing plan for implementation of technology. The draft instructional technology plan asserts that an annual infusion of nearly \$10 million in funding, \$186 per student each year, will be needed to meet plan goals. There was no financing plan in place for the substantial administrative system upgrades required to deal with obsolescence of the OBARS system and the implementation of the Standardized Account Code Structure (SACS). The district has made extensive preparations for compliance with anticipated Year 2000 difficulties, investing approximately \$3 million in modernization of technology that did not meet standards.

### ***Recommendations and Recovery Steps***

1. The district will need to readopt and actively manage the technology planning process if continued progress is to be made. The plan needs to be completed and adopted as soon as possible.
2. Administrative technology needs should be more specifically incorporated into the existing plan or included in a separate plan.

3. The district had many excellent project plans and analyses. For example, the one dealing with Y2K preparedness and contingency planning, made an effort to track and report progress on goals. The district should develop a more formal tracking system to assess progress toward major goals. The results should be reported and the goals should be revised periodically.
4. A formal financing plan should be adopted. The existing technology plan includes estimates of the cost of attaining and maintaining appropriate levels of technology, however, there is no commitment by the district to fund the entire plan. Indeed, it is unlikely that the district will be able to allocate the amount desired. A realistic financing plan should address total dollars required and the timing of the need for funds. Sources of funding should be identified and cash flow projections supporting the availability of funding should be prepared. Additionally, a mechanism for setting priorities must be devised in the likely event that funding is not sufficient to meet all needs.
5. The revised district technology plan carries substantial policy implications for the district. It specifies policies for student access to technology, acquisition of new technology, establishment of new positions, commitments of staff development time, and specific learning outcomes among other things. These are major policy questions that should be considered before they become effective by default with adoption of the district technology plan.

**Standard Implemented: Partially**



## 17.2 Management Information Systems – Needs Assessment

### **Professional Standard**

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.

### **Sources and Documentation**

1. Interview with Information Technology department management and staff
2. Interview with Associate Superintendent, Business Services
3. User survey results

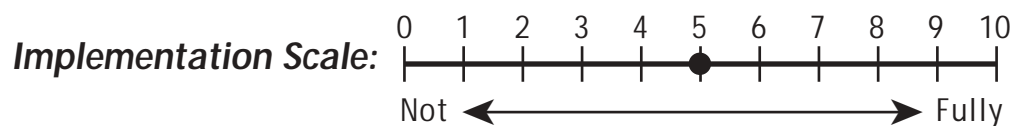
### **Findings**

1. Needs assessments are routinely performed by information services when functional users propose acquisition of new systems. Functional users determine their own needs and desires and play a dominant role in the acquisition process. However, the district technology plan set out a variety of district standards to guide the process.
2. The district is facing serious problems with near term obsolescence of important systems. The current financial system, OBARS, is no longer supported by the vendor. Staff had plans as to what needs to be done to replace this system, but those plans had not been approved by management. Equally important, the decision as to how to handle replacement is a difficult one that requires considerable judgment based on sound analysis.
3. The importance of needs assessments was well documented in the district technology plan.

### **Recommendations and Recovery Steps**

1. Needs assessments should be performed on all proposed systems. Those systems that are deemed to be essential should be tested for Year 2000 operations.
2. The plan to replace the OBARS system needs to be finalized immediately. The staff has identified a good migration option, but it is neither approved nor funded. Funds need to be identified now to avoid audit challenges to the district's financial claims upon the state.

### **Standard Implemented: Partially**



## 17.3 Management Information Systems – Automation and Computerization of Financial Reports and Systems

### **Professional Standard**

Automated systems should be used to improve accuracy, timeliness, 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.

### **Sources and Documentation**

1. Interview with Information Technology department management and staff

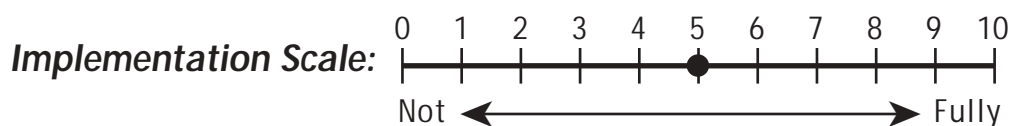
### **Findings**

1. The district uses OBARS for its financial management system and SASI for its student information needs. Both of these systems need to be replaced in the near future.
2. The district will need to develop acquisition, evaluation and implementation plans for both systems.
3. Much of the technology focus of the district is on classroom instructional technology, operation of the educational TV station, and support of districtwide networks and other services. In the information technology function alone, however, the district makes a much higher level of commitment and expenditure levels than comparable districts.
4. Oakland USD expects much more of its technology department than other districts, and consistent with those expectations provides a higher level of staffing. The difference was particularly noticeable in the information technology function, which was staffed with 29 people and a variety of specialized consultants. While the Director was aggressive in identifying additional sources of funding for technology initiatives, the level of commitment is high in terms of numbers of people.

### **Recommendations and Recovery Steps**

1. Replacement plans should be finalized and funded for both OBARS and SASI. The district should give strong consideration to systems that are supported by third-party vendors. This might afford a reduction or redirection of staffing.

### **Standard Implemented: Partially**



## 17.4 Management Information Systems – Cost/benefit Analyses and Com-

### ***Professional Standard***

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.

### ***Sources and Documentation***

1. Interviews with Information Technology department management and staff

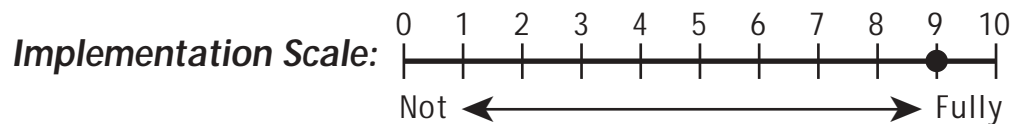
### ***Findings***

1. Cost benefit analyses were addressed in the district technology plan and were routinely completed for significant projects.

### ***Recommendations and Recovery Steps***

1. Continue current practices and emphasis.

### ***Standard Implemented: Fully – Substantial***



## 17.5 Management Information Systems – Technology Selection Process

### Professional Standard

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.

### Sources and Documentation

1. Interviews with Information Technology department management and staff

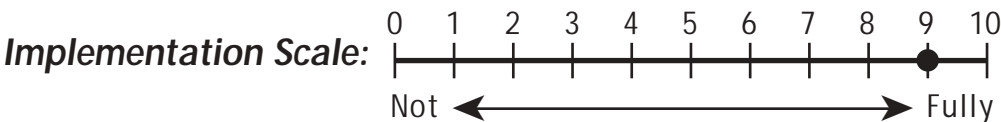
### Findings

1. The district, guided by its district technology plan, had developed clear district processes and standards for the acquisition of technology. Users were involved in both planning and acquisition activities.
2. Cost/benefit analyses and financing plans were completed prior to the commitment of resources.
3. Training and support costs were a key consideration in the acquisition process.

### Recommendations and Recovery Steps

1. Continue present practices recognizing that funding will not likely cover all needs and that priorities must be set.

### Standard Implemented: Fully – Substantial



## 17.6 Management Information Systems – Implementation and Training

### **Professional Standard**

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.

### **Sources and Documentation**

1. Interviews with Information Technology department management and staff

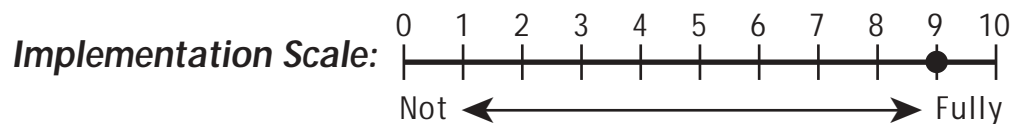
### **Findings**

1. Training plans had been developed and were in use as new systems and more current technology was acquired.
2. Both the planning process and the district technology plan recognized this important need.

### **Recommendations and Recovery Steps**

1. Continue present practice.

### **Standard Implemented: Fully – Substantial**



## 18.1 Maintenance and Operations Fiscal Controls – Risk Management

### **Professional Standard**

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.

### **Sources and Documentation**

1. Interview with the Deputy Superintendent – Administration
2. Interview with the Associate Superintendent – Business Services
3. Interview with the General Counsel
4. Interview with the Assistant Superintendent – Human Resources

### **Findings**

1. OUSD Board Policy 10.020 dated July 19, 1996, states:  
“Insurance and risk management shall be under the general direction of the Associate Superintendent for the Division of Business Services.”

The district previously had the risk management function consolidated under a risk manager during the 1998-99 fiscal year, the Director of Risk Management left the district. Currently, the district does not have a risk manager overseeing and coordinating these programs, and the risk management function is distributed between three functional areas – the legal office, human resources, and the business office. However, the district’s 1999-00 Management Structure Chart identifies the area of Risk Management and Benefits under the Assistant Superintendent for Human Resources.

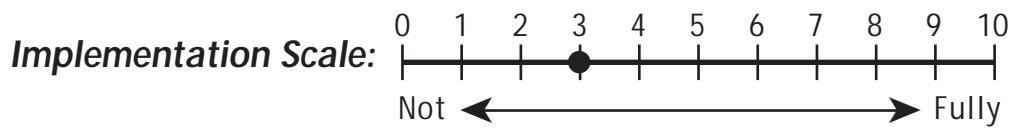
- a. The legal office is responsible for managing liability related to environmental and personnel matters.
  - b. Human resources manages the workers’ compensation program and personnel matters
  - c. Business services is responsible property and general liability matters.
2. The district self-insures for workers’ compensation and casualty liabilities. The district also participates in the Schools Excess Liability Fund (SELF) which provided excess liability coverage. For property damage insurance, the district purchases coverage through a commercial policy.
  3. From 1997 to 1998 we noted a significant jump in the district’s self-insurance obligation from \$15.7 million to \$18.2 million (a 16 percent increase) and in claims paid from \$8.9 million to \$11.8 million (a 33 percent increase).

### **Recommendations and Recovery Steps**

1. Given the specialized demands of risk management and the significant financial exposure that the district has in this area, the district should centralize risk management in a single department under a full-risk manager. The manager should coordinate all risk management activities, participate in negotiating insurance coverage and premiums, and develop programs and procedures to reduce the district’s exposure and cost. Further, the risk management function should be moved back under the Associate Superintendent, Business Services.

2. To the extent the district self-insures, the district should likely continue to participate in SELF as it provides cost effective excess liability coverage.
3. Given the significant increase in self-insurance obligations and claims, the district should evaluate it programs, claims and payments in order to identify the reasons for the significant increases. Ultimately, the district should implement and/or expand employee safety programs. The employee safety training program should:
  - a. Be mandatory and held at least annually
  - b. Require employees to sign in and pass a test at the end of the training
  - c. Require employees failing the test to repeat the training until they pass the final exam
  - d. Hold employees accountable for following procedures

***Standard Implemented: Partially***



## 18.2 Maintenance and Operations Fiscal Controls – Work Order system

### Professional Standard

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.

### Sources and Documentation

1. Interview with the Director of Maintenance and Operations
2. Work order system input data, logs and reports

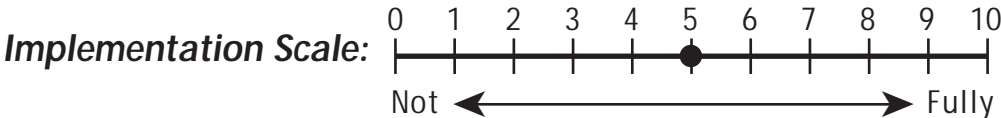
### Findings

1. The district has a large maintenance department with 128 employee, with the crews organized by trade. The system used to track work orders is computerized and on the network. The system tracks orders by school and the room within the school. At remote locations the work order can be created on line via the e-mail system. The request are reviewed daily and prioritized. Emergencies are handled first and all other work orders are handled on a first in, first out basis. The district is working towards a better system of prioritizing that is determined at the foreman level. The district is backlogged on regular maintenance work orders.
2. Work is assigned out using a tag system. Work is assigned by giving out tags to a crew daily. On the tag there is a place to write down the time and materials for the job, but the information is not typically recorded or reconciled back to time sheets or materials cost reports. The director plans to conduct productivity studies using the recorded time by work order.

### Recommendations and Recovery Steps

1. A better system of work order prioritizing and scheduling is needed to address the backlog of work. As discussed under Bid Requirements, the district has potentially used its own force account (i.e., day labor) for major projects that should have been bid and let to outside contractors, pursuant to Public Contract Code Section 20114. The use of outside contractors on major projects may free up day labor time for regular maintenance.
2. The district should implement a system that includes in the supervision and evaluation of each worker measurements of productivity and accountability. Measurements such as percentage of logged time spent on work orders, number of work orders completed, and actual versus estimated time spent on each order should be used to monitor and evaluate employee performance.
3. The district should reconcile the materials costs recorded on the work orders to expenditure reports. Evaluate the actual cost of materials in relationship to anticipated costs based on the nature of the work order – investigate significant differences.

### Standard Implemented: Partially



## 18.3 Maintenance and Operations Fiscal Controls – Facilities Use Fees

### ***Professional Standard***

The district should control the use of facilities and charge fees for usage in accordance with district policy.

### ***Sources and Documentation***

1. Administrative Bulletin 11010
2. Facilities fee table
3. Facilities use forms and permits
4. Interview with Buildings and Grounds personnel

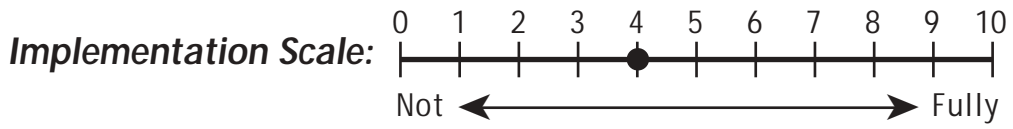
### ***Findings***

1. Administrative Bulletin 11010 sets forth the policies and procedures for facilities use.
2. Any group, district or external, that wishes to use district-owned facilities after hours must obtain a facilities use information packet and complete an application form. The packet describes the terms of the facilities use and fees to be charged. The fees are set to cover the cost of custodial time and overhead but have not been updated in several years.
3. Not all groups are required to pay a fee and the Administrative Bulletin is fairly specific on which groups are exempted, primarily school-related groups, election precincts and emergency services. However, many exemptions are made to waive fees charged. For example, there have been community safety training programs held by the city police department. In addition, the fees have been waived on an individual basis – and not necessarily in accordance with district policy.
4. Large groups and groups that frequent a location are required to have proof of insurance. However, there is no general policy that requires all groups to provide proof of insurance and, in fact, many of these groups are uninsured.

### ***Recommendations and Recovery Steps***

1. Reevaluate annually the facilities use fee schedule to ensure that the full cost to the district is covered by the fee.
2. Revisit district policy on which groups are eligible for fee waivers. It is more efficient and fair to have a standard policy as opposed to providing waivers on a case-by-case basis. Consider, as well, that when waivers are provided the district is singly bearing the cost of keeping the facility open and providing custodial services. The district might consider a mutually agreed upon facilities use agreement with frequent users such as the city or its local police department.
3. Require that all groups provide proof of insurance or purchase insurance, through the district, for the event. The district will need to work with its insurance carrier to provide insurance to groups, at a nominal charge, as a rider to the district's policy.

**Standard Implemented: Partially**



## 18.4 Maintenance and Operations Fiscal Controls – Control Over Purchase Orders

### **Professional Standard**

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.

### **Sources and Documentation**

1. Interview with the Director of Maintenance
2. Review of purchasing documents.

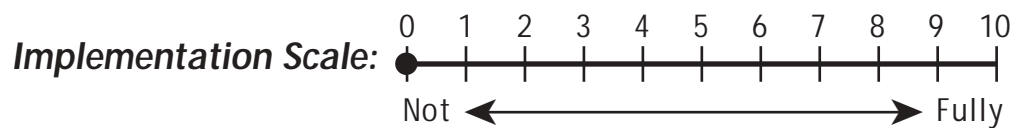
### **Findings**

1. In order to expedite the purchases of materials, the maintenance department does not follow standard district purchasing procedures. In effect, the purchases are made before the purchase order is generated. Within the department a system of requisition approval takes place, but the requisition does not become a purchase order until after the purchase has been made. In fact, the invoice is first received and matched to the requisition before a purchase order is generated.
2. All vendors are instructed to send their invoices directly to the maintenance department for approval prior to payment. This circumvention of purchasing protocol creates a significant weakness in internal controls that could lead to errors, misappropriations and violations of bid requirements. In addition, without the use of district buyers, the best price for materials may not be obtained and cash discounts are lost since it takes time after the fact to process the now-perfunctory purchase order.

### **Recommendations and Recovery Steps**

1. Maintenance should be required to follow the standard district purchasing procedures. Controlled use of open purchase orders with selected vendors should be used for emergencies. There should be limits on the amounts of purchase and who is authorized to purchase on the district's behalf when open purchase orders are used. It might also be helpful to maintain a small inventory of frequently used maintenance supplies to limit the number of purchase orders and achieve the best price through the consolidation of purchases.
2. All maintenance invoices should go directly to accounts payable. The invoices can then be matched to the purchase order and receiving documents by the accounts payable department. Cash discounts should be taken as frequently as possible.

### **Standard Implemented: Not**



## 18.5 Maintenance and Operations Fiscal Controls – Use of District-owned Vehicles

### **Professional Standard**

District-owned vehicles should only be used for district purposes. Fuel should be inventoried and controlled as to use.

### **Sources and Documentation**

1. Interview with the Director of Maintenance

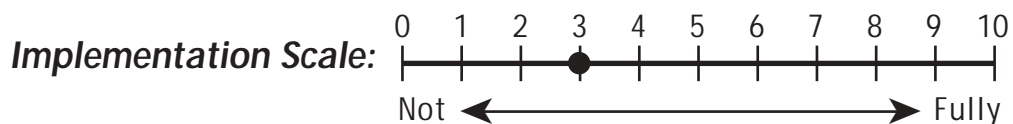
### **Findings**

1. According to the Director of Maintenance, there is not a sufficient number of district-owned vehicles for the maintenance workers, especially when many of the vehicles are old and being repaired. As a result, two workers frequently show up for a job that requires only one worker and this is not the best use of employee time.
2. There is no routine maintenance schedule for each vehicle.
3. Fuel is not being provided by the district, pending the installation of new fuel tanks. A card access system is used.
4. Mileage readings are not tracked on individual vehicles and there are no systems to prevent or detect misuse. There have been reported incidences of employees using district vehicles for personal use, when sighted outside the district boundaries in the vehicle.

### **Recommendations and Recovery Steps**

1. Consider the adequacy of the fleet in light of work demands.
2. Establish a system of routine maintenance for each vehicle.
3. Track the mileage of each vehicle and conduct a reasonableness test of total mileage versus estimated to/from mileage between work locations.

### **Standard Implemented: Partially**



## 18.6 Maintenance and Operations Fiscal Controls – Vending Machines

### **Professional Standard**

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]

### **Sources and Documentation**

1. Discussion with Food Services Director
2. Discussion with Purchasing Manager

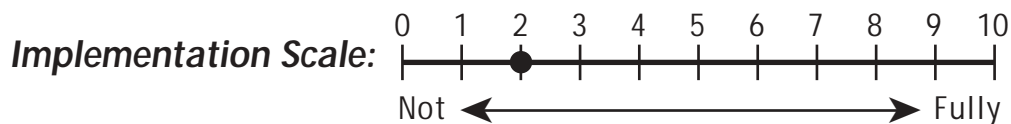
### **Findings**

1. According to our interviews, there are no board policies or administrative bulletins regarding vending machine operations. For the past four years, the district has gone out to formal bid for the provision of beverage services. The selected vendor stocks the machines and disburses a commission check back to the district based on sales profits.
2. However, there are other non-beverage item vending machines operating in the district. The suppliers are not being approved through the purchasing department. It is not clear whether inventory control procedures are adequate and how the profits are spent.

### **Recommendations and Recovery Steps**

1. Prepare and approve administrative policies and procedures regarding the operations of vending machines on district property. Include items, such as how:
  - a. New vending machines are approved
  - b. Vendors are selected
  - c. Inventory is controlled
  - d. Cash and profits are managed.
2. Inventory all unauthorized vending machines in current use. Make their continued use contingent on whether the machines are operated in accordance with administrative policies and procedures.

### **Standard Implemented: Partially**



## 18.7 Maintenance and Operations Fiscal Controls – Fixed Asset Inventory

### Professional Standard

Capital equipment and furniture should be tagged as district-owned property and inventoried at least annually.

### Sources and Documentation

1. Interview with Purchasing Director and staff responsible for capital equipment and furniture inventory

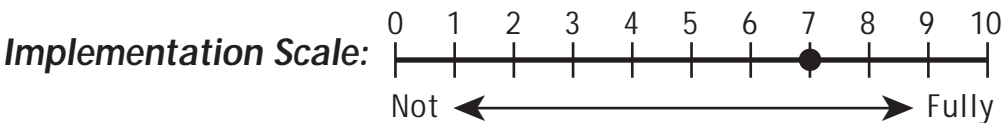
### Findings

1. Capital equipment and furniture is etched with the district's identification and logged into a computerized inventory system. The purchasing department is responsible for identifying items to be included in the inventory through a review of purchase requisitions prior to purchase.
2. Every other year, each school site is supposed to inventory every item and follow up on missing, obsolete, surplus, and donated items. However, it is difficult to locate all items because of movement between rooms and schools. Also, there does not appear to be effective district-level control to ensure that the inventories are being taken properly.

### Recommendations and Recovery Steps

1. The district should investigate a barcoding system to help make the inventory process more efficient.
2. We recommend that the physical inventory be taken annually since it is increasingly difficult to track down items the longer the elapsed time between counts.

### Standard Implemented: Partially



## 18.8 Maintenance and Operations Fiscal Controls – Bid and Force Account Requirements Legal Standard

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.

### Sources and Documentation

1. Discussions with the Director of Maintenance
2. Discussions with the Purchasing Manager

### Findings

Our interviews found that the maintenance department is not informed of legal bid requirements and may potentially be out of compliance on large projects and contracts. Three factors combine to form this system weakness:

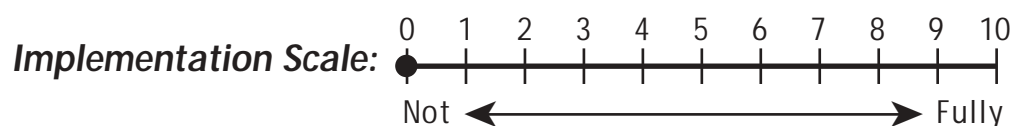
1. The purchasing department is the control point for identifying biddable projects and the maintenance department does not send requisitions through the purchasing department until after the purchase is made.
2. Labor hours and materials costs are not tracked on a project basis to determine compliance with force account rules.
3. No one is trained in the maintenance department on the legal requirements to go out to bid.

Thus, there is potential for equipment and supplies to not be bid when it is required, and for work to be performed by day labor that should be bid to outside contractors.

### Recommendations and Recovery Steps

1. Establish strict procedures on when maintenance projects should go out to bid. This means a system that identifies individual projects and consolidates the estimated cost and labor hours. There should be clear examples of how projects are identified so as not to appear to be bid-splitting. We suggest that legal counsel provide examples. The system should clearly identify the threshold over which formal bids must be let.
2. Consider adopting the California Uniform Construction Cost Accounting Act (Act) (ref. Public Contract Code Section 22010 et seq.) that allows for increasing the formal bid limits to \$75,000 for capital projects and allows for informal bids that are cost efficient. Adopting the Act requires board action and the district must follow project cost accounting procedures. We believe the cost accounting procedures are good management practices that should be in place whether or not the Act is adopted.

### Standard Implemented: Not



## 19.1 Food Service Fiscal Controls – Fiscal Policies and Procedures

### *Professional Standard*

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:

- 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.

### *Sources and Documentation*

1. Discussions with the Director of Food Services
2. Discussions with the district Controller

### *Findings*

There was a reported and investigated instance of fraud in the food service area. A food service worker that handled cash skimmed the deposits by an estimated, but unsubstantiated, amount of \$25,000. An investigation was conducted by a Fresno Investigation firm, ran by a former FBI agent. The results of the investigation did not result in any legal actions against the employee. However, the employee was terminated for timecard fraud. In response to the investigation, greater controls over cash collections and deposits have been put into place. These controls include the use of armored car service and profit/loss analysis of the food sales. However, the profit/loss analysis is not consistently prepared and reviewed, and we still have concerns over cash handling.

1. Prior to the start of the year, the district solicits bids from vendors to be the provider for all food purchases during the upcoming year. The actual bid process is handled by the purchasing department. When bids are received they are reviewed and evaluated with the low responsible bid chosen for the various categories of food products (frozen/canned food, milk, bread, beverages, etc). The RFP and bids are reviewed by the Budget and Finance Subcommittee and the final contracts are approved by the board.
2. Prior to the start of the year, the Food Services Director budgets amounts on a site by site basis. These amounts are then encumbered at the beginning of the year.
3. During the year, sites order food on a weekly basis via the contract vendors. Weekly orders are then collected and reviewed by one of the four area supervisors. However, the sites do not submit weekly menus/meal plans to support the food ordered.
4. After the orders are approved, the vendors pick up the orders and deliver the food directly to the sites. The sites then receive the food and forward the delivery tags/receiving slips to food services.
5. Food services reviews the tags and then forwards them to accounts payable (A/P) for payment.
6. As items are delivered directly to the sites, the food service department does not maintain its own warehouse. Nonfood items (paper goods) are maintained in the districts central warehouse and inventoried as part of the regular warehouse management process.

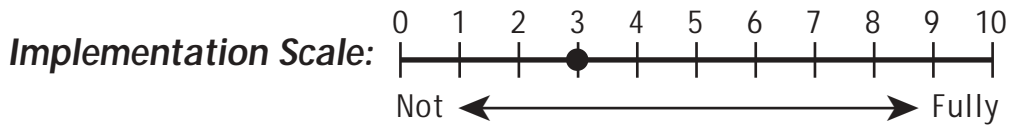
7. Students qualifying for free or reduced meals are identified by the Student Nutrition Application Program (SNAP) that is tied to the SASI student information system. Identified students are then listed by site, with each site provided a listing of eligible students.
8. Sales are made when the student goes through the cafeteria line. Free/reduced students are checked off against the approved listing. Other students pay cash. The cashier then tallies the meals sold – separately for free/reduced lunches and cash sales.
9. Food services does not consistently do profit/loss statements by site. The ability to produce these statements is hampered by the fact that the student eligibility system (SNAP) and the accounting system (OBARS) do not interface.
10. Cash for each cafeteria is then put in a locked deposit bag daily and stored either in the school safe or a separate safe maintained by the cafeteria. Deposits for each day are kept in a separate locked cash bag. The cash bags are picked up one to three times per week via armored car, depending upon site needs/circumstances.
11. The district operates snack bars at selected elementary, middle, and high school sites. The snack bars sell items such as candy, chips, and soda, and all sales are made on a cash basis. Snack bars are operated by food service workers, and managed by the cafeteria manager at the site.
12. Inventory is ordered weekly by the cafeteria manager at each site using selected vendors. These orders are also forwarded to the appropriate area food service supervisor for review.
13. The inventory is counted in the morning/afternoon, by separate employees. Cash is counted at end of the day by an independent employee. But there is no assurance that the manager is reconciling cash and inventory daily or weekly. Therefore, the district has no assurance that all inventory is being accounted for, or that sales are being reported/cash remitted.
14. Inventory is stored in locked snack bar or in cafeteria storage closet at the site.
15. The manager prepares a deposit slip and puts cash in a locked cash bag. A copy of the deposit slip is forwarded to the food services office. Cash is picked up by an armored car service.
16. Bank statements are received by the food services office, where the reconciliations are done.
17. The food services department does not monitor/analyze profit margin (revenues-expenditures) by site or department wide, to determine if it is reasonable or to identify potential irregularities.

### ***Recommendations and Recovery Steps***

1. The district should implement a point of sale (POS) or a cash register system at each cafeteria in order to provide adequate control over cash receipts and meals served. Minimally, the function of tallying/verifying free meal status should be separated from handling cash (cashier). In addition, the serving staff should tally the number of meals served. That way, the manager could independently reconcile the total meals served to tallied free lunches and cash received. Otherwise, the cashier could either just not tally the meal sold, or tally it as a free meal, and embezzle the cash.

2. To provide control over food stocks, the food services department should prepare profit/loss statements each month, by site and for the total department to verify that the amount of food requisitioned by site is consistent with meals sold and cash/reimbursements received.
3. The cafeteria manager should verify daily, or at least weekly, the snack bar inventory on hand and reconcile it to sales and inventory sheets, and cash receipts remitted.
4. The district should ensure that is enrolling the greatest number of eligible students for the National School Lunch Program in order to help ensure that students are receiving adequate nutrition and to maximize reimbursements to the district.

***Standard Implemented: Partially***



## 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.

### **Sources and Documentation**

1. Interviews with the Director of Food Services.
2. Interviews with the food services accountant.

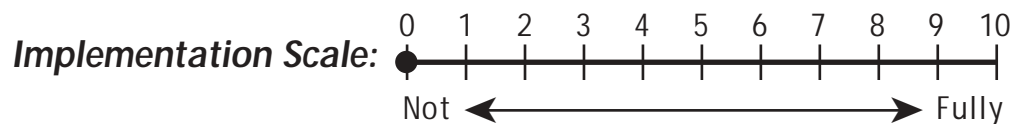
### **Findings**

1. There have been no recent audits or program compliance reviews of the Food Services program.
2. Based on our interviews with management and staff of the food services department, nothing came to our attention to indicate that the district is not substantially in compliance.

### **Recommendations and Recovery Steps**

1. As the food services department has not been subject to a compliance audit/program compliance review, the district should have the department's compliance with legal and regulatory requirements reviewed either by internal audit staff or a public accounting firm, in order to provide assurance that it is materially in compliance. Minimally, the review would verify that:
  - 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.

### **Standard Implemented: Not**



## 20.1 Charter Schools – Financial Management and Oversight

### *Professional Standard*

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.

### *Sources and Documentation*

1. Discussions with Bobbie Brooks, Coordinator – Charter Schools
2. Discussions with Romi Selfaison, Controller
3. Review of Board policies regarding charter schools
4. Review of data binders for each approved charter school

### *Findings*

1. The district has established a comprehensive framework for reviewing and approving charter schools, and monitoring financial management and condition. This framework includes the establishment of a full-time Charter School Coordinator to provide a central point of contact for existing or potential charter schools. This position is also responsible for providing the initial evaluation/analysis of charter school petitions submitted for approval.
2. The Board has adopted formal guidelines and requirements for charter school petitions. These guidelines address all phases of charter school operations and management including (but not limited to):
  - a. Eligibility
  - b. Purpose
  - c. Admission
  - d. Student Records
  - e. Health & Safety
  - f. Employment/Employees
  - g. Business & Financial Management and Audit
  - h. Hearings and Approval/Denial
  - i. Categorical Programs

The guidelines also provide a petition checklist for charter schools to use.

3. For charter schools approved, the district has established an outline/format for the Memorandum of Understanding (MOU) that has definitions and specific provisions covering the following financial management areas:
  - a. ADA
  - b. Revenue Limit
  - c. Cash Flow
  - d. Liabilities
  - e. Budget and Financial Reporting
  - f. Audit

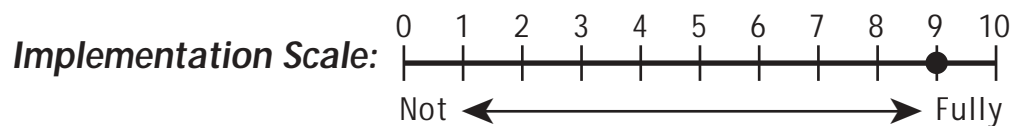
4. During operations all charter schools are required to produce and submit various reports and information to the accounting office which monitors charter school fiscal matters. Items monitored include:
  - a. Revenue & Expenditure reports
  - b. Balance Sheet
  - c. Attendance Reports
  - d. ADA Budget
  - e. Calendar
  - f. MOU
  - g. Independent audit report

If the charter schools do not submit this information, the district can withhold funding or even revoke the charter. Annually, the governing board reviews the status of each charter and reauthorizes the charter through a new MOU.

### ***Recommendations and Recovery Steps***

The district has met this standard.

### ***Standard Implemented: Fully – Substantial***



## 21.1 State Mandated Costs – Management of Reimbursement Claims filing

### *Professional Standard*

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.

### *Sources and Documentation*

1. Discussions with the mandated cost claims manager.
2. Discussions with the Deputy Superintendent – Administration
3. Discussions with the Associate Superintendent – Business Services

### *Findings*

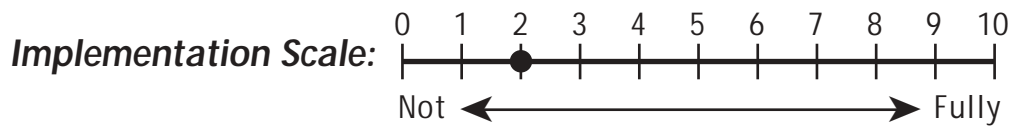
1. The district has a manager responsible for compiling, preparing, and submitting mandated cost reimbursement claims.
2. The process essentially involves the manager providing forms to sites/departments requiring the monthly/annual submission of mandated cost data. Based on this information, the annual mandated cost claims are prepared and submitted to the State Controller's Office.
3. The overall monitoring of mandated cost programs appears minimal.
4. There does not appear to be adequate training of site/department staff regarding the requirements of various mandate programs and the related document requirements.
5. There are concerns that the district is not filing for all the mandated cost reimbursements it may be eligible. Further, those claims submitted may contain costs that are not allowable or that are not properly supported. Therefore, while the district may be eligible for additional reimbursements, it may have some exposure regarding the costs it has previously claimed or is currently claiming.

### *Recommendations and Recovery Steps*

1. In order to determine the actual status of the mandated cost program, the district should perform an internal audit. The audit should identify the district's potential exposure for unallowable costs and potential additional revenues for unclaimed costs.
2. Based on the results of the audit, the district should evaluate whether it wants to continue to manage this program in-house, or contract out for claim preparation services.

3. If the district decides to retain the management of this program in-house, it should ensure that the manager is diligent in providing program oversight and monitoring. Such duties should include:
  - a. Providing or arranging for proper staff training with update sessions held at least annually
  - b. Monitoring site/department/district activities to ensure that all reimbursable activities are appropriately documented and claimed
  - c. reviewing site data to ensure that the data provided by sites is consistent with law and appropriately supported
  - d. monitoring the status of reimbursement claims, and performing analytical reviews of reimbursements to identify anomalies/potential errors
  
4. In order to maximize the return to the district, the district should consider using an incentive plan to encourage sites and departments to maintain and report all mandated cost data for reimbursement.

***Standard Implemented: Partially***



## 22.1 Special Education – Cost Containment

### *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.

### *Sources and Documentation*

1. Interview with the Special Education Director
2. Interviews with the Associate Superintendent, Business Services, the Deputy Superintendent and the Director of Accounting
3. Special education budget reports

### *Findings*

1. Special education encroachment continues to exceed budget annually. Items that contributed to the increase in 1998-99 included the need to contract for 30 speech and language specialist at significant private sector rates per hour and the use of aides continues to increase.

### *Recommendations and Recovery Steps*

1. Evaluating the pupil identification process and the delivery of special education services is outside the scope of the Financial Management Assessment area. We recommend that the district conduct a program audit in the area of special education to determine if modifications made to the pupil identification or program delivery could help to contain the costs.
2. The budget office should work more closely with the special education department in the development of a realistic budget each year. Year-end surprises, such as the one incurred this year, should be avoided through carefully planning and budget monitoring throughout the year.

### *Standard Implemented: Not*

