



# Compton Unified School District

Financial Management

Comprehensive Review

February 2000

**Administrative Agent**  
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**Office of Kern County**  
**Superintendent of Schools**

Chief Executive Officer  
Thomas E. Henry

## 1.2 Organizational Environment – Governing Board and Audit Committee Participation

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### Professional Standard

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

### Progress on Recommendations and Recovery Steps

A standing audit committee has been formed based upon the following considerations.

1. Reporting lines: The audit committee exists at the pleasure of the district's advisory board and State Administrator. Organizationally, the committee stands apart from all other district departments and functions. The contracted internal audit firm, Thompson, Cobb and Bazillio, reports to the audit committee on a regular basis.

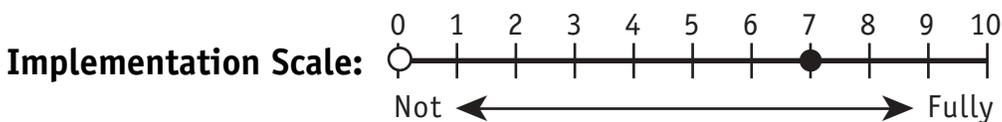
The advisory board and state Administrator still need to establish a charter and bylaws for the audit committee that define:

- a. Functions and objectives;
  - b. How members are appointed;
  - c. Terms for members;
  - d. Voting and quorum requirements; and,
  - e. How the members are to involve and communicate with district management and the governing board.
2. Composition: The audit committee is comprised of seven people: two board members, the State Administrator, three cabinet members, and a representative from the CPA accounting firm of Thompson, Cobb and Bazillio. To ensure independence in the future, the district should consider that the majority of the members of the committee come from outside the district.
3. The Committee's Charge: The audit committee's charge is to:
    - a. Oversee the independent audit and reporting process. The internal audit firm was hired through a bid process. However, the State Controller's Office will continue to conduct the audit until control of the district is returned by the state.
    - b. Ensure attention is paid to control and compliance weaknesses in a timely manner. The internal auditors communicate all findings to the committee. The auditors also conducted a Risk Assessment then focused on the areas of highest need. Management is responsible for responding to the findings as part of the resolution process.

- c. Legal, ethical conduct of management and employees is encouraged through the audit process. The audit committee, through its assignments to internal audit staff or by its evaluation of external audit findings, holds management and staff accountable for adherence to board policy regarding legal and ethical conduct.
  - d. There has been an increase in confidence in the financial reporting process.
  - e. Since the audit committee has only been in existence this year, it has not provided an annual report to the governing board, State Administrator and management. In the future, 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: Currently, the committee meets monthly:
- a. With the external and internal auditors to review the audit findings.
  - b. With management regarding the audit findings and resolutions resulting from external and internal audits.
  - c. With the internal auditor to make annual work assignments and to review the internal audit reports.
  - d. The committee still needs to formally present the internal audit to the Advisory Board.
5. Committee Authority: Any organization has various political realities and the potential for misdirected agendas. The audit committee, however, should not function as a board of inquiry. While there is the potential for the committee to overstep its delegated powers, by nature the committee process in its non-public setting involves 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 and resolve the issues.

**Standard Implemented: Partially**

February 1999 Rating: 0  
 August 1999 Rating: 0  
 February 2000 Self Rating: 10  
 February 2000 Rating: 7



### 3.2 Staff Professional Development – Training Programs for Schoolsite/Department Staff by Business Staff

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#### Professional Standard

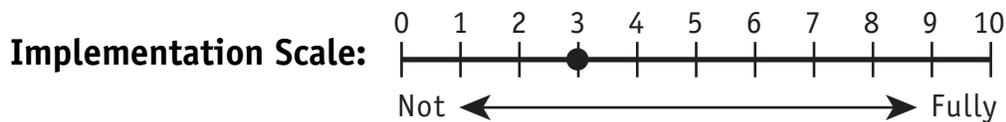
Develop and use a professional development plan for the in-service training of schoolsite/department staff by business staff on relevant business procedures and internal controls. The development of the plan should include the input of the business office and the schoolsites/departments and be updated annually.

#### Progress on Recommendations and Recovery Steps

1. No further substantial progress has been made on this standard.

#### Standard Implemented: Partially

February 1999 Rating: 3  
August 1999 Rating: 3  
February 2000 Self Rating: 3  
February 2000 Rating: 3



## 4.2 Internal Audit – Organization of Internal Audit Functions

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### Professional Standard

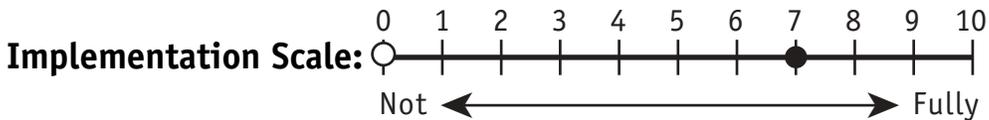
Internal audit functions should be designed into the organizational structure of Compton. These functions should include periodic internal audits of areas at high risk for noncompliance with laws and regulations and/or at high risk for monetary loss.

### Progress on Recommendations and Recovery Steps

1. The district has implemented an internal control function. The internal audit staff, as directed by the board, audit committee or state administrator, has performed reviews of areas that are at high risk for monetary loss or noncompliance with laws and regulations.

### Standard Implemented: Partially

February 1999 Rating: 0  
August 1999 Rating: 0  
February 2000 Self Rating: 10  
February 2000 Rating: 7



### 4.3 Internal Audit – Management and Supervision of Internal Audits

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#### Professional Standard

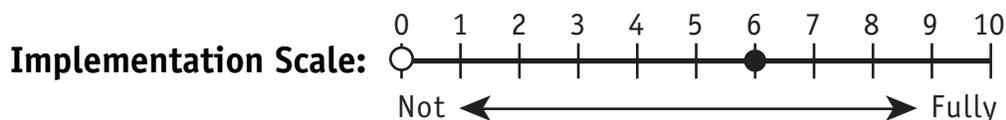
Qualified staff should be assigned to conduct internal audits and be supervised by an independent body, such as an audit committee.

#### Progress on Recommendations and Recovery Steps

1. A standing audit committee has been formed. The audit committee exists at the pleasure of the district’s advisory board and State Administrator. Organizationally, the committee stands apart from all other district departments and functions. The contracted audit firm, Thompson, Cobb and Bazillio, reports to the audit committee on a regular basis.
2. The district has implemented an internal control function. An internal audit firm was hired through a bid process. However, the State Controller’s Office will continue to conduct the audit until control of the district is returned by the state. The internal auditors communicate all findings to the committee. The auditors also conducted a Risk Assessment then focused on the areas of highest need. Management is responsible for responding to the findings as part of the resolution process. The audit committee, through its assignments to internal audit staff or by its evaluation of external audit findings, holds management and staff accountable for adherence to board policy regarding legal and ethical conduct. The internal audit staff, as directed by the board, audit committee or state administrator, has performed reviews of areas that are at high risk for monetary loss and noncompliance with laws and regulations. There has been an increase in confidence in the financial reporting process.
3. The board still needs to adopt policies establishing this audit function for the district.

#### Standard Implemented: Partially

February 1999 Rating: 0  
August 1999 Rating: 0  
February 2000 Self Rating: 5  
February 2000 Rating: 6



## 4.4 Internal Audit – Follow Up and Response to Internal Audit Findings

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### Professional Standard

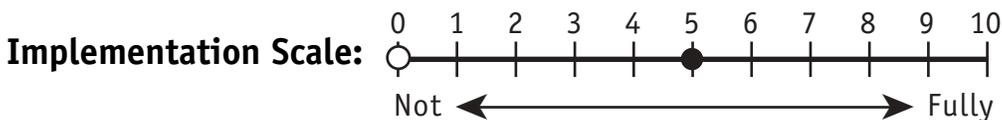
Internal audit findings should be reported on a timely basis to the audit committee, governing board and administration, as appropriate. Management should then take timely action to follow up and resolve audit findings.

### Progress on Recommendations on Recovery Steps

1. A standing audit committee has been formed. An internal audit firm has been hired, Thompson, Cobb and Bazillio. However, the State Controller's Office will continue to conduct the external audit until control of the district is returned by the state.
2. The internal auditors communicate all findings to the committee. The auditors also conducted a Risk Assessment then focused on the areas of highest need. Management is responsible for responding to the findings as part of the resolution process.
3. The audit committee, through its assignments to internal audit staff or by its evaluation of external audit findings, holds management and staff accountable for adherence to board policy regarding legal and ethical conduct.
4. The governing board has not adopted policies establishing this internal function as of the date of this review. These policies should establish the process for:
  - a. The internal audit firm to report on findings;
  - b. Management to respond to and address findings;
  - c. The internal audit firm to verify the resolution of the findings; and
  - d. The board to take action.

### Standard Implemented: Partially

February 1999 Rating: 0  
August 1999 Rating: 0  
February 2000 Self Rating: 5  
February 2000 Rating: 5



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

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### Professional Standard

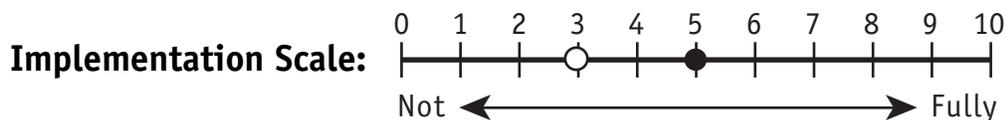
The budget development process includes input from staff, administrators, board and community.

### Progress on Recommendations and Recovery Steps

1. The district has made development of the budget, its most important policy document, an open process. This is in the early stages of development. While the community is not yet an integral part of this process, the district is making efforts to ensure that the board is involved in the process.
2. The district still needs to build capacity within the board and other stakeholder groups.
3. The district has conducted training sessions for the board and staff, which emphasized budget planning. However, efforts are planned to include financial management, goal setting, evaluation of programs and their costs and benefits, and the legal responsibilities of budget administration.
4. The district still needs to enlist the support of various community groups to ensure that they have input into priorities and can help to shape and communicate the budget.
5. The district has developed understandable budget documents that facilitate communication with its many audiences.
6. Budget hearings and workshops have been held at convenient times, are well publicized, and are presented in a manner that elicits positive support and involvement and is comfortable for the board and public.

### Standard Implemented: Partially

February 1999 Rating: 3  
August 1999 Rating: 3  
February 2000 Self Rating: 5  
February 2000 Rating: 5



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

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### 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.

### Progress on Recommendations on Recovery Steps

1. Initial steps have been taken to institutionalize the steps outlined by the State Administrator in order to coordinate effectively the budgeting and planning processes.
2. The budget is evaluated to ensure that it reflects the priorities of the district. Departments now have reliable budgets and the managers adhere to these budgets. While there has been progress in this area, there continues to be a need for departments to focus on district goals.
3. Internal training has been provided to ensure that all personnel responsible for preparation and approval of departmental budgets are knowledgeable about the strategic planning objectives of the district. This is an effort that needs to be incorporated systemically into the organization.
4. The strategic planning objectives should continue to be developed and finalized prior to preparation and approval of the budget. A detailed planning and budgeting calendar has been developed and is used by all departments.
5. An assessment of progress made the prior year should be developed and used as the starting point for the subsequent year's planning and budgeting cycle.
6. Procedures should be implemented that require a conscious effort to evaluate the proposed budget specifically as it relates to strategic planning objectives and other priorities of the district.

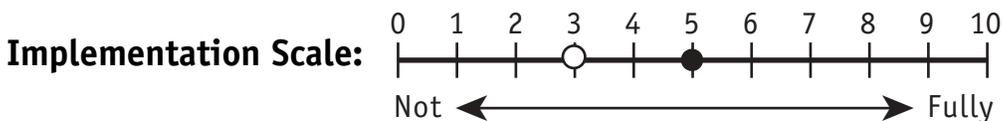
### Standard Implemented: Partially

February 1999 Rating: 3

August 1999 Rating: 3

February 2000 Self Rating: 4

February 2000 Rating: 5



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

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### Professional Standard

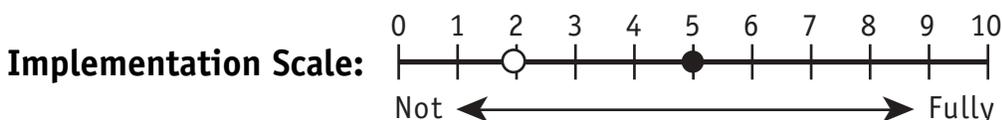
The budget office should have a technical process to build the preliminary budget amounts that includes: the forecast of revenues, the verification and projection of expenditures, the identification of known carryovers and accruals, and the inclusion of concluded expenditure plans. The process should clearly identify onetime sources and uses of funds. Reasonable ADA and COLA estimates should be used when planning and budgeting. This process should be applied to all funds.

### Progress on Recommendations on Recovery Steps

1. The district is using the LACOE budget development package. Elimination of the manual process has proven to be more efficient and less prone to data entry error. In addition, the ability to project salary and benefit costs has been beneficial to the district.
2. Approved budget assumptions are being reflected in the amounts recorded in the budget.
3. The district has adopted a budget development process that relies on prior allocations less and more on district goals and justifiable needs. The timely closing of books last year assisted the district in projecting areas of need more reliably.
4. The district is working on providing more historical financial data to administrators so budgets, in part, would be based on real expenditure patterns instead of the most recent budget appropriation.
5. In the last two years, the district has reduced the number of audit findings from 29 to 12. The district also has reduced the audit adjustment amounts from over \$2 million to under \$200,000.
6. For the first time in years, LACOE certified the district's budget without any qualifications.
7. The department functions as a team. To emphasize this, the district provided an awards banquet that recognized the accomplishments of the department and its individuals.

### Standard Implemented: Partially

February 1999 Rating: 2  
August 1999 Rating: 2  
February 2000 Self Rating: 4  
February 2000 Rating: 5



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

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### Professional Standard

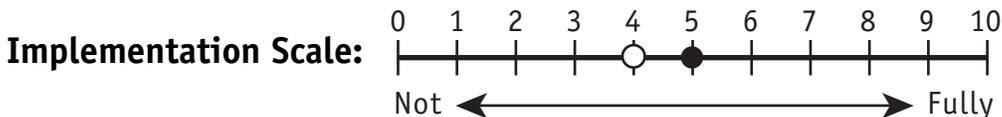
Standardized budget worksheets should be used in order to communicate budget requests, budget allocations, formulas applied and guidelines.

### Progress on Recommendations and Recovery Steps

1. The budget worksheets have not been redesigned. However, the budget summary was utilized to make adjustments. The department leads were provided with prior-year actual results along with the prior-year budget.
2. The district is continuing to improve its communication system to allow the division chiefs to evaluate whether:
  - a. The needed information is complete;
  - b. The department budget mission and goals are consistent with the districtwide objectives; and,
  - c. Department heads have no expenditure authority until the budget information is provided.

### Standard Implemented: Partially

February 1999 Rating: 4  
August 1999 Rating: 4  
February 2000 Self Rating: 6  
February 2000 Rating: 5



## 8.4 Budget Monitoring – Position Control

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### Professional Standard

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

### Progress on Recommendations and Recovery Steps

1. While the district has not instituted an electronic position control system at this time, position control practices have been instituted.
2. The district has reduced the number of discrepancies by putting in controls that verify the accuracy of data entry. The controls include supervisory review procedures that control the total number of checks generated.
3. Positions are not posted or filled until the proper authorization is obtained from the budget office. Delays in the approval of positions would be minimized if an integrated system were used.
4. The business office is working with payroll to ensure that the ability to override and pay a permanent employee without a position number does not occur.

### Standard Implemented: Partially

February 1999 Rating: 4  
August 1999 Rating: 4  
February 2000 Self Rating: 5  
February 2000 Rating: 5

