

# INTRODUCTION

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The School Services of California (SSC) team applied a set of Financial Management standards shown in the Listing of Standards and identified additional standards to those contained in the Request for Applications (RFA) such as:

- A series of standards related to the Internal Control Environment since it is the organizational tone established by management that can instill integrity, ethical values and competency.
- Communication standards that cross over multiple functional areas and processes.
- Standards related to Long-Term Debt Obligations that are, in our opinion, essential to the long-term fiscal health of Compton.
- Standards regarding the Multi-Year Fiscal Implications of Collective Bargaining that, we believe, should be part of the financial management assessment and recovery plan because of the significance multi-year contracts governing over 80 percent plus of expenditures play in fiscal solvency.
- Internal Audits standards are proposed by SSC because of the pivotal role self-assessment and monitoring will play in the recovery plan for Compton Unified School District.
- Internal Controls Over Operational Departments standards have been identified within the operational departments that support the instructional and facilities programs.

SSC worked closely with FCMAT and the state-appointed administrator to ensure that the standards applied were comprehensive and appropriate.

To create a workplan that is comprehensive, SSC has also augmented professional standards in the areas of budget development and monitoring, budget communications, attendance accounting, financial accounting, multi-year planning, management information systems and student body fund management.

SSC appreciates the opportunity to assist Compton Unified School District and the Fiscal Crisis and Management Assistance Team in assessing the financial management issues facing Compton. We believe the financial management recovery plan is workable and should be a cornerstone upon which district resurgence and prosperity can be based.

In evaluating each of the functional areas listed above, SSC developed a meaningful standard, selected appropriate sources and documentation for measurement of performance against the standard, conducted those measurements, and produced findings and recommendations in each area. These recommendations are the heart of the recovery plan.

In each functional area we employed experts with practical knowledge and experience in the area. We asked that the standards and measurements not be tailored to Compton but they instead be appropriate for application in any school district. Implementation of our recommendations, as listed in the recovery plan, should enable Compton USD to perform on par with other districts in the state.

In developing the Financial Management Assessment and Recovery Plan, SSC performed the following:

- Assessed the district's current financial management against legal and professional standards. SSC was careful to ensure that the standards were comprehensive, specific, of high quality, and measurable.
- Developed a specific recovery plan that will lead the district progressively towards providing a high level of service and towards meeting fiscal stability objectives.

- Advised FCMAT, the state-appointed administrator and Compton Unified School District on how implementation will be achieved. SSC believes that the specific tasks, timelines and progress measurements can be put in place to help ensure the successful implementation of the recovery plan.

## Study Team

Christy White, CPA and Senior Director of Management Consulting Services

Ken Hall, SSC President

Ron Bennett, Vice President

Jerry Twomey, CPA and Associate Director of Management Consulting Services

Gina Sherman, Chief Accountant

SSC staffed this project only with top experts in their field; junior-level staff were not used.

## Study Guidelines

SSC divided the assessment and recovery plan into several sections to better represent the categories of findings noted and to facilitate the development of cohesive recovery steps. Each of the area groupings include assessment elements that, in our professional judgement, pertain to that general area of our investigation. In the end, all of these areas and individual elements are inescapably interrelated; the findings and recommendations for individual elements must be taken together when evaluating progress.

For each individual assessment element we have formulated and provided a standard and a description of the measurement tools we used to evaluate progress toward that standard. We then completed the field work necessary to evaluate progress, develop findings, and determine the recommendations we believe must be implemented to complete the recovery plan. Our investigation included substantial field work by professional experts qualified to evaluate each of the areas and elements of the project.

In some areas we found that substantial progress had been made. We have detailed the successes we found equally as diligent as the deficiencies. We found the vast majority of the people we worked with in Compton to be capable, dedicated, and diligent in the performance of their duties. They were cooperative and helpful as we added our requests for their time and talents to their already substantial workload. In some cases, we found people who were not representative of this group of dedicated people and who will need significant redirection if they are to become facilitators rather than barriers to progress.

Our assessments of how much progress has been made and whether it has been sustained are to some extent subjective, however, we believe our judgments are supported by the factual evidence we reviewed and reported. It is, however, certain that substantial progress has been made in the past two years by the current leadership team. Nearly all of the areas in which we found substantial sustained progress had shown that improvement during the tenure of the current leadership team. It is perhaps beyond the scope of this report to comment on the necessity of maintaining the momentum established by the current leadership team. However, it is important that we note that the intangible as well as the tangible aspects of leadership that have facilitated the current improved situation will be essential to moving forward to a full recovery.

## Summary of Findings and Recommendations

Our review of the conditions related to financial management in Compton Unified School District required us to review 90 specific assessment elements in 19 functional areas. After our evaluation we rated each area using the following rating format which was supplied by FCMAT.

- Fully Implemented - Sustained
- Fully Implemented - Substantially
- Partially Implemented
- Not Implemented

We found one assessment element was Fully Implemented - Sustained. Our criteria was this element should have reached a satisfactory or better level of performance and this level of performance can be sustained without extraordinary intervention.

We found 10 assessment elements were Fully Implemented - Substantially. These elements have appeared to have attained the standard at the time of our review, but the support structure we believe necessary to ensure they remain at that level was not in place or there was no observable track record of success.

We found 49 assessment elements were Partially Implemented. These elements require further action before they can be considered Fully Implemented.

We found 21 assessment elements that were Not Implemented.

The following recommendations have been drawn from each of the 19 financial management functional areas. These recommendations generally characterize the nature of deficiencies found in the district. Although we have noted deficiencies, it is important to point out that significant progress has been made during the past two years.

### ***Environment***

Our primary recommendation in the Organizational Environment area is to improve the organizational structure of the business and operations departments. We observed that the structure provided for inadequate supervision, that certain positions were underskilled and overstaffed, that communication lines were at times ineffective, that the employee evaluation process was not goal-orientated, and that the salary structure was not competitive.

We are concerned that the recovery plan cannot be implemented unless there is a strong organizational structure in which to make the changes permanent. We propose a sample organizational plan shown as attachment A for the Fiscal Services Department and recommend that all departments undergo similar scrutiny and review. We are not proposing a reorganization of positions but suggest a process that can increase supervision immediately and then over time increase the skill levels of staff, along with offering competitive salaries commensurate with the higher skill levels.

### ***Inter- and Intra-Departmental Communications***

The district lacks formal procedures manuals. Communication with non-management employees on district policies and procedures is needed. Management appears to communicate on a regular basis.

## ***Staff Professional Development***

Training programs for the departments and individual staff are virtually non-existent. Some training is given to site staff in the area of attendance accounting but no formal training plans are developed.

## ***Internal Audit***

The district lacks any formal internal audit function and does not have an audit committee. Internal audit functions, reporting to an audit committee serve as an important internal control point and are well worth the investment. If designed properly, the function can serve to both protect the assets of the district and find more efficient ways of doing business.

## ***Budget Development***

The budget development model is primarily a rollover of prior allocations. The budget worksheets provided for use by site and department administrators are not consistently used. Once in place, the budget is revised for major revenue and expenditure changes. Budget revisions and transfers are taken to the State Administrator and Governing Board for approval.

## ***Budget Adoption, Reporting and Audits***

The district typically submits its initial budget to the Los Angeles County Office of Education (LACOE) in a timely manner. However, due to problems in processing financial transactions during the year and lack of solid budget planning, LACOE consistently questions the district's budget. These accounting problems also cause the district to be late in filing its year-end reports with the state. However, budget revisions are taken to the Governing Board and interim reports are filed timely.

In regards to the follow-up to audit findings, the district's response is not always comprehensive enough to constitute a corrective action plan for all audit findings.

## ***Budget Monitoring***

Budget monitoring is achieved through the encumbrance system which has, at times, been circumvented. Monitoring is on a "bottom line" not object code basis for most programs.

## ***Investments***

The district does not have a formal Governing Board adopted investment policy, nor does it prepare periodic reports of investments. However, the district essentially has all its cash in the county treasury or FDIC insured bank accounts at the present time, with the exception of the food service program. However, policies should be adopted as a matter of good business practice.

## ***Attendance Accounting***

Of prime importance is the early identification of students with attendance problems so that intervention methods might be employed. We found that many sites relied too much on the teachers to identify these students and that the attendance offices were not spending enough time reviewing student records.

## ***Accounting, Purchasing and Warehousing***

Our review of general accounting functions included areas such as: cash receipts, accounts receivable, accounts payable, purchasing, payroll and general ledger. Internal control weaknesses were found that could result in material errors. These weaknesses included:

- Lack of adequate reconciliations of general ledger accounts.

- Lack of segregation of duties in handling cash receipts.
- Inadequate recordkeeping for employee leave balances.
- Incomplete bill warrant documentation.
- Misused account codes and posting errors.
- Lack of adequate supervision.

In addition, the district had great difficulty closing records for the 1997-98 fiscal year missing the Los Angeles County Office of Education's filing deadlines. Among the many findings, three areas warrant special attention:

- *Accounts Payable Processing*

The district has had serious difficulties processing accounts payable in a timely manner. As a result, some vendors refuse to do business with the district, cash discounts are lost, and payments are sometimes made twice for the same invoice. Efforts have been made to reduce the backlog; thus, with adequate supervision future improvements are expected to be made.

- *Cash Receipt and Cash Reconciliations*

Several items of concern were noted in the area of cash receipts and reconciliations, including cash receipts not logged and numerous bank accounts not reconciled to the general ledger.

- *Financial Reporting*

There appeared to be a lack of adequate and timely financial reporting to management and the board. As a consequence, fiscal decisions could be made without adequate or accurate information.

### ***Student Funds***

There were many internal control problems observed in the accounting for student funds. These included lack of segregation of duties, lack of controls over cash handling and inventory, and missing records.

### ***Multi-Year Financial Projections***

The multi-year financial projections prepared as part of the annual recovery plan appeared to use reasonable assumptions. However, we did not find the district using multi-year financial projections as part of the long-term financial planning and decision-making process.

### ***Long-Term Debt Obligations***

The district essentially presents information regarding long-term debt at public board meetings. However, the district should adopt formal policies that establish guidelines for the use of non-voter approved debt, the reporting of long-term liabilities including unfunded amounts, the identification of revenues to repay debt, and periodic cash flow reports related to revenue sources dedicated to debt repayment.

### ***Management Information Systems***

The district will need to actively manage the technology planning process if progress is to be made. The technology plan specifies that the plan is for 1997-2002, but as 1999 approaches, it has still not been finalized and adopted. The plan needs to be completed and adopted. Additionally, the plan does not include the substantial upgrades which must be made to administrative computer systems, nor is there an adequate plan to finance the needed improvements.

### ***Maintenance and Operations Fiscal Controls***

There are several internal control recommendations in the areas of operation and maintenance, primarily in the inventory of materials/supplies, equipment inventory and work order management. We found good internal controls in the transportation department over both fuel and parts inventories.

In the risk management area, the district has a very high workers' compensation rate, more than twice that of an average district. Measures need to be taken to reduce the claims experience rate.

### ***Food Service Fiscal Controls***

Food Services could improve its controls by:

- Using the Purchasing Department to procure its food;
- Comparing meals served by each site to the amount of food requisitioned;
- Monitoring gross profit;
- Transferring cash to the county treasury at least monthly; and,
- Having inventory sheets from the snack bars forwarded to the food services office for reconciliation.

In summary, we did note signs of improvement in many areas and some have been marked as being substantially met. Other areas, however, need corrective measures to be taken before the standards can be declared to be met on a substantial and sustained basis.

# 1.1 Organizational Environment – Integrity and Ethical Values

## Professional Standard

Integrity and ethical behavior are the product of Compton’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. [State Audit Standard (SAS) 55, SAS-78]

## Source and Documentation

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

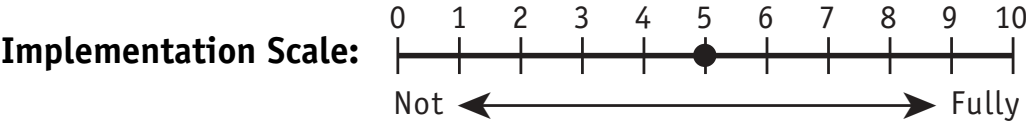
## Findings

- 1. Associated Student Body records at Dominguez High from 1997-98 were missing. All files of the out-going Student Activities Director were emptied including file copies stored in an assistant’s work area. The current Student Activities Director reported the missing documents to management, but there was no suitable system to resolve the issue. The Director was reportedly told to start with zero club account balances despite the contention of club advisors that monies were on hand at the close of the 1997-98 school year.
- 2. A variety of internal control weaknesses were discovered, including lack of control over the use of district-owned maintenance vehicles and the use of open purchase orders. These weaknesses are described at more length in their respective assessment areas and are discussed in the State Controller’s audit report.
- 3. Conflict of interest statements for the governing board members and the state-appointed administrator were reviewed and found to be complete.

## Recommendations and Recovery Steps

- 1. Investigate the missing ASB documents. An internal audit function would help reinforce the importance of good internal controls and ensure that controls are operating effectively. Specific steps to create an internal audit function are described under assessment area #4, Internal Audit.

**Standard Implemented: Partially**



## **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]

### **Sources and Documentation**

1. Interview with the Associate Superintendent, Business and Administrative Services

### **Findings**

The district does not have an audit committee.

### **Recommendations and Recovery Steps**

Form a standing audit committee based on the following considerations:

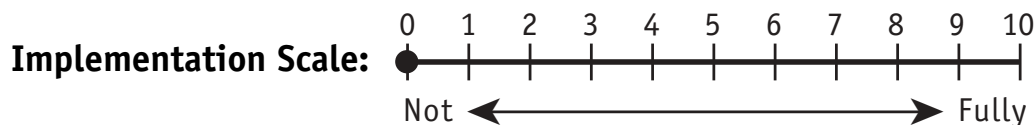
1. Reporting lines: The audit committee would exist at the pleasure of the district's governing board and State Administrator. Organizationally, the committee stands apart from all other district departments and functions. Any internal auditors, whether district employees or contracted audit firms, should report to the audit committee on a regular basis.  
The governing board and State Administrator should establish a charter and bylaws for the audit committee that define:
  - (1) functions and objectives;
  - (2) how members are appointed;
  - (3) terms for members;
  - (4) voting and quorum requirements; and,
  - (5) how the members are to involve and communicate with district management and the governing board.
2. Composition: Typically an audit committee is comprised of 5 to 7 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, 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. However, the State Controller's Office will continue to conduct the audit until control of the district is returned by the state.
  - 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, State Administrator 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, when control of the district is returned. This would not be an annual task, since most agencies have multi-year contracts for audit services.
  - b. To meet with the independent auditor, i.e. currently the State Controller’s Office, 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.
  - e. Formally present the internal audit to the Board.
5. Committee Authority: Certainly any organization brings with it various political realities and the potential for misdirected agendas. The audit committee, however, should not function as a board of inquisition. But while there is the potential for the committee to overstep its delegated powers, recognize that the committee process in its non-public 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 Organizational Environment – Administration’s Philosophy and Operating Style

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### Professional Standard

The attitude of the governing board and key administrators has a significant effect 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 State Administrator, Associate Superintendent of Business and Administrative Services and Deputy Director of Business Services
2. Board minutes

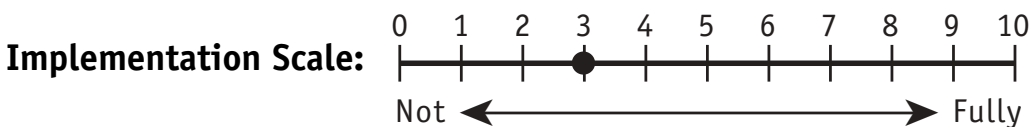
### Findings

1. Interviews with the State Administrator, Associate Superintendent and Deputy Director indicated that management decisions are being made with appropriate consideration of available fiscal resources.
2. The board minutes reflect discussions regarding fiscal considerations, but there is a lack of board involvement in the budget process. Further discussion of the role of the governing board in the policy discussions on budget can be found in assessment area #5, Budget Development Process (Policy).

### Recommendations and Recovery Steps

1. Refer to recovery steps outlined in assessment area #5, Budget Development Process (Policy).

### Standard Implemented: Partially



## 1.4 Organizational Environment – Organizational Structure

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### 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
3. Review of work product

### Findings

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

The organizational structure of the business and operational departments provides inadequate supervision, ineffective lines of communication, and relied on a high number of low job skill classifications. The organization charts did not adequately describe functional areas and supervisory positions. The departments were frequently found to be overstaffed with the existing staff lacking requisite skills at the various positions. A full organizational study is not within the scope of the assessment; nevertheless a strong organizational structure is needed in order to implement the recovery plan.

2. The Fiscal Services Department was selected to demonstrate the typical organizational weaknesses found. While organizational problems were found in most departments, Fiscal Services was selected because of the impact the organizational structure has on the timeliness and accuracy of processing accounting and budget transactions. Thus, Fiscal Services serves as a paradigm for issues that apply district-wide.

The following weaknesses were identified in the Fiscal Services Department:

- a. Inconsistent organizational hierarchy. The current organizational structure is inconsistent in assigning authority and providing supervision. This is demonstrated by the fact that the two accounting analyst positions are shown as being parallel job classifications to the managers for budget, payroll, and risk management. However, the job descriptions for the analyst positions do not identify them as having full supervisory authority. Rather, these positions officially provide only indirect feedback to the Deputy Director on employee performance. Conversely, the manager positions have formally established supervisory responsibility and authority.

The lower organizational status for the analysts is further emphasized by the lower pay scale for these jobs. Notwithstanding the lack of formal supervisory authority and the lower compensation, the two analysts on the current organization chart appear to have responsibility to supervise more staff than two of the three managers.

- b. Lack of adequate immediate supervision. The district relies on a greater number of lower skill positions, which is demonstrated by the fact that there are 39 positions currently in

Fiscal Services. Based on the number of staff employed at districts of similar size, we would expect the fiscal office to have anywhere from 23 to 28 employees. Notwithstanding the high number of staff, the district has historically been unable to process payments or other accounting transactions in an accurate and timely manner.

It is generally recognized that there is an inverse relationship between the technical proficiency of staff and the amount of direct supervision required to effectively process work.

Given that the district relies on a high number of lower-skilled job classifications, there are too few immediate supervisors to monitor and direct the day-to-day office work in an efficient and effective manner. Including the analysts as supervisors, there are currently five first-line supervisors for 28 staff, which is a ratio of 5.6:1. This ratio might be adequate to supervise a staff comprised predominantly of highly skilled professional positions, but given the district's reliance on a greater number of less technically proficient positions, this ratio is not adequate to effectively manage the work. If analysts are removed as supervisors, the ratio of staff to first-line supervisors goes up to 10:1. This ratio would be high for a staff with greater technical skill, but with the current organization structure there is a clear need for more daily direct supervision of staff.

In several cases, the supervisors are not located in the same area as the employees they are expected to supervise. Daily supervision is impossible given the office configuration of the current unit.

- c. Technical proficiency, career development, and evaluation. The department does not have a formal staff development, training, and evaluation program to ensure that staff maintain and increase their technical proficiency. This is demonstrated by the fact that some staff have held entry level positions that are designated as being 18-month training positions, for years. As discussed more under the finding for Evaluation of Job Requirements and Employee Skills, employee evaluations lack specificity in career development plans and technical proficiency expectations.

3. 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 an effective and efficient operation.

## **Recommendations and Recovery Steps**

Rigorously evaluate the strengths and weaknesses in the organizational structure of all business and operational departments. The process might be modeled after the following steps outlined for the Fiscal Services Department.

1. Reconfiguration of the organizational hierarchy.

The sample organization chart for Fiscal Services is shown as Attachment A to this section. The sample chart does not substantially reorganize any staff positions, but it does eliminate four currently vacant positions.

The sample organizational structure provides for more direct staff oversight by establishing supervisory positions for the major functional areas. This structure also provides clearer lines of direct supervision, and delineates technical skills required between the assistant/specialist classifications and the technician classification. The organization structure also separates the budget functions from the accounting function, which is warranted in a district the size of Compton. By having separate managers over these functions they are able to gain expertise, and work directly

with the supervisors that provide daily oversight and a link between the staff and management. Overall, the sample organization provides for greater technical skill at the staff levels, greater day-to-day supervision, and should help to make the department more effective, and ultimately more efficient.

2. Assignment of supervisory responsibilities.

In order to ensure that work is performed timely and accurately, all staff should be adequately supervised. Such supervision would include monitoring employee attendance, quantity of work, quality/accuracy of work, and timeliness of completing tasks.

Therefore, designated supervisory positions should be established. The duties for these positions should clearly identify what functions and employees are being supervised. The supervisor will then be responsible for ensuring that staff complete tasks timely and accurately. The supervisor will also be responsible for evaluating employees against these performance measures. The supervisor will then be evaluated on the performance of his/her staff.

3. New job descriptions for supervisors and managers.

In conjunction with the sample organizational change, a revision of job descriptions or even new job descriptions are needed in the supervisory and manager ranks. Currently, the job descriptions for managers do not require a four-year college degree. All manager positions, and perhaps supervisor positions, should require a four-year college degree as the minimum educational requirement. A college degree requirement for supervisory/management positions is typical in school business, and helps to ensure that employees possess minimum skills and learning capabilities.

Ultimately, review the job descriptions and minimum qualifications for all positions in Fiscal Services to ensure that job descriptions accurately reflect duties, and that the minimum qualifications are sufficient to ensure that candidates possess the skills to perform the duties. Ideally, there should be a consistent progression between entry levels and all succeeding positions that accurately documents the increasing level of responsibility and the related increase in minimum skills required.

Upgrade most positions in Fiscal Services. As positions become vacant, reclassify them at a higher technical level, with appropriate revisions to minimum qualifications related to education and experience. However, in order to attract qualified candidates, offer salaries commensurate with the job skills being sought.

Any changes in job requirements and minimum qualifications would best be made prospectively, applied to new positions or as current positions are vacated.

4. Implement a formal staff training and development program.

Establish a staff training and development program that includes:

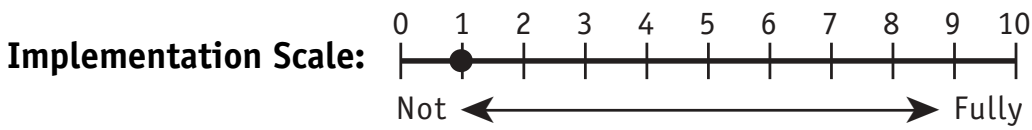
- a. An annual evaluation of training needs for individual staff;
- b. An annual department training plan;
- c. Incentives for bachelor's degrees, graduate degrees, and professional certifications (CPA, CGFM, etc.)
- d. Incentives for participating in professional organizations.

During evaluations, supervisors and managers should help staff identify personal and professional goals that prepare them for professional advancement.

- 5. An evaluation of salaries for competitiveness with other districts.  
Evaluate the competitiveness of salaries compared to like districts in order to attract, hire and retain qualified staff. Since retention at the supervisor/manager ranks has been a problem, it is likely that salaries are low by industry standards. An evaluation of the salary spread between the Technician, Analyst and Assistant positions is also warranted.

To improve performance in the Fiscal Office, increase the technical skill of the staff through a combination of: (1) training; (2) intense evaluation; and, (3) termination or reassignment of staff who are unable to meet expected performance levels. As low-skill positions require greater supervision, it is more effective and efficient in the long-term to raise the skill level of the staff utilized. Thus, the success of the recovery plan rests with the district's ability to move across the continuum to the point where there is a balance between technical proficiency of staff and the amount of supervision required/provided.

**Standard Implemented: Partially**



# 1.5 Organizational 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

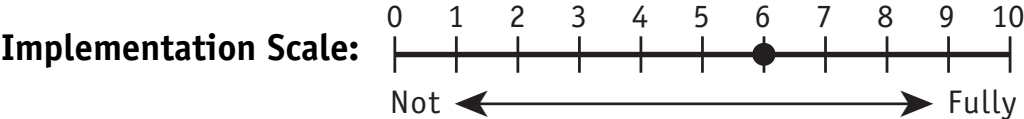
## Findings

- 1. Job descriptions and personnel files for all employees in Fiscal Services were available.
- 2. All employees in our sample met the minimum qualifications for their job. All positions had job descriptions on file and most identified specific job skill requirements. However, the job descriptions could be more specific about required duties.

## Recommendations and Recovery Steps

- 1. A continual update of job descriptions is needed to ensure that specific job skills and required duties are identified. The job description is an essential characteristic to ensure employees are responsible for an effective delivery of technical services. The supervisors in the Fiscal Services unit, as an example, must ensure that employees are expected to meet the required technical and workload standards for efficient delivery.

## Standard Implemented: Partially



## 1.6 Organizational Environment – Hiring Policies and Practices Governing Financial Management and Staff

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### Professional Standard

Compton should have procedures for the recruitment of capable financial management and staff and the hiring of competent people. [SAS-55, SAS-78]

### Sources and Documentation

1. Recruitment materials and advertising
2. Discussion with the classified personnel director
3. Personnel files for all fiscal office management and staff
4. Personnel files for a sample of operational department management and staff

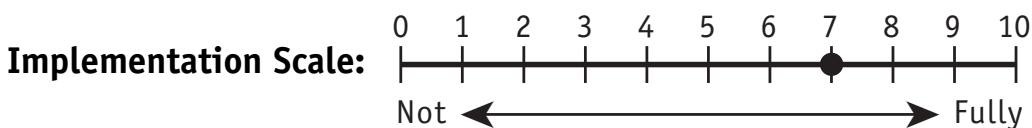
### Findings

1. The key financial managers met or exceeded minimum job qualifications, and their personnel files appear complete.
2. The interview process for the Senior Director of Fiscal Services included the direct involvement of the Assistant Superintendent of Business.
3. There was no evidence that background checks, other than fingerprinting, were conducted but applicants did submit references. Applicants are also required to disclose any relatives working in the district. Business interests were not disclosed.

### Recommendations and Recovery Steps:

1. Require business interests to be disclosed in the applicant screening process. The disclosure should then be reviewed to ensure that no conflicts of interest exist.
2. Verify post-employment, degrees and references.

### Standard Implemented: Partially





# 1.7 Organizational 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.

## Source and Documentation

- 1. Performance evaluations contained in personnel files

## Findings

- 1. From a sample of completed evaluation forms, it was determine that:
  - a. the evaluation forms were non job-specific;
  - b. that performance criteria are not laid out nor measured;
  - c. prior performance issues were frequently not addressed; and,
  - d. goals to improve future performance were frequently not addressed.

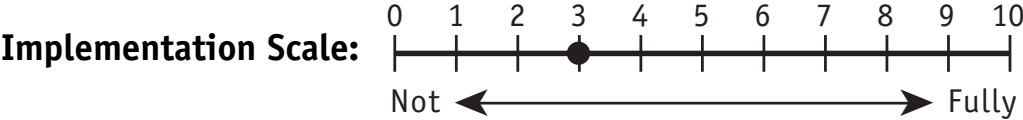
In sum, the evaluation process was non-job specific with generic forms used. Review of Fiscal Services Department staff’s work process and product raised concerns about certain employees’ job performance. Employees lacked understanding of job duties. These performance concerns, however, were not reflected in their evaluations.

- 2. The employee and supervisor signed the performance appraisal report.

## Recommendations and Recovery Steps:

- 1. Develop a rigorous evaluation process. A methodology is needed to: (1) establish performance criteria for each position; (2) work with employees in designing goals to meet the criteria; and, (3) rigorously evaluate employees’ performance against the criteria. Refer to recovery steps in the Personnel Assessment and Recovery Plan.
- 2. Do not retain employees who fail to meet expected performance criteria. Administer employee dismissals when necessary.

## 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 on 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. Procedures manuals are necessary to the communication of responsibilities. The departments, as well, 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. Inter-office memos
2. Interviews with department management and staff

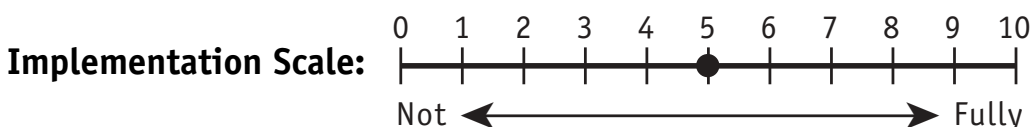
### Findings

1. Communications within and between the business departments, particularly among non-management employees, is poor.
2. There are very few communications on interoffice policies and procedures. Specific business policies and procedures manuals do not exist. There are, however, board policies and administrative regulations.
3. Communications among the directors is good as frequent meetings are held.

### Recommendations and Recovery Steps:

1. Develop business policy and procedures manuals for each functional business and operational area.
2. Train employees as to the contents of the manuals, and communicate to them management's expectation that satisfactory job performance will be based on the employee's ability to implement the manuals.
3. Communicate timely with staff and departments, in writing, any changes to policies and procedures.
4. Detailed desk manuals should support the procedures manuals. A sample format for use in the development of desk manuals is shown as Attachment B to this section.

### 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.

### Source and Documentation:

1. State administrator/governing board minutes and agenda materials

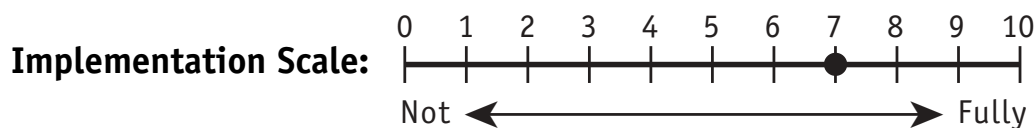
### Findings

1. The state administrator communicates with the financial departments on an ongoing basis. Financial information is given to the governing board, as requested, but not necessarily in a standardized format. The governing board discusses expenditure decisions at public meetings, as enumerated in detail in the board minutes.
2. The board minutes clearly define the business item and action approved by the board members. It was difficult to determine if the board addressed every business item since there was no communication from the business office that could be reviewed.

### Recommendations and Recovery Steps:

1. District finances should be communicated on a monthly basis to the governing board by a written report in a standard format. Other communication may be appropriate from the financial departments on an as-needed basis.
2. The financial departments should prepare a list of their priority items so that that list can be compared to items addressed in board meetings.

### 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 Compton, both current and as projected. The governing board should prioritize district fiscal issues among the top discussion items.

### Sources and Documentation

1. Governing board minutes

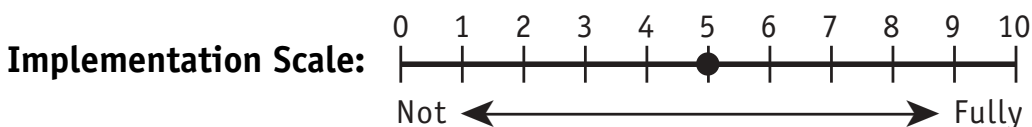
### Findings

1. A review of the board minutes prepared and finalized for 1997 and 1998 showed that the most recent five months of board minutes had not been typed or finalized. For the minutes finalized and reviewed it appeared that appropriate priority was given to business office agenda items. The board's community concerns and other issues are often given higher priority. The minutes showed that the board did discuss business office agenda items.
2. Review of the board minutes did indicate that board members discussed the fiscal significance of their business items. The board members would sometimes disagree as to the significance and priority of a particular issue, and the state administrator would sometimes disagree with the board members. The information presented to the board on a particular issue was usually considered in the decision making process.

### Recommendations and Recovery Steps

1. Type, review and finalize the board minutes within one week of the board meeting.
2. Give the board members guidelines that discuss district priorities that they may refer to during their decision making process.
3. Board members should take into consideration all the facts presented to them during their decision making process.
4. A better discussion between the board members and the state administrator should be facilitated when the state administrator disagrees with the advice of the board members.

### Standard Implemented:Partially



### 3.1 Staff Professional Development – Training programs and plans

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#### 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 office-wide. At best, each individual staff and management employee should have a plan designed to meet their individual professional development needs.

#### Source and Documentation

1. Interview with classified personnel director and Associate Superintendent, Business and Administrative Services

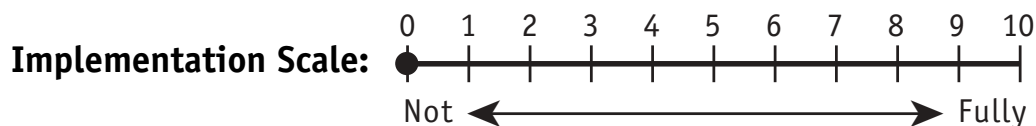
#### Findings

1. There is no staff development plan for business and operational staff.
2. Staff is not aware of training opportunities that might be beneficial. For example, a new student body activity director was not aware of courses on accounting for student funds.

#### 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 staff development plan and assignments that are consistent with the department plan. The staff development might be conducted through a variety of methods, including in-house training, one-on-one mentoring and training, or outside workshops and conferences.

#### Standard Implemented: Not



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

---

#### 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.

#### Source and Documentation

1. Interview with department staff

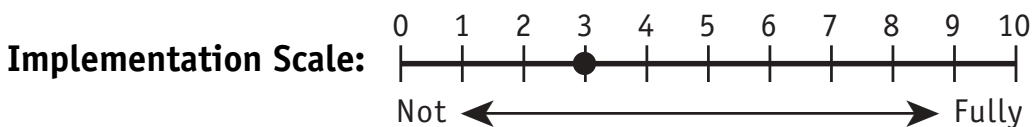
#### Finding

1. Some training is provided to schoolsite/department staff. For example, changes in the attendance accounting system are communicated by the Informational Technology Department to attendance clerks. However, there are gaps in the training of schoolsite/department staff in general business areas, e.g. assignment of account codes and in accounting for student funds.

#### Recommendations and Recovery Steps

1. Prepare an annual staff development plan to keep schoolsite/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 by the central departments to the schoolsite/department level.
2. The staff development should be conducted in-house by knowledgeable managers and staff in the topical area assigned.

#### Standard Implemented: Partially



## 4.1 Internal Audit – Policies and procedures governing internal audits

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### Professional Standard

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

### Source and Documentation

1. Verify that the district has an internal audit unit that has been established in accordance with board policies.

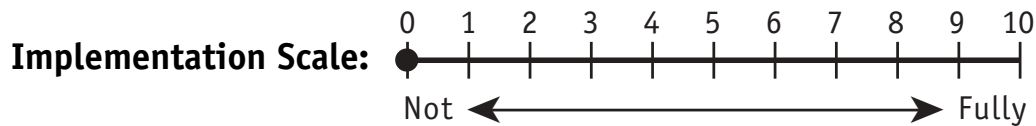
### Finding

1. The district does not currently have an internal audit unit or any board policies regarding the establishment of one. However, the district has been discussing hiring a CPA firm to perform internal audit type work.

### Recommendations and Recovery Steps

1. The board should adopt policies requiring the establishment of an internal audit function. The function may be performed either by district employees or contract CPAs, but should be organizationally independent.

### Standard Implemented: Not



## 4.2 Internal Audit – Organization of Internal Audit Functions

---

### 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 non-compliance with laws and regulations and/or at high risk for monetary loss.

### Sources and Documentation

1. Identify areas of potential high risk for non-compliance with laws and regulations and/or at high risk for monetary loss. These areas might include: attendance accounting and instructional time, personnel practices, ASB funds, cash handling, inventory control, payroll procedures, contract letting and personal use of district property.
2. Determine that there are periodic internal audits of these high-risk areas.

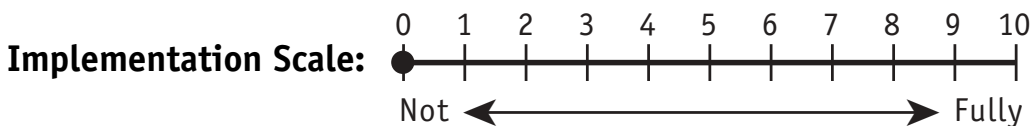
### Findings

1. The district currently does not have an internal audit function. There are no periodic audits of district performance, compliance with laws and regulations, internal controls, or district policies during the year.
2. The Child Welfare Office has been conducting internal reviews of attendance procedures.

### Recommendations and Recovery Steps

1. Implement an internal control function. The internal audit staff, as directed by the board/audit committee or state administrator, should perform reviews of areas that are at high risk for monetary loss and/or non-compliance with laws and regulations.

### Standard Implemented: Not





### 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.

#### Sources and Documentation

1. Review the qualifications of internal audit staff, and ensure that they have past audit experience or they are supervised by someone with past audit experience.
2. Determine that the internal audit staff reports to an independent body, such as an audit committee.

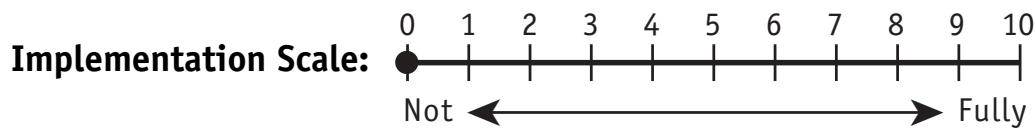
#### Finding

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 certification or equivalent audit experience.

#### Standard Implemented: Not



## 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.

### Sources and Documentation

1. Obtain copies of the most recent internal audit reports, and determine that the reports were distributed to the audit committee, governing board and administration in a timely fashion.
2. Obtain copies of management’s response and follow-up on the findings.
3. Inquire of internal audit staff whether the findings have been appropriately and timely resolved.

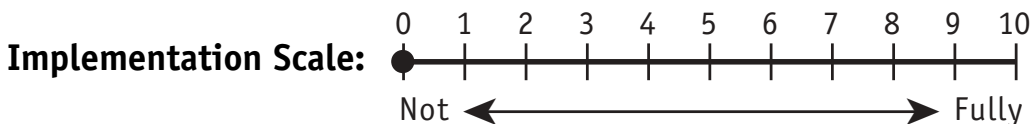
### Finding

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 the internal audit unit to report on findings;
  - for management to respond to and address findings; and,
  - for the internal audit unit to verify the resolution of the findings.
  - for the Board to take action.

### 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 direct staff to design an entire expenditure plan focusing on student and district needs.

### Source and Documentation:

1. Interview with district officials to evaluate the current process

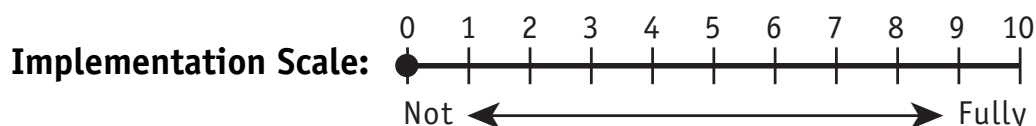
### Finding

1. The governing board has not developed a policy-focused district budget.
2. There was no understanding by the governing board of its obligations and limitations in the development and administration of a district budget.
3. The board micro-manages even to the extent of being more concerned regarding individual employee salaries rather than the district mission.
4. All attempts to shift budget debates to policy areas have failed.

### Recommendations and Recovery Steps

1. In order for the district to operate effectively, the board must avoid using the budget to accomplish micro-goals and to instead focus on budget characteristics and expenditure plans to meet district goals. Recommended steps:
  - a. Intensive board training - including district top management - on the roles and responsibilities of budget development: the “do’s and don’ts” of the budget process. Part of the training should include visits with other boards and observation of their budget development process and meetings.
  - b. The board should employ an external observer and trainer regarding their budget process. The trainer should sit through the board budget development process and provide feedback on a regularized basis regarding actions that the board should take to shift the budget discussion from micro to macro issues.
  - c. The board should identify key district goals and the administration in turn should submit multi-year expenditure plans to fulfill their goals. The board should review those expenditure plans and integrate them as fiscally feasible into the district budget.
  - d. Salaries and benefits for specific individuals - other than a few contract employees in top management - should be shifted to administrative responsibilities only and never to the board.

### Standard Implemented: Not



## **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.

### **Sources and Documentation**

1. Discussions with the State Administrator
2. Discussions with administrative staff
3. Review of budgeting procedures
4. Review of budget documents

### **Findings**

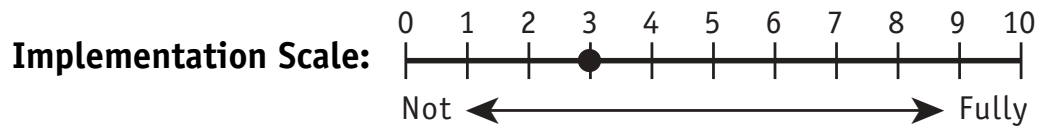
1. Discussions of the role of the board and community with State Administrator Randy Ward made it clear that community involvement in the budget development process is an evolving process.
2. To date, board workshops on the budget have not been held. The board is being encouraged to go through CSBA training; some board members have completed the training.
3. In the past, community groups have been used to work on isolated issues, particularly budget augmentations and selected reductions.
4. The State Administrator has made substantial efforts to build capacity within the board, the staff and the community; however, the budget is still primarily the domain of the Administrator.

### **Recommendations and Recovery Steps**

1. The district needs to make development of the budget, its single most important policy document, an open process.
2. Efforts to build capacity within the board and other stakeholder groups should continue at an accelerated pace.
3. The district should conduct training for the board and staff. The training should emphasize financial management, goal setting, evaluation of programs and their costs and benefits, and the legal responsibilities of budget administration.
4. The district should 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 should develop simplified budget documents that facilitate communication with its many audiences.
6. Budget hearings and workshops should be held at convenient times, be well publicized and be

presented in a manner that is comfortable for and elicits the positive support and involvement of the public.

**Standard Implemented: Partially**



## 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 State Administrator.
2. Discussions with administrative staff
3. Review of budgeting policies and procedures
4. Review of budget documents

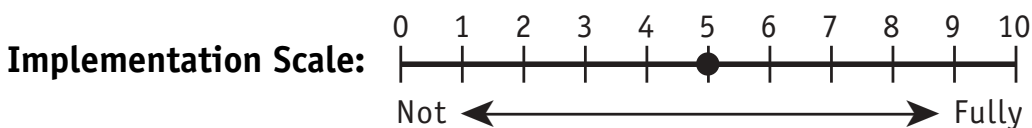
### Findings

1. The district has adequate policies and some procedures for budget development and monitoring.
2. Procedures are not always followed because district fiscal staff lacks training and knowledge of financial and budgeting concepts.
3. The Assistant Superintendent, Business and Administrative Services, is very knowledgeable of the process but has a tremendously high workload and few people to whom important tasks can be delegated. The Assistant Superintendent cannot, and should not, be expected to be involved in every transaction.

### Recommendations and Recovery Steps

1. The district should ensure that the fiscal services function is adequately staffed with trained, motivated and knowledgeable personnel and that all policies and procedures are followed.
2. The district should emphasize financial management and budgeting skills in training sessions for the fiscal staff.
3. The fiscal services function should be re-organized to more effectively utilize the skills of assigned personnel.
4. The district must develop capacity in more individuals so that work can be delegated in a manner that promotes both efficiency and effectiveness.

### 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 the State Administrator
2. Discussions with administrative staff
3. Review of budgeting policies and procedures
4. Review of budget documents

### **Findings**

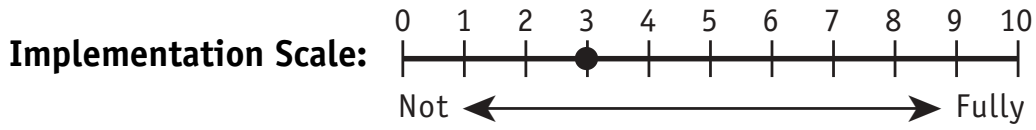
1. Resources and allocations are analyzed through cabinet-level discussions. Ten key strategic planning goals have been identified by the State Administrator and the department budgets are to be built with these results in mind. However, SSC reviewed a sampling of department budgets and found that the worksheets were not prepared consistently identifying goals and objectives.
2. The district has established a new department for research and evaluation. The purpose of the department is to establish performance benchmarks and measure programmatic outcome in light of fiscal resources expended. Teaching the departments to do planning has been difficult. However, each division plan is discussed with the State Administrator.
3. During the year, the cabinet meets to discuss “vital signs,” essentially progress reports related to resource usage and allocations.
4. Within the past year, according to the State Administrator, the district has redirected millions of dollars. For example, by implementing extended school year, accelerated learning, instructional aides, facilities, libraries/media, attendance employees, alternative education program, infrastructure in technology, counselors, textbooks, secondary reading, Sylvan Learning Centers, academies, parent/health centers and supply accounts.

### **Recommendations and Recovery Steps**

1. The district must institutionalize the steps outlined by the State Administrator in order to effectively coordinate the budgeting and planning processes.
2. The budget should be evaluated to ensure that it reflects the priorities of the district.
3. Additional training will be required to ensure that all personnel responsible for preparation and approval of departmental budgets are aware of, and knowledgeable about, the strategic planning objectives of the district.
4. The strategic planning objectives must be developed and finalized prior to preparation and approval of the budget. A detailed planning/budgeting calendar should be developed and 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/budgeting cycle.
6. Procedures should be implemented to require a conscious effort to evaluate the proposed budget specifically as it relates to the strategic planning objectives and other priorities of the district.

**Standard Implemented: Partially**





## **5.5 Budget Development Process (Policy) – Policy Methodology Used to Build the Preliminary Budget**

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### **Professional Standard**

The district should have policies in place to facilitate development of a budget that is understandable, meaningful, reflective of district priorities, and balanced in terms of revenues and expenditures.

### **Sources and Documentation**

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

### **Findings**

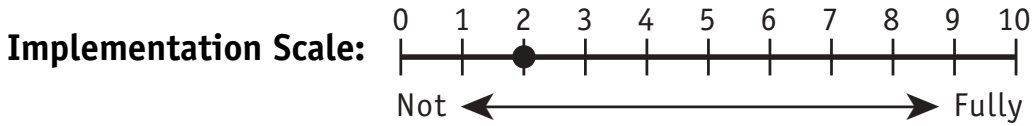
1. For the 1998-99 fiscal year, the district departments were instructed to reduce costs across the board by 10 percent. We reviewed the budgets and found that the majority of budgets were not cut and, in fact, included augmentations.
2. We also found evidence of deficit spending. In the past four years, the district deficit spent two years and one year was due to a major roofing project. This is an improvement over past deficit spending patterns.
3. In the past, the district has not built the budget around past actual expenditure patterns. But now, the State Administrator has directed that the budget be based upon past expenditures and the process is evolving in that direction.
4. The district has had deficit balances in the adult education and cafeteria funds in years past. Successful efforts have been made to balance those budgets and repay the general fund for amounts due.
5. In past years, the child development fund had financial difficulties however, a balanced budget was built for 1997-98. This a marked improvement over past years.

### **Recommendations and Recovery Steps**

1. The district must ensure that the budget is balanced, that all funds maintain positive balances, and that all state budget criteria and reserve requirements are met.
2. Evaluation procedures should be instituted to ensure that budget development guidance is followed and that the proposed budget reflects policy decisions.
3. Staff involved in budget development will require additional training to ensure that standards and criteria are incorporated in the budget.
4. The district should implement procedures requiring examination of the balances in every fund to ensure that there are no deficit balances.

- 5. The district should implement procedures requiring examination of the revenues and expenditures in each and every fund to ensure that there is no deficit spending.
- 6. The budget should be based upon actual prior year expenditures to the maximum extent feasible. Those expenditure levels should be modified to reflect program changes and changes in levels of effort, but past expenditures should provide a baseline.

**Standard Implemented: Partially**



## 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 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 one-time 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.

### Sources and Documentation

1. District adopted budget
2. Budget worksheets
3. Interview with Budget Manager

### Findings

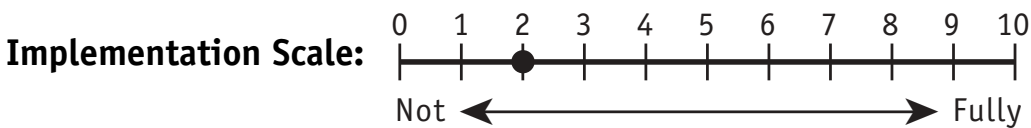
1. The district does not have a procedures manual that describes the budget development process. The only budget office function that has some documented procedures is the position control desk.
2. The district does not use a budget development software package. As a result, there are many manual steps needed to build the budget. Tools are lacking that are necessary, for example, to perform salary projections.
3. Specific problems noted regarding the building of the 1998-99 preliminary budget included:
  - a. The budget is primarily a rollover of prior allocations with little to no analysis of past and future trends. For example, an evaluation of the rate of excused absences and actual attendance was not performed when determining budgeted ADA.
  - b. The State's budget Standards and Criteria completed by the district stated that labor contracts have been settled but in fact the contracts have only begun to be negotiated.
  - c. The revenue estimates reported are based on enrollment projections but, in fact, the budget is based on prior-year ADA. Furthermore, new teaching positions for growth are in the budget, but no revenues are budgeted for growth. As a result, budgeted revenues are understated.
  - d. The assumptions for step and column movement did not appear reasonable at 1.5 percent of payroll for 1998-99. An analysis of the certificated schedule disclosed the following:
    - Column cost is approximately 4.5 percent.
    - Based on FTE placement on the salary schedule, 74 percent are eligible for column movement, thus if 30 percent of this group advanced, the cost would be an estimated 1.0 percent.
    - Eighty-six percent are eligible for step movement and the approximate average step percent increase is 2.78 percent, therefore the cost of step movement is estimated at 2.39 percent.
  - e. For an in-depth depiction of the gravity of the situation, the viewer should read the budget letter dated 12/9/98 from LACOE.

4. The special education budget was simply rolled over with no estimates of revenues or expenditures.
5. No COLA was applied to class-size reduction revenue estimates.
6. Utilities were described in the budget document as prior-year costs plus inflation, but in fact the 1998-99 budgeted amounts were lower than 1997-98 estimated actuals.
7. Based on the 1997-98 year-to-date expenditures, the recorded 1998-99 budget did not adequately estimate substitute salaries.

**Recommendations and Recovery Steps**

1. Investigate the use of the LACOE budget development package. Elimination of the manual processes is more efficient and less prone to data entry error. In addition, the ability to project salary and benefit costs would be very beneficial.
2. Approved budget assumptions need to be reflected in the amounts recorded.
3. Adopt a budget development process that relies less on prior allocations and more on district goals and justifiable needs. The following pages describe budget development methodologies, the Workload-based methodology is a good means to focus on district goals.
4. The budget office needs to provide more historical financial data to administrators so that budgets might, in part, be based on real expenditure patterns instead of the most recent budget appropriation.

**Standard Implemented: Partially**



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

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### 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 Budget Manager

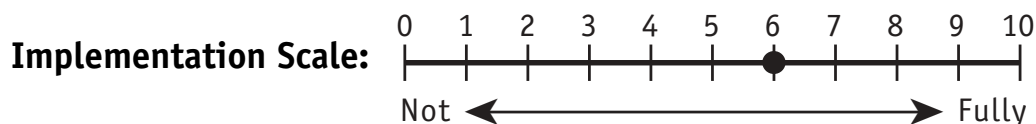
### Findings

1. The district has a budget calendar that starts with the issuance of budget package materials to sites and departments in February. It was verified that the budget packet memorandum was dated February 3, 1998. It was also verified that the budget hearing was held on June 2, 1998 as scheduled. The board agenda for June 23, 1998 included the approval to adopt the 1998-99 budget. However, the board minutes have not been transcribed in months, therefore the board actions (State Administrator) taken could not be verified.
2. Missing on the calendar were sufficient dates to involve the board in the preliminary budget discussions. The board did not have an opportunity to comment on the budget until May 4, 1998. The calendar could also be more detailed as to who is responsible for the activities and tracking whether the activities were carried out in a timely manner.

### Recommendations and Recovery Steps

1. Include in the budget calendar opportunities for greater board involvement earlier in the cycle. In this manner, the preliminary budget can be better built around key district goals and objectives. Attachment C to this section provides an example of a detailed budget calendar that clearly identifies board activities and responsibilities.

### Standard Implemented: Partially



## 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 Budget Manager

### Findings

A budget package is sent out in February to all department heads and site administrators. The package includes instructions, a listing of staff, worksheets to identify organizational goals, budget requests, and justification worksheets for additions/reductions. Division meetings are held to go over the package instructions. The following items were noted:

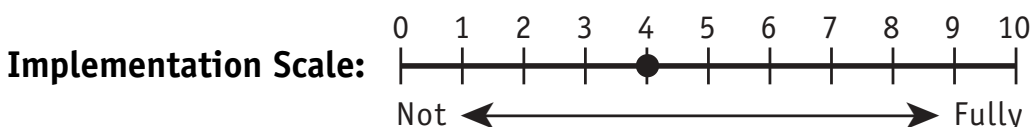
1. The forms are cumbersome, and Forms D and E are redundant (both ask for budget change justification).
2. No prior-year actuals are provided to assist the department heads in the completion of a realistic budget.
3. The department heads are asked to prepare projected current-year amounts, but the purpose of the projection is unclear, and most department heads do not complete this part of the worksheet.

After the department heads complete the budget worksheets, division chiefs are supposed to review the requests. However, there was no evidence that the worksheets were reviewed. The worksheets do not have a signature line. Some department heads do not turn in their worksheets, in which case the budget manager simply assigns the prior-year budget amounts.

### Recommendations and Recovery Steps

1. Redesign the budget worksheets to be more user-friendly (see the samples in Attachment D following this section). In addition, provide the department heads with prior-year actual results along with the prior-year budget.
2. The budget worksheets should be reviewed by the division chiefs, as evidenced by their signature. The review should evaluate whether: (1) the forms have been completely filled out; (2) the department budget mission and goals are consistent with the district-wide objectives; (3) the budget requests appear reasonable and necessary; and, (4) justifications for budget.
3. All budget worksheets should be turned in and if the budget worksheets are not turned in, then the department head should have no expenditure authority.

### Standard Implemented: Partially



## 7.1 Budget Adoption, Reporting and Audits - Statutory Timelines and Procedures

---

### Professional Standard

1. The district should adopt its annual budget within the statutory timelines established by Education Code Section 42103. On or before July 1, the governing board shall hold a public hearing on the budget to be adopted for the subsequent fiscal year.
2. Not later than five days after that adoption or by July 1, whichever occurs first, the governing board shall file that budget with the county superintendent of schools. [EC 42127(a)]

### Sources and Documentation

1. Discussions with the district's Budget Manager.
2. Board minutes.
3. Board meeting agendas
4. Adopted district budget.
5. Discussions with the staff at Los Angeles County Office of Education (LACOE).

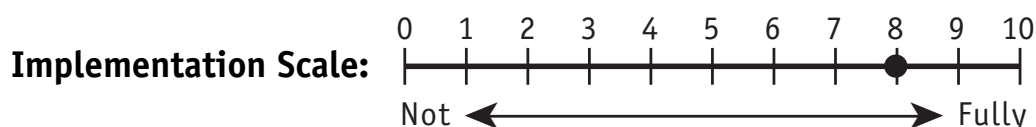
### Findings

1. Based on discussion with staff, the district held public hearings and adopted the budget prior to the July 1 deadline established by law. This was confirmed by review of the Board agenda for the June 2, 1998 meeting, which included an agenda item in open session for a public hearing on the budget (note: the agenda included the signature of the state administrator). The budget adoption was confirmed by review of the June 23, 1998 board agenda that included this item (note: the agenda included the signature of the state administrator).
2. Timely receipt of the district's budget on July 1, 1998 was confirmed with the Los Angeles County Office of Education (LACOE).

### Recommendations and Recovery Steps

1. No recommendation required for this standard.
2. No recommendation required for this standard.

### Standard Implemented: Fully - Substantially



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

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### Professional Standard

1. Revisions to expenditures based on the State Budget should be considered and adopted by the governing board.
2. Compton 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. Adopted and revised district budget.

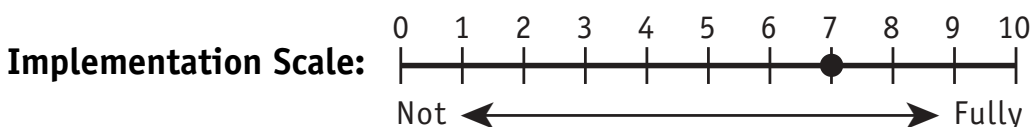
### Findings

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 does not have formal procedures in place to require a public review or board adoption of changes to the district budget due to the adopted stated budget within the 45-day timeframe.
3. A discrepancy exists between the board agendas and minutes and what is received officially by LACOE.

### Recommendations and Recovery Steps

1. No recommendation required as the district does revise its budget to reflect the effects of the state’s adopted budget.
2. 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/identify:
  - a. The state budget process and the adoption of the state budget as an item to 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 adopted state budget.

### Standard Implemented: Partially





## 7.3 Budget Adoption, Reporting and Audits – AB1200 Quality Assurance Processes

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### Professional Standard

The district should have procedures that provide for the development and submission of a district budget that adheres to criteria and standards and will be approved by the Los Angeles County Office of Education.

### Sources and Documentation

1. The district's adopted budget.
2. Discussions with the district Budget Manager and Director of Accounting.
3. Discussions with the LACOE.
4. Correspondence between the district and LACOE.

### Findings

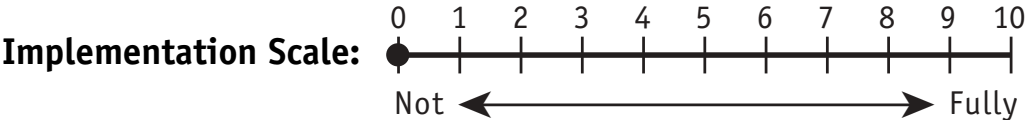
1. LACOE had not approved the current district budget at the time of fieldwork. However, due to significant concerns expressed by the LACOE regarding the 1998-99 fiscal year budget pertaining to the beginning balances and the assumptions, the budget approval has been materially delayed.
2. LACOE sent a letter expressing its concerns and required corrections / revisions / explanations before it would approve the budget. The significant fiscal concerns expressed by LACOE related to the account and fund balances included by the district in its budget. To the extent these items were inaccurate, the integrity of a significant portion of the budget was undermined. Essentially, fund and account balance problems reflect problems in the on-going recording of financial transactions.
3. The district did not provide a formal written response to LACOE's letter of concern. Rather, the district had several discussions to address LACOE's concerns. Due to the problems the district has had in closing its books and determining credible fund and account balances, as of October 14, 1998 LACOE had not approved the district's budget and CUSD had not closed its books.
4. LACOE representatives indicated that it took a continuous dialogue in order to get to "accepting" the district's budget at a summary level.

### Recommendations and Recovery Steps

1. To produce a reliable budget that the LACOE will approve, the district should:
  - a. Revise accounting and year-end closing procedures to require:
    - the timely and accurate recording of transactions
      - Transactions recorded and processed within 30 days
      - Reviewed and approved by an appropriate supervisory/management
    - the timely and accurate closing of the district's books
      - Follow procedures established by the LACOE
      - Have employees trained by LACOE regarding the proper processing of transactions, and the procedures for year-end closing
    - include timely and accurate work performance as criteria for employee evaluations.

- b. The district should enlist the assistance of LACOE for technical issues, particularly related to processing transactions through the county system and year-end closing.
- c. The district should respond to LACOE’s concerns in a formal, written response. This response would provide the basis for discussion between the two during subsequent meetings, and would also document the district’s attempts to resolve issues identified by LACOE.

**Standard Implemented: Not**



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

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### 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 first and second its interim reports.
2. Discussions with the district's Director of Accounting.
3. Discussions with the Los Angeles County Office of Education.

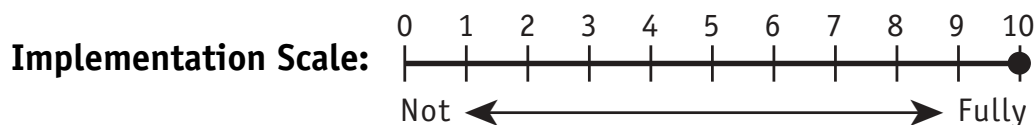
### Findings

1. The district filed its interim reports on a timely basis. Copies of the interim reports were provided by the district. The LACOE confirmed the district's timely filing of the interim reports, however there is still a growing concern that appropriate revisions are not being made.
2. The district did not file a qualified or negative second interim report, nor did it file a negative certification for the fiscal year 1997-98

### Recommendations and Recovery Steps

1. The district met this standard.

### Standard Implemented: Fully - Substantially



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

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### 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 minutes approving the CPA firm.
2. Copy of the signed contract with the CPA firm.
3. Letter to LACOE advising it of the firm selected to perform the audit.
4. Discussions with the district’s Director of Accounting.
5. Discussions with the State Controller’s Office.

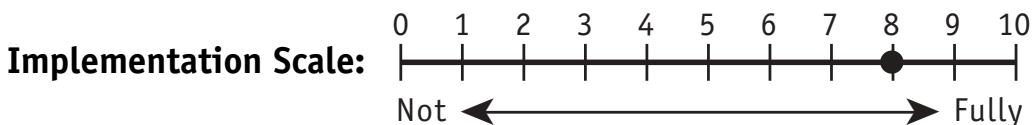
### Finding

1. Since the district received an emergency loan from the state, by law the State Controller’s Office is designated as responsible for performing the annual audit. Therefore, the district effectively does not have to arrange for its annual audit, and it meets this standard by default.

### Recommendations and Recovery Steps

1. Although the district complies with this standard by operation of law, we recommend that for future years (subsequent to the repayment of the loan) the district have a standard policy and related procedures establishing timelines and responsibilities for arranging the annual audit. Attachment E to this section provides a sample RFP and calendar for selecting the district’s auditor.

### Standard Implemented: Fully - Substantially



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

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### Professional Standard

Standard management practice dictates the use of an audit committee.

### Sources and Documentation

1. Discussions with the district’s Director of Accounting.
2. The district’s policy regarding the audit committee.
3. The audit committee charter and bylaws.
4. Discussions with the audit committee members.

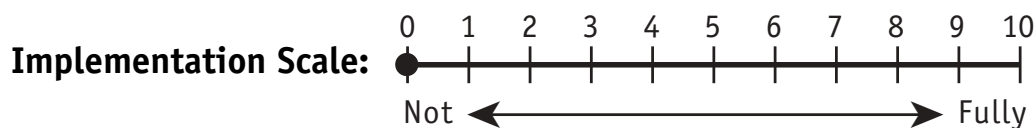
### Finding

1. The district does not have an audit committee.

### Recommendations and Recovery Steps:

1. The governing board should establish an audit committee that provides on-going, 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/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. The district should have the audit committee in place by the start of the 1999-2000 fiscal year.
  - d. The audit committee should be composed 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. The audit committee should be 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

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### 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 Los Angeles County Office of Education.

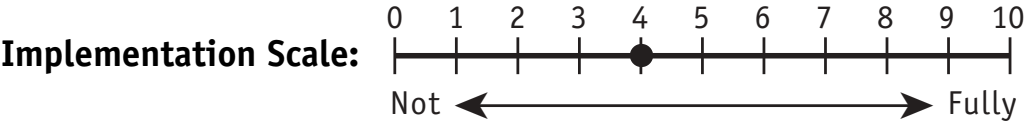
### Findings

1. The district's 1996-97 audit report contained audit findings that required follow-up. The district provided a response to each finding that was included in the audit report. Some of those responses were adequate to function as a corrective action plan. However, certain responses did not contain sufficient detail to effectively serve as a corrective plan.
2. The district did not prepare or provide to LACOE a separate corrective action plan for those items that were not addressed in sufficient in detail, in its response to the 1996-97 audit report.
3. The district has implemented certain corrective action plans. However, our work disclosed that the district still needs to take corrective action in the following areas:
  - a. Fiscal Manuals - The district has not developed a comprehensive accounting policies and procedures manual.
  - b. Personnel Files - The personnel files frequently do not contain the documentation authorizing changes in pay rates and/or job classifications. A screen print off the HRS system showing the change in pay/classification serves as the authorizing document. Further, the personnel files generally are not maintained in a consistent and orderly manner.
  - c. Payroll - The district does not reconcile its payroll clearing fund on a monthly basis. The district should implement procedures where an independent employee performs this function on a monthly basis, in order to ensure that payroll has been accurately recorded and paid.
  - d. Student Body Funds - The school district does not have adequate cash controls for its Student Body Funds. Weaknesses include inadequate segregation of duties, inadequate control over receipt books and ticket stock, failure to use pre-numbered receipts, and failure to establish budgets for its student activities and funds.
  - e. Compensated Absences -The district does not maintain a comprehensive schedule of employee compensated absences to support the liability accrued in the financial statements.
4. LACOE noted that the audit itself is not being returned to the district in a timely manner, making its responses to LACOE late and lacking in detail.

**Recommendations and Recovery Steps**

1. The district should provide sufficient detail in all of its responses to 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 LACOE 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 recommendations identified below.
  - a. Fiscal/Accounting Procedures Manual - The district should develop a fiscal/accounting procedures manual that documents the processes, forms, timelines, and procedures for each transaction type/cycle. The manual should identify which positions are responsible for supervising, reviewing, and reconciling each transaction. The manual should also address information necessary for processing transactions using the LACOE system.
  - b. Personnel Files - Personnel files should contain copies of the documents that legally authorize changes in pay and job classification. The screen prints off the HRS system is not a legally authorizing document, but only evidence that a change was made to the employee’s file. The file should include a copy of the paperwork submitted to initiate the change, as well as a copy of the document authorizing the change (personnel action form, approvals, board approval).
  - c. Payroll - In order to ensure the accuracy of payroll expenditures, the district should reconcile the payroll clearing fund on a monthly basis. In addition, the reconciliation should be performed by a staff person not involved in the processing payroll. The reconciliation should also be reviewed and approved by the director of accounting or some other appropriate level of management.
  - d. Student Body Funds - The district should establish procedures to ensure that at each school site, adequate controls over cash are in place. For example:
    - 1) Duties related to cash receipting, recording, depositing, reconciling, and disbursing should be segregated.
    - 2) Pre-numbered receipts should be issued for all cash collected, and the recorded receipts should be reconciled to the deposit receipt.
    - 3) Sites should submit monthly financial reports to the accounting office.
  - e. Compensated Absences: To ensure that the district’s recorded liability for compensated absences is accurate, it should compile individual employee accrued absence data into a comprehensive file, where the district’s total liability is calculated.

**Standard Implemented: Partially**



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

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### **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. The district's J-200 forms for the 1997-98 fiscal year.
2. The district's J-380 forms for the 1997-98 fiscal year.
3. The district's interim financial reports.
4. The district's J-141 transportation report for the 1997-98 fiscal year.
5. Discussions with the district's Director of Accounting.
6. Discussions with staff at the California Department of Education.

### **Findings**

1. The district did not file its J-200 forms for the 1997-98 fiscal year by September 15 as required by Education Code Section 42100.
2. The district did not file its J-380 forms by September 15 as required by the Education Code.
3. The district did file its interim financial reports for the 1997-98 fiscal year with LACOE by December 15 and March 15 as required by Education Code Section 42130.
4. The district did not file its J-141 transportation report with LACOE by the first working day of November.

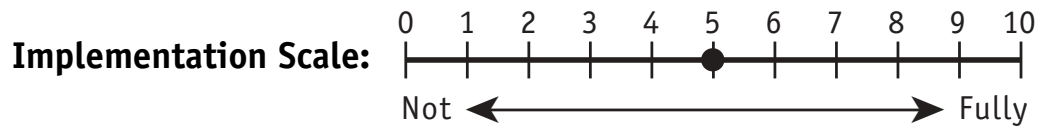
### **Recommendations and Recovery Steps**

1. The district must 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. To achieve this goal, the district must require transactions to be processed on a timely basis throughout the year, and it must assign clear and specific responsibilities to all accounting staff members related to the year-end closing.
2. The district must establish procedures for preparing the J-380 including the timeline for such work. The procedures should identify which individual or individuals are responsible for the various facets of the work, including supervision, review, and approval. The accurate and timely completion of the tasks should be included as factors that will be used to evaluate employee performance.
3. This district met this standard.
4. The district should establish procedures to ensure that all necessary information is available to



facilitate the preparation of the J-141 transportation report in a timely manner. Responsibility for the preparation and submission of the report should be designated to one employee, and performance of this task should be a factor used to evaluate employee performance.

**Standard Implemented: Partially**



## 8.1 Budget Monitoring – Encumbrance of Overexpenditures

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### Professional Standard

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

### Sources and Documentation

1. Financial reports of budget to actual activity
2. Purchase orders sampled
3. Interviews with business staff and Purchasing Director

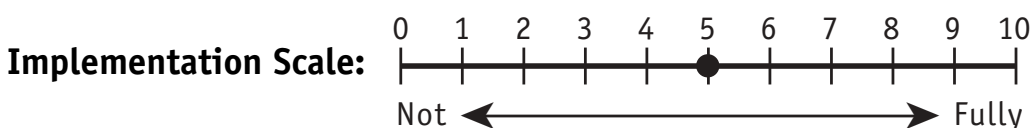
### Finding

1. Pre-encumbrances are entered by the initiating clerks and the final encumbrance is then set up by the Purchasing department. At either the pre-encumbrance or encumbrance stage, if insufficient funds exist then a budget transfer request is needed. A review of purchase orders showed that encumbrances were being set up; however, two issues were observed:
  - a. If insufficient funds exist, the clerks can override the system in order to process a purchase order without a budget transfer request. The accounts payable clerks do not have this ability, but they can process a payment without an encumbrance by using Code 52.
  - b. The accounts payable clerks have not been consistently posting the payment against the encumbered expenditure line. Instead, some have posted the payments against a suspense account called Code 52. As a result, expenditures are mis-classified and the encumbrance is not properly relieved. Code 52 is also used to make a payment when no encumbrance has been set up.
  - c. Paying personal reimbursements for district purchases are paid even when insufficient budget funds exist.

### Recommendations and Recovery Steps

1. Limit the ability to override the encumbrance system to supervisors only.
2. The accounts payable clerks should be trained and evaluated in the proper use of account codes. Monitor the use of Code 52 by account clerks. Those clerks mis-using the code should be written up.
3. All payments should have an encumbrance except under rare circumstances, and then only with supervisory approval.
4. Personal reimbursements, except in rare circumstances, should not be permitted and when permitted should only be approved if budgeted funds exist.

### Standard Implemented: Partially



## 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. Budget reports
2. Interview with Budget Manager

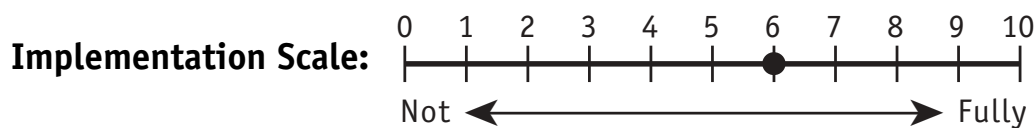
### Findings

1. The Budget Manager watches monthly account balances, but at the end of the year “it falls apart” due to time constraints.
2. Budget reports are distributed to division heads monthly.
3. Certain site and department heads monitor their budgets more closely than others do.

### Recommendations and Recovery Steps

1. At year-end and throughout the year, the budgets should be monitored for possible overexpenditure. Proper use of the encumbrance system would also effectively limit the ability to exceed budgeted amounts.
2. Budget reports should be distributed to site and department heads more frequently than once a month, e.g. weekly. Once-a-month financial data is not useful for day-to-day budget monitoring purposes.

### Standard Implemented: Partially



## 8.3 Budget Monitoring – Budget Revision Procedures

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### 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

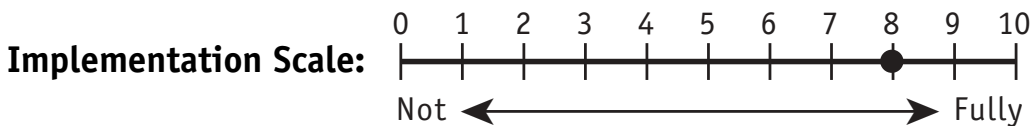
### Findings

1. Board minutes showed that routine actions were taken to approve budget transfers and revisions.
2. LACOE indicates that it is not receiving notification of these actions.

### Recommendations and Recovery Steps

1. The district needs to submit information concerning these actions to the LACOE in a timely manner.

### Standard Implemented: Fully - Substantially



## 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.

### Sources and Documentation

1. Personnel action request forms, Forms 106
2. Interviews with position control staff, the Budget Manager, payroll clerks and the personnel directors and staff

### Findings

1. The budget office has an established position responsible for keeping the position control records.
2. The Los Angeles County HRS system is used to track FTEs.
  - a. The budget module is not used, but the Budget Manager wants to implement this feature in the future.
  - b. All new positions must be entered into the system by both the Personnel office and the Budget office.
  - c. The district has a position control system, e.g. position numbers are used, FTEs are tracked and the approval of the budget office is required for all personnel actions. However, the system is not fail-safe. Specifically, there are recurrent discrepancies between the Personnel and Budget data entry. The majority of the discrepancies are reportedly due to data entry problems in the Personnel office. The staff has recently worked to reduce the number of discrepancies.
3. Personnel action request forms, Form 106, are used by the district although occasionally someone is hired without the proper paperwork completed in advance. However, payroll staff can override the system and pay a person without an established position.
4. All new positions are approved by the State Administrator in advance of the hiring.
5. In summary, other problems noted in the position control system, include:
  - a. Positions are posted or even filled without budgetary approval because the paperwork takes too long to process.
  - b. The integrity of the position control system is in question as long as significant discrepancies exist between the personnel, budget and payroll offices.

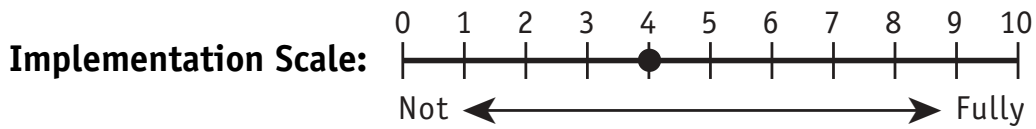
### Recommendations and Recovery Steps

1. The district should implement the following position control system:
  - a. The district needs to reduce the number of discrepancies by putting in controls to verify the accuracy of data entry. The controls could be supervisory review procedures or control total checks.
  - b. Do not post or fill positions 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.

- c. Payroll should not have the ability to override and pay a permanent employee without a position number.

**Standard Implemented: Partially**



## 9.1 Budget Communications – Communicating Policy

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### 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 State Administrator.
2. Discussions with staff
3. Review of budgeting policies and procedures
4. Review of budget documents

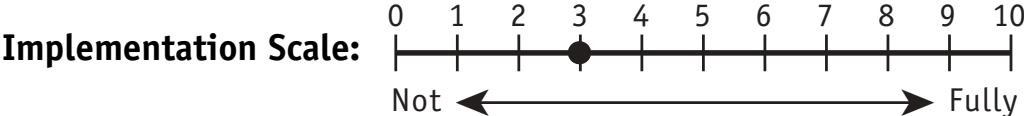
### Findings

1. The district budget preparation process has improved during the past 2 years. The budget document contains the information necessary for financial managers to understand resource allocations.
2. The budget does not reflect the strategic planning decisions of the district nor does it communicate the vision of the district with regard to these decisions.
3. The budget, like many district budgets, is prepared as if it serves only a single purpose, that purpose being financial management. The budget 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 non-financial managers. We found that emphasis is needed in this area.
4. We found that an additional focus of the budget, use as a public relations document, was also neglected. The district is making great progress in management of its finances; the budget document could better illustrate that improvement and serve to enhance the image of the district.
5. The depth of information provided was good; information that would allow the reader to relate the budget and program performance was often incomplete.

### 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 graphical displays and program descriptions to make the document more readable and complete.
3. The budget should reflect all policy decisions having a financial impact on the district.
4. The district should consider providing a simplified version of the budget for use by the general public. If it was not to serve as the “official” adopted budget, the simplified budget could use common language to describe the district’s financial position. Program and strategic planning decisions could be explained as well.

**Standard Implemented: Partially**





## 9.2 Budget Communications – Identification of One-Time v. On-going Revenues and Expenditures

---

### Professional Standard

Clearly identify one-time source and use of funds.

### Sources and Documentation

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

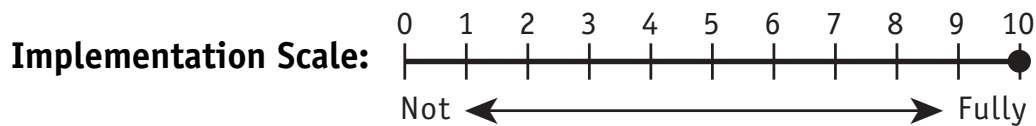
### Findings

1. The district had differentiated one-time funds from on-going funding sources.
2. Appropriate distinctions were made as to which funds were designated for which respective purposes. One-time funds were used for non-recurring expenditures and were not placed on the salary schedule or used to meet other on-going commitments.

### Recommendations and Recovery Steps

1. In order to continue to sustain this standard, it must be noted that ending balances should be considered as one-time resources.

### Standard Implemented: Fully - Sustained



## 10.1 Investments – Investment Policy and Quarterly Approvals

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### 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. The district's formal written investment policy.
2. Governing Board agendas.
3. Board meeting minutes.
4. The district's quarterly investment reports.

### Findings

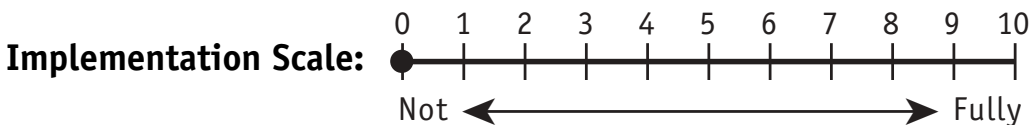
1. The district currently does not have any funds invested outside of either the county treasury or federally insured bank accounts.
2. The district does not have a formal investment policy.
3. The governing board does not annually review and approve the district's investment policy.
4. The district does not make quarterly reports regarding its investment.

### Recommendations and Recovery Steps

In preparation for its ultimate return to local control, the district should:

1. Develop a formal investment policy
2. Have the Governing Board adopt a formal policy for the investment of surplus funds. This policy should be reviewed and re-authorized 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.  
(A sample investment policy and quarterly report are presented as Attachment F following this section.)

### Standard Implemented: Not



## 11.1 Attendance Accounting – Accuracy of Attendance Accounting System

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### Professional Standard

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

### Sources and Documentation

1. Attendance accounting system records, including input documents and reports
2. Interview with the management of the Information Technology department
3. Interviews with attendance staff at seven schoolsites

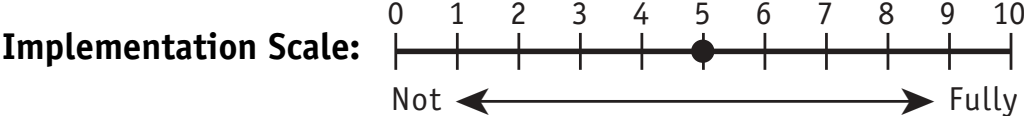
### Findings

1. The district uses standardized attendance accounting software, i.e. SASI III, except for the ROC/P and adult education programs that have separate systems.
2. Scantrons are gathered daily and entered into the system.
3. Monthly reports are verified for accuracy by the school site.
4. Training is provided to attendance clerks.
5. The only part of the system not computerized is the compilation of the final reports to the state.
6. The district had a major attendance reporting error occur in 1996-97 when the final report compilation had a math error resulting in an extraordinarily high excused absence rate. Corrections to the compilation have been made and new procedures are in place (e.g. downloading the data directly to the file) to prevent future errors.
7. A significant audit exception, documented by the State Controller's Office, was the loss of records to support one-third of the district's excused absences at sites tested. In response, the district has communicated the importance of record retention. However, the state no longer provides state apportionment for excused absences.
8. Class-size reduction (CSR) enrollment is monitored at the site and district level on a daily basis. The computer kicks out CSR classes with enrollment to teacher ratios exceeding 20:1 for review.
9. There is a lack of communication between those monitoring the budget and those monitoring attendance.

### Recommendations and Recovery Steps

1. Conduct internal audits to determine that staff is properly following attendance accounting and reporting procedures. Incorporate frequently found problems in the training discussions and corrective action plans.
2. The district must develop a system for the fiscal services and the attendance accounting departments to communicate data on an ongoing basis.

**Standard Implemented: Partially**



## 11.2 Attendance Accounting – Policies and Fiscal Impact of Independent Study, Inter/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.

### Source and Documentation

1. Policies and regulations for Independent Study, Home Study, and inter/intradistrict agreements

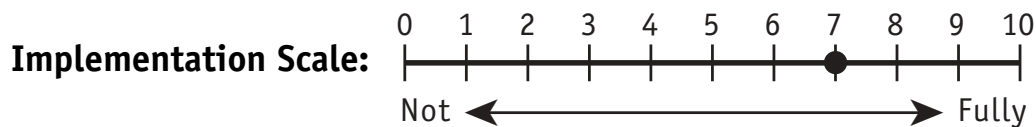
### Finding

1. Policies and regulations exist for Independent Study, Home Study and inter/intradistrict agreements. However, none specifically address the fiscal impact.

### Recommendations and Recovery Steps

1. Revise policies and regulations to include statements as to the expected fiscal impact of the policy.

### 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 Information Technology department
3. Interviews with attendance staff at seven schoolsites

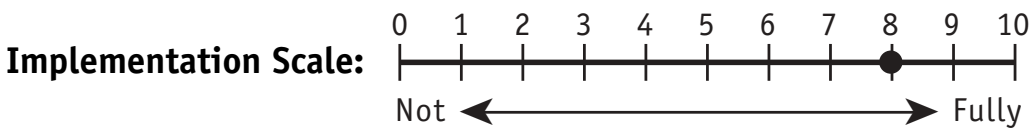
### Findings

1. At each schoolsite, the Records Clerk enrolls the student.
2. Daily entries are made to the SASI attendance system. One or two days might elapse between the time the student enrolls and the time the system is updated. Thus, the teacher writes in the student's name on the Scantron so that the attendance is credited.

### Recommendations and Recovery Steps

1. Continue to monitor attendance accounting as it affects fiscal services.

### Standard Implemented: Fully - Substantially



# 11.4 Attendance Accounting – Instructional Time Requirements

---

## Professional Standard

At least annually, the school 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 Information Technology department
- 2. State Controller’s audit report

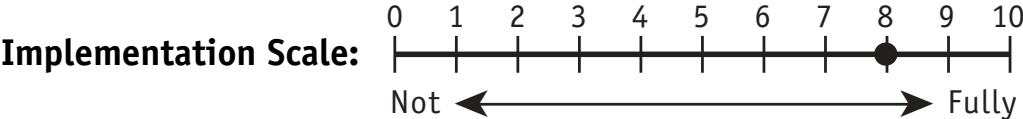
## Findings

- 1. The Information Technology Department requires each site to complete a standardized schedule of instructional time annually. The department then recalculates the minutes and verifies that minimum day, year and annual minute requirements have been met.
- 2. In the 1996-97 audit report, an audit exception was found for kindergarten at three schools. The shortfall in required minutes ranged from 60 to 80. Since then the district’s Child Welfare and Assistance Office has taken a more active role in ensuring compliance.

## Recommendations and Recovery Steps

- 1. None.

## Standard Implemented: Fully - Substantially



## 11.5 Attendance Accounting – Attendance Systems for Alternative Programs

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### 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

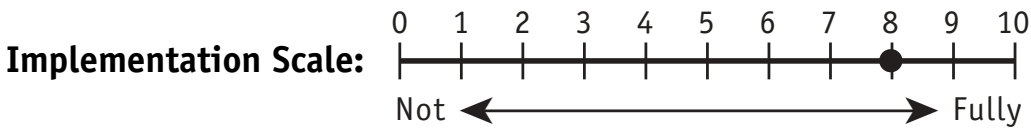
### Finding

1. The adult school attendance system was reviewed.
  - a. The system is computerized and designed for adult education type programs.
  - b. Weekly sign-in sheets are printed out for completion by each teacher.
  - c. If a teacher does not complete or return the sheet, the computer prints out error reports for follow-up.
  - d. The system of enrolling the adult education students appeared workable and accurate.

### Recommendations and Recovery Steps

1. None.

### Standard Implemented: Fully - Substantially





## **11.6 Attendance Accounting – Attendance Improvement Programs**

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### **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 Information Technology department
2. Interview with management of the Child Welfare office
3. Interviews with attendance staff and administrators at seven schoolsites
4. Attendance records at seven schoolsites

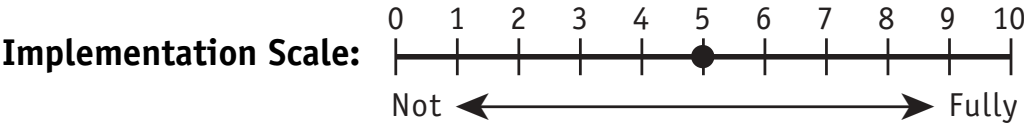
### **Findings**

1. All schoolsites are required to submit a plan to improve pupil attendance. The goal, according to the Child Welfare office, is to achieve a 95 percent attendance rate.
2. Not all sites were aggressive in getting children to school, that is, following up on absences and using attendance reward systems.
3. Some attendance offices were weeks behind in reviewing student records. Thus, pupils with attendance problems are going unidentified. Many sites left the identification effort up to individual teachers. The Child Welfare office does, however, have an audit function to determine whether school attendance offices are doing their job, and has observed problems at certain schoolsites as well.
4. Once a pupil is identified as a truant, intervention actions such as SARB referral are undertaken. The district also has a variety of alternative placement programs.
5. Employee positions called “community aides” are available to each site. Their job is to follow up with parents at the home as to why the child is not in school. However, not a single schoolsite reviewed actually had an aide. The position is an optional one that is funded by each schoolsite out of categorical funds. Thus, it appears the majority of schoolsite administrators opt not to fund the position.

### **Recommendations and Recovery Steps**

1. The district should continue its efforts to implement a coordinated effort to improve student attendance.
2. The schoolsites should not rely solely on the teachers to report trancies, as some teachers take this responsibility seriously and others do not. In conjunction with the teachers, the attendance office should review all student attendance regularly. Follow-up on poor attendance should be conducted, and in accordance with the law students should be identified as truant.
3. The use of community aides to contact parents directly in the home might be a useful tool to get children back to school. The district should consider making the position mandatory at all sites.

**Standard Implemented: Partially**



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

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### **Legal 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 Director of Accounting.
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. The Los Angeles County Office of Education accounting procedures manual.

### **Findings**

1. The district possesses a copy California School Accounting Manual, but it is not readily available to staff.
2. The district does not maintain a reference library and reference materials are not maintained or updated in a timely manner.
3. The district's accounting procedures manual is not maintained current.
4. The district's 1996-97 Single Audit report was qualified in regards to compensated absences, fixed assets, and student body fund revenues. There were also several findings relating to internal control and program requirements that did or could have resulted in the district's financial statements and state and federal reporting to be inaccurate.
5. The district transactions for most core functions are processed on the LACOE system. LACOE policies and procedures embody the professional standards and the district generally complies with county procedures.
6. Adherence to standards and authoritative guides are not the central focus of the district's activities, and staff awareness of those standards and the related authoritative guides is minimal.

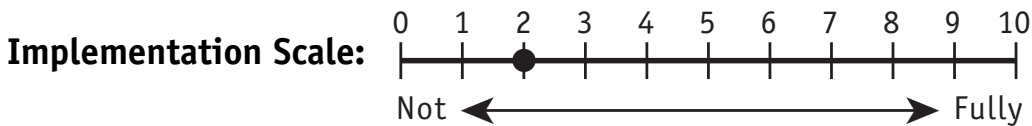
### **Recommendations and Recovery Steps**

The district should take appropriate measures to ensure that transactions are accurately recorded and financial statements and other required reports are presented fairly, in accordance with the California School Accounting Manual and generally accepted accounting principles (GAAP). Such measures should include:

1. Purchasing enough copies of the California School Accounting Manual so that it is readily available to the accounting staff.

2. Maintaining a professional library of authoritative guides, and reference materials. The library should minimally include the California School Accounting Manual, the GAAP Guide, the Government GAAP Guide, Governmental Accounting and Financial Report Standards, fund accounting texts and financial accounting texts. The library should be updated at least annually. A specific staff member should be assigned the task of maintaining the library.
3. Developing or updating a procedure manuals for each position/job duty within the office. The manual should be written in a clear, user friendly format, with copies made available for staff to reference. The manual should be reviewed annually and updated as necessary. In addition, the procedures should conform to the provisions of the California School Accounting Manual, generally accept accounting principles, and LACOE accounting system requirements.
4. Correcting errors or weaknesses identified in its Single Audit report in order to ensure that financial reports are accurate and in accordance with applicable standards.
5. Providing on-going training to staff regarding the LACOE system in order to ensure that transactions are recorded and processed accurately and timely.
6. Emphasizing the importance of adhering to applicable accounting standards, by providing employee training and support.

**Standard Implemented: Partially**



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

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### Professional Standard

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

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 Director of Accounting
2. Financial Statements
  - Monthly financial statements
  - Year-end financial statements
3. Revenue and Accounts Receivable
  - Remittance advices
  - Deposit slips
  - Notice of deposits
  - Claims
4. Expenditures
  - P.O.s
  - Requisitions
  - Receiving reports
  - Invoices
  - Contracts
  - Bids

### Findings

1. Financial Reporting
  - a. The district does not prepare monthly financial statements.
  - b. The district did not close its books or prepare its J-200/financial statements within 75 days.
2. Revenue and accounts receivable
  - a. Based on a review of the accounting processes and selected items, it was determined:
    - Major revenues (such as apportionment revenues) are received and recorded for the district by the county. Those revenues were recorded in a timely manner.
    - Other revenues are received and recorded by the district and forwarded to the county for deposit. Those items were also recorded in a timely manner.
  - b. For deposits reviewed, those deposits tied to the remittance advice and the revenue recorded.
  - c. For revenues/deposits reviewed, those items were recorded in the proper fund/program/account.
  - d. For revenues/deposits:

- No independent review of amounts received or recorded is performed.
  - Bank reconciliations are not consistently performed, or done by an independent person.
- e. There are two principal types of accounts receivable - interest earned on monies in county treasury and categorical funds due at year-end.
- Interest receivable - the county computes and books these amounts.
  - Categorical funds - the district records budgeted revenues based on the approved grant agreement. Cash receipts/revenues and expenditures are recorded during the year. At year-end, the excess of expenditures over receipts is recorded as an accounts receivable, up to the total authorized grant amount. The entry is supported by a transaction memo and other documentation and approved by the director of accounting. These entries are supported by adequate documentation.
- f. The district typically does not record a receivable for claims filed, and does not verify the amounts received to the original claim filed.

### 3. Expenditures

- a. For the majority of sample goods and supplies transactions reviewed:
- Expenditures were supported by signed purchase orders (P.O.s), receiving reports and invoices.
  - Funding codes were accurate and the supporting documents were properly voided.
- b. Capital assets and contract services transactions reviewed:
- The district met legal requirements related to bidding.
  - Contract payments were supported by contracts, invoices, receiving reports or approval of completed work, charged to the appropriate programs/accounts, and had the supporting documents properly voided.
- c. For transactions where problems were noted, they included:
- Supporting documentation for expenditures could not be located.
  - Purchases were initiated/made without a fully executed/authorized P.O.
  - Transactions were not recorded and paid within 30 days - in fact, there is no system to prioritize items for processing so transactions/invoices may go an extended period of time without be processed/paid. As a result, many firms will not do business with the district which results in:
    - the district paying more for goods/services than it otherwise would, receiving inferior goods/services, or having to prepay for items; or,
    - the district losing discounts and incurring finance charges.
    - Invoices get lost and the district pays the vendor without proper supporting documentation or authorization - this has resulted in invoices being paid twice.

## Recommendations and Recovery Steps:

1. Financial Reporting
  - a. The district should prepare periodic (monthly) financial statements.
  - b. The district should close its books and prepare its J-200 report/financial statements within 75 days of the end of the fiscal year.

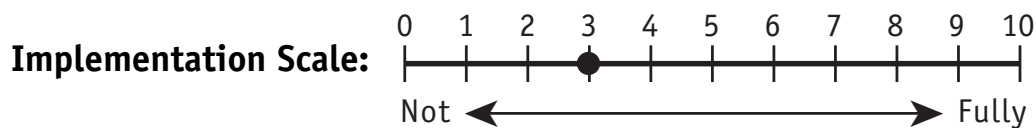
In order to facilitate the preparation of periodic and year-end financial statements/reports, the district should ensure that transactions are processed timely throughout the year.

2. Revenue and accounts receivable
  - a. This standard was met.
  - b. This standard was met.
  - c. This standard was met.
  - d. In order to ensure the accurate recording of transaction amounts and fund/program/object codes, the district should implement procedures that:
    - Provide for independent reviews of transaction/amounts recorded, at the time such postings are made.
    - Require that general and subsidiary ledgers and bank/treasury statements are reconciled on a monthly basis.
 To develop the procedures, the district should:
    - Review each job classification/position
    - Identify the functions of the class/position and the transactions processed
    - Determine the appropriate independent staff member or supervisor to review the accuracy of the accounting entry
    - Determine the appropriate staff member to perform independent reconciliation of bank accounts and/or G/L and subsidiary accounts.
  - e. This standard was met.
  - f. In order to ensure the accurate recording of revenue and receivables, the district should record an accounts receivable (A/R) when it files its claim. The district should also monitor its receipts to ensure that it is receiving all amounts due to it by verifying the receipt to the A/R booked and/or claim submitted.

3. Expenditures
  - a. The standard was met.
  - b. The standard was met.
  - c. To eliminate the noted problems, district should implement an on-line purchasing system that would reduce the time to process transactions, eliminate the problem of lost paperwork, and allow on-line tracking to provide better monitoring of the process and help to ensure timely payment.

In addition, the district should implement a policy that it will not pay for any purchase that has not been processed through the standard procedures and properly authorized.

**Standard Implemented: Partially**



## 12.3 Accounting, Purchasing and Warehousing – Accounting Procedures – Cash

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### 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

1. Cashier functions
  - a. Observation of the person opening the mail.
  - b. Copies of check logs for checks received.
  - c. Observation of endorsement of checks as received.
  - d. Deposits slips
  - e. Discussion with accounting staff
  - f. Treasury/bank statements.
  - g. Reconciliations of check logs to daily deposits.
  - h. Accounts receivable reconciliations.
2. Cash reconciliations with county treasury and district bank accounts
  - a. Copies of the treasury/bank reconciliations.
  - b. Observation of the person doing the reconciliation. is different from the person
  - c. Observation of person preparing and recording the deposits
  - d. Observation of the person(s) authorized to make transfers and withdrawals.
  - e. County procedures
  - f. Current district procedures
  - g. Discussions with accounting staff
3. Cash management and cash-flow
  - a. Monthly revenue and expenditure projections and a cash-flow statement.
  - b. Revisions to monthly cash-flow statements.
  - c. District policies and procedures to bill and collect receivables.
  - d. Policy on the use of short-term financing such as tax and revenue anticipation notes (TRANS)

### Findings

1. Cashier functions:
  - a. Observed that the person that opens the mail disperses the mail and the checks according to type of check and without recording any checks in a check log prior to disbursement. Returned accounts payable department checks go to the accounts payable, payroll checks to the payroll department, risk management checks go to the risk management department. All other checks go to the controller's office.
  - b. The checks sent to the controller's office are logged into a cash receipts book and checks that are to be deposited by the district are endorsed, and then all the checks are forwarded to the accounting specialist. The checks may be held for more than one day.
  - c. The accounting specialist determines whether the checks are deposited or are forwarded directly to the County Office of Education.

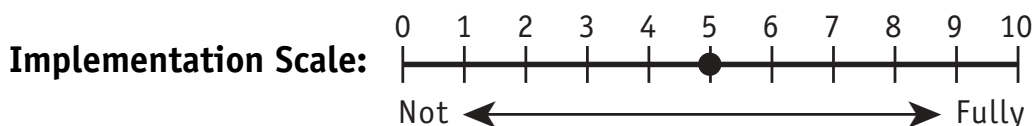


- d. The district files the receipts for directly mailed checks from LACOE. The district does not reconcile the receipts to their deposits.
2. Cash reconciliations with county treasury and district bank accounts
    - a. Out of the approximately thirty-two revenue bank accounts, the same accounting specialist that does the deposit does two bank reconciliations. One bank reconciliation is for the cash clearing account and one is for the revolving fund account.
    - b. Because there are no dates of completion on the bank reconciliations, it cannot be determined whether or not the bank reconciliations are being performed timely.
    - c. There is no general ledger reconciliation for cash.
  3. Cash management and cash-flow
    - a. The district does record revenues received on an on-going basis.
    - b. The district does not formally evaluate/revise its revenue projections each month.
    - c. The district has policies on billing and recording receivables, but they are not closely followed.
    - d. The district does not have an official policy on the use of TRANS.

**Recommendations and Recovery Steps**

1. Cashier Functions
  - a. All checks received should be immediately logged by the person opening the mail and immediately restrictively endorsed.
  - b. Checks should be posted and deposited daily.
  - c. The district should establish a formal policy dictating which checks are deposited or forwarded to LACOE. Staff should be made aware of the policy.
2. Cash Reconciliations
  - a. The check log should be reconciled to daily deposits each month by someone other than the person receiving the checks, doing the deposit or an authorized signer on the bank account. Each check on the check log should be accounted for. Receipts from the County Office should be reconciled to the check log. Each department receiving checks should create a subledger or receipts log that can be reconciled to the check log.
  - b. A bank reconciliation should be completed for all bank accounts within five days of receiving the statement.
  - c. All receipts should be reconciled to the general ledger on a monthly basis in order to verify proper posting of receipts.
3. Cash Management
  - a. This standard was met.
  - b. The district should evaluate its revenue and cash flow projections each month based on changes in the underlying assumptions and revise as necessary.
  - c. This standard was met.
  - d. The district should establish a formal policy on the use of short-term financing.

**Standard Implemented: Partially**



## 12.4 Accounting, Purchasing and Warehousing – Accounting Procedures - Payroll

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### Legal Standard

The district's payroll procedures should be in compliance with the requirements established by the Los Angeles County Office of Education. (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 Accounting Manager.
2. Discussions with payroll staff.
3. Payroll procedures and controls
4. Payroll ledger.
5. Payroll distribution report.
6. Sample payroll transactions.
7. Monthly timesheet/absence reports
8. LACOE procedures

### Findings

1. Verify payroll procedures
  - a. The payroll department receives timesheets and absence reports from employees that they use as documentation to manually track vacation and sick leave use and accruals. Balance to date information is computed manually and given to employees less than annually. In reviewing a sampling of time sheets to employee payroll records, 10 percent of the vacation and sick leave entries were recorded incorrectly and 10 percent of the entries had addition errors.
  - b. The payroll department is not able to add or modify existing employee records within the payroll system. The payroll department can view this information during payroll processing.
  - c. In reviewing a sampling of payroll transactions, those transactions are posted to the proper fund, program, site and account according to the general ledger 405 report.
2. LACOE procedures
  - a. The district complies with county procedures by submitting payroll data in the required format within the payroll system.
  - b. Time-frames, established by the county, that are missed by the district results in supplemental payrolls being processed. Errors detected by LACOE also result in supplemental payrolls.
  - c. The district frequently has errors in payroll that occur at both the site and district level that result in the need to run supplemental payroll.
3. Interaction between the payroll and the personnel department
  - a. All personnel changes, including new hires and terminations, are entered into the payroll system by the personnel department.
  - b. Proper authorization by site, budgeting and position control departments are received by the personnel department prior to entry into the payroll system.
  - c. Employee changes within the payroll system generates an employee information report.

This report is reviewed for accuracy, and a copy is forwarded to the employee, to the site administrator and to the personnel file.

## Recommendations and Recovery Steps

### 1. Payroll procedures

- a. In order to ensure the accurate recording and monitoring of sick leave and vacation, the district should utilize either the HRS system or the payroll system if possible to maintain absence records. At a minimum, the district should maintain the information on a spreadsheet or database. The information should be reviewed by the supervisor and/or internal auditor periodically. The information should be provided to the employees on their paystub or other report.
- b. This standard regarding separation of duties was met.
- c. This standard for appropriate posting was met.

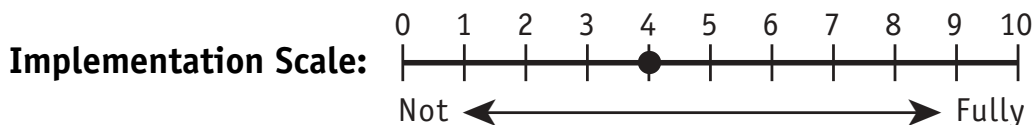
### 2. LACOE procedures

- a. This standard was met.
- b. The district must require sites to submit payroll data accurately and timely to reduce the need for supplemental payroll runs. The district should revise its procedures to preclude supplemental payroll runs, except for rare and extreme situations. Additionally, there should be increased supervision and review of the payroll staff to reduce errors in the processing of payroll.

### 3. Interaction between payroll and personnel

- a. This standard was met.
- b. This standard was met.
- c. This standard was met.

## Standard Implemented: Partially



## **12.5 Accounting, Purchasing and Warehousing – Accounting procedures — Supervision of Accounting**

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### **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**

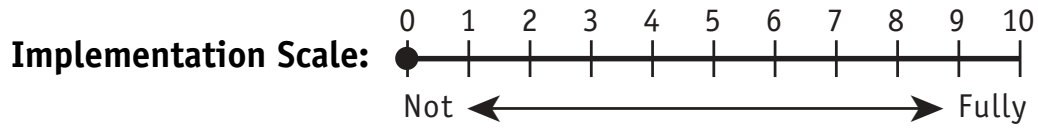
1. The business office's organization and job classification do not consistently provide for the direct supervision of key accounting areas and the employees in those areas. In addition, as currently structured the fiscal office does not have a specific section or employees for the general ledger function. Although most general ledger functions are handled by the LACOE, the district has no support or monitoring function for the general ledger.
2. The district procedures do not provide for supervisory review/approval of recorded transactions, or such procedures are not being implemented.
3. Reviews are not being performed.
4. The general ledger and subsidiary ledgers are not reconciled.
5. The accounting office does not review budget reports to identify unusual trends or balances that could reflect errors in processing and posting transactions.

### **Recommendations and Recovery Steps**

1. The district should review the organization structure and job classifications/career paths utilized by similar districts, in order to identify alternative organizational structures for the accounting functions, which might provide a better alignment of functions and duties within the office.
2. The district needs to clearly assign responsibilities for reviewing and supervising work, so that employees know who is responsible for performing and approving transactions processed.
3. The district should implement procedures where responsibility for reviewing work is fixed, and a method is established to document that such review has been performed.
4. The district should clearly assign responsibility for reconciling the general and subsidiary ledgers on a monthly basis to ensure the accuracy of transactions posted.

- The district should establish procedures for the budget manager to produce monthly budget reports that would be utilized by district administration and program and department managers to monitor their individual budgets. Such budget reports would also help to identify unusual trends or balances that could be caused by errors in processing and posting transactions. Any unusual variances or trends should be followed up for explanation or corrective action.

**Standard Implemented: Not**



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

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### 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. Based on a review of a sample program(s), verify that the district has procedures in place to ensure:
  - a. Program grant agreements.
  - b. District procedures for grant management and administration.

### Findings

1. Based on a review of the chart of accounts, the district (LACOE) account code structure provides for separate program accounting for individual categorical program. The detailed general ledger was reviewed to confirm that the district was utilizing the correct program accounts to record activity for categorical programs.
2. In the past, with the exception of requiring the signature of the program administrator for purchases, the district did not have general policies and procedures in place regarding general accounting and program controls for categorical programs. Rather, each program manager was essentially free to manage their programs as they saw fit. Accordingly, there was potential for significant variances in the level of general program compliance among the categorical programs, depending upon the responsible administrator. However, late in the 1997-98 school year, the district's Office of Special Projects undertook several measures to standardize the oversight and management of some the categorical programs - particularly those identified in the consolidated application. These measures included:
  - a. Requiring a standard request/justification for all categorical programs. The required documentation includes the purpose, the number of students to be served, the selection process (i.e. how it will be determined which students participate in the program), assessment process (i.e. what assessment measurements will be used to evaluate the program), the program methodology, the evaluation items (i.e. expected outcomes and evaluation tools), dates/times, and parent info.
  - b. Establishing a policy that requires very specific documentation to support any expenditure of categorical funds.
  - c. Requiring program/site administrators to independently monitor their categorical program budgets/expenditures. In addition, the Director of the Office of Special Projects provides general oversight for both the operations and budgets for all categorical programs. The director is taking a much more active role in monitoring programs than past directors.

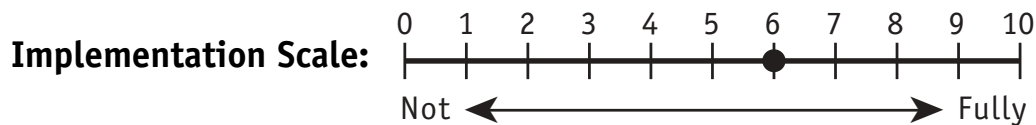
In the past, the district has not been particularly diligent in monitoring compliance with program requirements, or the individual categorical program budgets. The budget problems were indicated by a high level of expenditures in the final two months of the fiscal year and large amounts of grant revenues not being expended.

3. Program managers for the current and future years will be required to justify all categorical programs, program/site managers and to identify up-front the assessment and evaluation tools and measurements, as well as the expected outcomes. The managers will be/are required to submit an evaluation of the program at the end of the year to the Director of Special Projects. These requirements are not at this time required for all categorical programs.

### Recommendations and Recovery Steps

1. This standard was met.
2. The district needs to establish centralized monitoring and control over its categorical programs to ensure that all programs adhere to certain standard procedures. Further, the district should use an internal audit unit to periodically review in detail the performance and management of the various categorical programs. These reviews would focus on financial management, as well as adherence to district procedures and state and federal laws and regulations.
3. The district is making efforts to better manage its categorical programs, and should be allowed at least the 1998-99 fiscal year to determine if the revised procedures are successful. If so, those methods should be applied as appropriate to all categorical programs. If the methods are not successful in establishing control over the categorical programs, alternative methods should be identified and implemented.

### Standard Implemented: Partially



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

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### 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 County Office of Education.

### Sources and Documentation

1. The district's accounting procedures manual.
2. The LACOE accounting procedures manual.
3. Discussions with the district's Director of Accounting.
4. Discussions with accounting staff.
5. Sample postings for year-end accruals.

### Findings

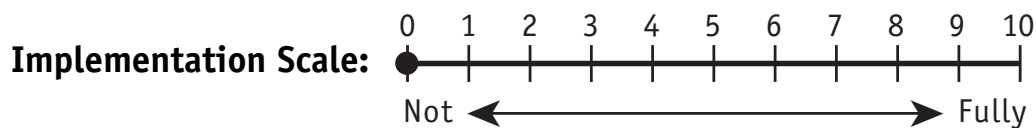
1. District's year-end accounting procedures
  - a. The district is currently using the CASBO year-end procedures manual as their year-end procedures manual.
  - b. While the manual may be an effective and appropriate beginning, the text should be modified and permanently incorporated into the district's procedures manual.
2. County year-end closing timelines and procedures
  - a. The district is not meeting the county timelines according to the county's year-end closing procedures manual.
  - b. The CASBO manual the district is following for year-end is comparable to the county's procedures manual.
3. Booking year-end receivables and payables
  - a. Some of the District's prior year payables are over six months past due. As a result, the district cannot determine what has been received, what is due and payable, and an accurate ending balance cannot be determined easily.
4. Accounting for categorical programs at year-end
  - a. Due to the district's untimely payables situation, actual expenses for categorical programs will not be properly accounted for during the year-end closing process.
  - b. The district is at risk of losing some categorical funding due to a lack of proper accounting of expenses. Year-end spreadsheets showed an accumulated carryover on categorical programs to be over eighteen million dollars.
5. Proper supervision and review of year-end transactions
  - a. Supervision and review of year-end transaction appear to be adequate for those transactions that are being booked.
  - b. The district will not complete all transactions by the final deadline.
  - c. At the time of the review, the district had not entered the prior year audit findings as adjustments to fund balances.



## Recommendations and Recovery Steps

1. The district should develop a year-end closing procedure for inclusion in the district's accounting procedures manual.
2. The district must follow LACOE timelines so that all transactions are booked prior to the final deadline.  
The district must start the year-end closing process earlier in the year. By following the county year-end closing timeline, this can be accomplished. By following the timeline, the district will have adequate time to complete the year-end closing transactions.
3. The district must prioritize the accounting practices to leave adequate time for the year-end closing process.  
At a minimum, account receivables and payables must be reviewed on a monthly basis to verify those items that have been received or paid and those that should be written off. Any items that are written off must received written authorization from an administrator prior to entry into the accounting records.  
The district administration should review all transactions submitted at year-end prior to processing. In addition, the district should ensure that all transactions are booked at year-end by implementing a procedure that allows sufficient time and staff to prepare these entries.
3. In order for the district to properly account for their categorical programs at year-end, the district must eliminate the accounts payables backlog. The district must also establish specific accounting practices for categorical programs throughout the year by tracking expenditures and revenues on a monthly basis. This will allow the district to avoid large carryover balances at year-end.
4. The district must provide inservice training for all program administrators and their support staff regarding year-end closing and the documentation that will be required of them during the year-end closing process. The program administrators must be held accountable for all categorical programs under their jurisdiction during the fiscal year and especially during year-end closing. Staff should be held accountable for completing each transaction/procedure assigned to them.

**Standard Implemented: Not**



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

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### Legal 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. The district's purchasing procedures manual.
3. The district's approved vendor list.
4. Observation of the district's inventory system for stores/supplies items.
5. Sample transactions.
6. Interviews with the Purchasing Manager and the Warehouse Manager.

### Findings

1. The district does have a separate purchasing manager. The purchasing manager appears to have sufficient knowledge of standard purchasing functions and procedures to successfully meet the requirements of the job.
2. The district has a purchasing manual and standard purchasing procedures that utilize the purchase requisition as the primary approval document.
  - a. The requisition is:
    - initially filled out by the site;
    - reviewed/approved by the principal or department manager;
    - reviewed/approved by the categorical program manager (if applicable)
    - reviewed/approved by Asst. Superintendent - Instructional Services (if for instructional goods);
    - reviewed by accounting which verifies coding, budget/funds, and pre-encumbers money;
    - reviewed/approved by the State Administrator;
    - reviewed/approved by the purchasing manager;
    - assigned to purchasing agent.
  - b. The P.O. is:
    - assigned a P.O. #, and input into the PAR system;
    - sequentially numbered P.O. prints out in LACOE - courier delivers to district;
    - P.O. split to original to vendor, site (1 copy), accounting (2 copies), purchasing (2 copies), receiving (1 copy).
  - c. The goods are:
    - Received by the receiving staff at the warehouse.
    - staff verifies that goods received matched to the P.O., and signed by the receiver
    - copy of P.O. is made by warehouse, and forwarded to accounting
    - the warehouse staff then delivers the goods to the sites, and require site person to sign for goods delivered.
  - d. Returning merchandise:

- The district does not have formal written procedures regarding the return of goods to a vendor.
- e. Open P.O.s and credit cards:
  - The district does not issue credit cards.
  - The district does use open P.O.s which are assign to specific departments with authorized signers and amounts.
  - Departments can spend in excess of authorized amounts and the district is obligated to pay. District control is weak as it is only after the fact.
- 3. Approved vendor list:
  - The district does not have an approved vendor list. However, it does try and use state approved vendors, or vendors that have contracts with LACOE or other county districts.
- 4. Inventory System for stores/supplies:
  - The warehouse maintains on online inventory system for stores items. The system is used to control inventory, process requisitions, and facilitate reordering.
- 5. Supplies requisitions:
  - The district requires all stores requests to be processed on a requisition similar to regular purchase of goods.
- 6. Bid procedures:
  - The district does have a purchasing and warehouse procedures manual, which includes bid procedures in accordance with legal provisions related to both public projects and goods and services.
- 7. Other:• The purchasing department/warehouse also maintains a fixed asset inventory listing and tags all items before delivering the assets to the sites.

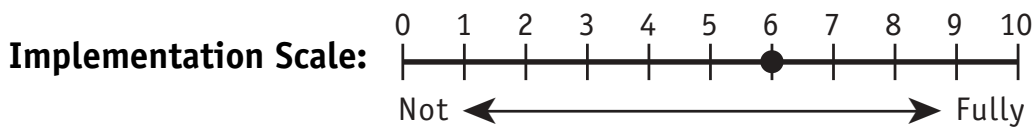
## **Recommendations and Recovery Steps**

1. This standard was met.
2. The purchasing process should be converted to an on-line system which would help to expedite the processing of transactions, prevent the loss of purchasing documents, and provide for the better tracking and monitoring of purchases.
3. The district should also establish formal procedures related to partial orders and returning merchandise to vendors.
4. The district should implement procedures to prevent departments/sites from spending more on open P.O.s than is provided for in the budget, unless a budget transfer has been requested and approved.
5. In order to reduce the likelihood of cost overruns, the district should:
  - Restrict the use of open P.O.s to the smallest number of individuals possible
  - Provide monthly budget updates on available balances on the open P.O.s
  - Make department/site managers responsible for staying within their budgets

- Use budget management as a performance criteria in their annual evaluations

6. The district should establish an approved vendor list in order to ensure the most competitive prices for purchases.
7. This standard was met.
8. This standard was met.
9. This standard was met.
10. This standard was met.

**Standard Implemented: Partially**



# 13.1 Student Body Funds – Management of Student Body Funds

## Legal 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. The district’s governing board adopted policies regarding the establishment and oversight of student organizations.
2. The district’s procedures manual for the management of student body activities and funds.

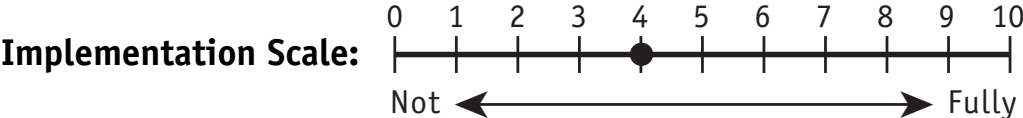
## Findings

1. The district has formally established policies and procedures regarding the establishment and oversight of student organizations. However, most staff 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 review and update policies and procedures for student body funds. The State Administrator and governing board should then approve general policies and procedures regarding the establishment and oversight of student organizations. The policies should address items such as:
  - The purpose of student body organizations;
  - The policies governing the establishment of student organizations, including the adoption of a constitution and holding of meetings;
  - The supervision of activities including the role of student advisors, principal, and student councils;
  - The operation and management of the organization’s finances; and,
  - 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 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

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### Legal 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. A sample of annual budgets prepared by student organizations.
2. A sample of budget reports prepared during the year that were provided to the business office.
3. A sample of budgets prepared for each activity sponsored by a student organization.
4. Student body procedures manual.
5. Discussions with ASB directors at sites regarding the procedures/controls actually in place for revenues, expenditures, and inventory.

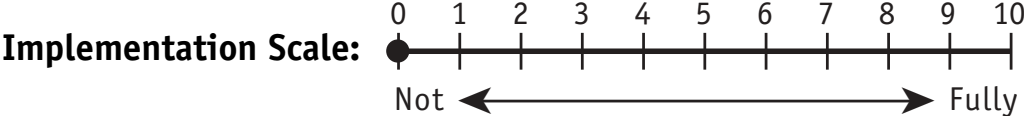
### Findings

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.
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, in general, there is not sufficient control over cash handling. The predominant problems are:
  - a. Lack of segregation of duties over cash receipts (i.e. the same person typically
  - b. Receives cash, deposits cash, reconciles bank account);
  - c. Lack of control over ticket stock and receipt books, and tickets and receipts are not pre-numbered;
  - d. Cash is not deposited the same day it is received.
  - e. Access to inventory is not tightly controlled. In addition, inventory records are not consistently maintained, nor is a physical inventory consistently taken.
  - f. Not all sites require student council approval of expenditures.
  - g. Purchases are made without P.O.s
  - h. Invoices must accompany check request.
  - i. Checks are prepared at district office and will only be prepared if an accompanying invoice is submitted.
  - j. In addition, at one site, all records from the prior year regarding student organizations finances were missing. This situation calls into question the financial condition of the student organizations, their budgets, funds balances, inventories, liabilities, and the handling of student funds. The district office was aware of this situation, but took few steps to look into the matter.

## 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 training provided to principals, vice principals, and activity coordinators. 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
    - 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 first 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
    - 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 of 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 signaturesAdherence to the established procedures should be monitored, and be included as an evaluation criteria in the annual performance appraisals for these administrators.
5. This standard was met.
6. In regards to instances where records are missing and/or money or inventory cannot be accounted for, the district should take vigorous action to investigate the matter. It is crucial that the district respond quickly and forcefully to situations where there are potential irregularities, in order to protect student funds which are held in trust, and to deter future situations of a similar nature.

**Standard Implemented: Not**





### 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. Sites budget reports of income and expenditures (monthly/quarterly)
2. Monthly trial balances and/or financial statements should be prepared by the sites.
3. Bank reconciliations should be prepared for each account monthly.
4. Monthly combined financial statements should be prepared by the district office for student body organization funds.

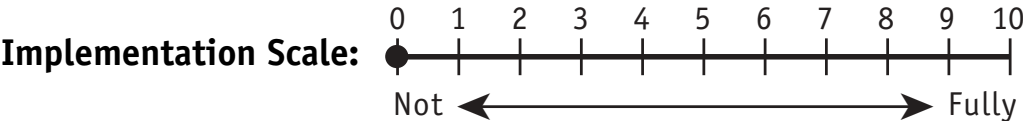
#### Findings

1. The sites typically do not prepare budgets or budget reports.
2. The sites do not prepare periodic trial balances and/or financial statements.
3. Bank statements are sent to district office, but copies of bank reconciliations are not sent to sites.
4. 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 sites should prepare periodic trial balances and/or financial statements to show the position of the student funds. The reports should be distributed to club advisors, as well as 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. Internal audit reports for reviews performed regarding the operation of Student Body funds.

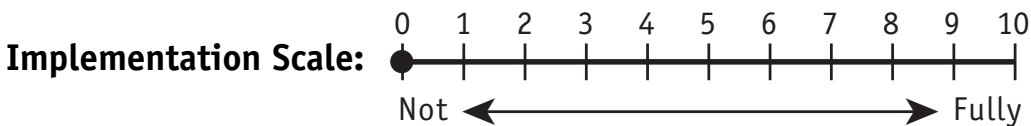
### Finding

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 that reports directly to the Superintendent/State Administrator. 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

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## Professional Standard

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

## Source and Documentation

- 1. Excel spreadsheet

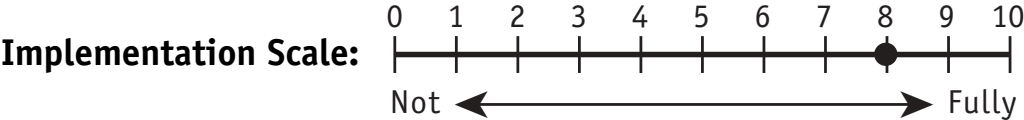
## Findings

- 1. The District uses an Excel spreadsheet to prepare multi-year financial projections. The published Five Year Financial Recovery Plan for 1996-97 through 2001-02 appears to be reliably prepared. Specifically, the projection were in sufficient detail to be reliable and the computations, as sampled, appeared correct.
- 2. LACOE indicates that this document was inadequate and felt it was unacceptable as it addressed only the general fund.

## Recommendations and Recovery Steps

- 1. Review the computer program as to its effectiveness and make the appropriate adjustments.

## Standard Implemented: Fully — Substantially



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

---

### Legal 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]

### Sources and Documentation

1. Five-Year Financial Recovery Plan, dated July 21, 1998

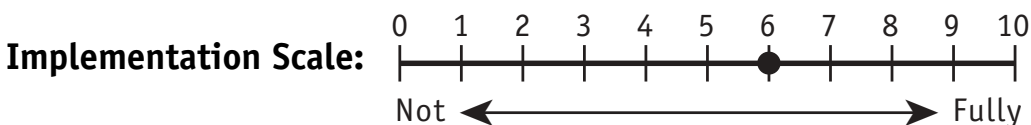
### Findings

1. Multi-year projections are only prepared for the General Fund.
2. SSC reviewed a draft of the Five Year Financial Recovery Plan covering years 1996-97 to 2001-02, dated July 21, 1998. There were reasonable projection assumptions for: enrollment and ADA, teacher staffing ratios, cost-of-living and changes in consumer price indices, and, step and column movement.
  - a. Not described, however, were assumptions regarding adjustments for one-time expenditures and one-time revenues. For example, capital outlay expenditures were estimated to decrease by \$6M in 1998-99 over 1997-98 and 1996-97 levels, but the narrative did not describe what changes were made to 1998-99 expenditure plans.
  - b. Projected fund balance reserves are shown in the multi-year projection by major fund balance category.

### Recommendations and Recovery Steps

1. The District should prepare multi-year projections for other significant funds, particularly any funds that encroach on the General Fund or are anticipated to incur operating deficits.
2. The narrative on projection assumptions should discuss the basis for significant revenue and expenditure changes.

### Standard Implemented: Partially



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

---

## Legal 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]

## Source and Documentation

- 1. Interviews with the State Administrator and Associate Superintendent, Business and Administrative Services

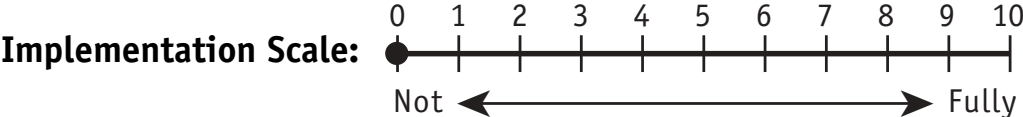
## Finding

- 1. In general, the State Administrator and governing board consider the multi-year financial impact of decisions but projections are not used. At present, staff are preparing financial projections as part of the recovery plan but the projections are not used to make decisions.

## Recommendations and Recovery Steps

- 1. Prepare multi-year projections whenever major expenditure commitments are being contemplated.

## Standard Implemented: Not



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

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### Legal Standard

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. Post Retirement Health and Welfare Benefits
  - a. The district's actuarial evaluation report for accrued unfunded post-retirement health and welfare benefits for employees beyond the age of 65.
  - b. Governing Board meeting agendas
  - c. Governing Board meeting minutes
2. Self-insurance for workers' compensation
  - a. The district's actuarial evaluation report for accrued unfunded workers' compensation claims
  - b. Governing Board meeting agendas
  - c. Governing Board meeting minutes
3. Collective bargaining agreements
  - a. District's official policy/procedure regarding budget revisions resulting from collective bargaining agreements entered into during the current budget year.
  - b. Copies of collective bargaining agreements or modifications in the terms of existing collective bargaining agreements.
  - c. Governing Board meeting agendas.
  - d. Governing Board meeting minutes.
  - e. Budget revisions submitted to LACOE.
  - f. Interim reports submitted to LACOE
4. Discussions with the district's Director of Accounting.

### Findings

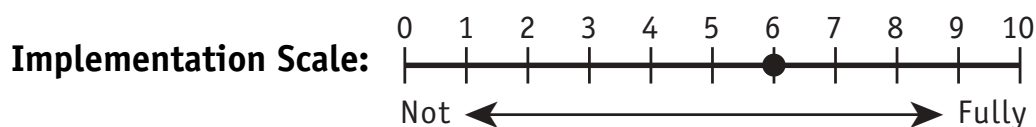
1. The district provides post-retirement health and welfare benefits to employees beyond the age 65.
  - a. Yes, the district has an actuarial evaluation performed as required by law.
  - b. No, it does not appear that the actuarial report was presented at a board meeting, nor was there a separate agenda item for reserving amounts relative to the unfunded liability.
2. The district self-insures for workers' compensation.
  - a. The district has a formal policy requiring an actuarial evaluation of its accrued unfunded cost for workers' compensation claims.
  - b. The district has a policy requiring the presentation of actuarial reports at public board meetings.
  - c. No, it does not appear that the district has 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 entered into new/modified collective bargaining agreements during the 199798 fiscal year.
  - a. Yes, the district has a policy to revise the budget as a result of collective bargaining agreements entered into during the year.
  - b. Yes, the district submitted the proposed agreements to LACOE.
  - c. No, not within the 45-day period.
  - d. Yes, the revised budget information was included in subsequent interim reports.

## Recommendations and Recovery Steps

1. Post-retirement health and welfare benefits
  - a. This standard was met.
  - b. 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. This standard was met.
  - b. This standard was met.
  - 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. This standard was met.
  - b. This standard was met.
  - c. The district should submit its budget revisions related to collective bargaining agreements to the LACOE within 45 days as required by law.
  - d. This standard was met.

### Standard Implemented: Partially



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

---

### Professional Standard

When authorized, the district should only use non-voter 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

The district's policies and procedures regarding the use of non-voter approved, long-term financing.

1. Identifies the circumstances where the use of non-voter approved, long-term debt is appropriate.
2. Requires that a source of revenue for repayment be identified prior to entering into any such financing arrangements.
3. Identifies procedures for evaluating long-term financing arrangements, and the process required to receive approval to use any such arrangements.

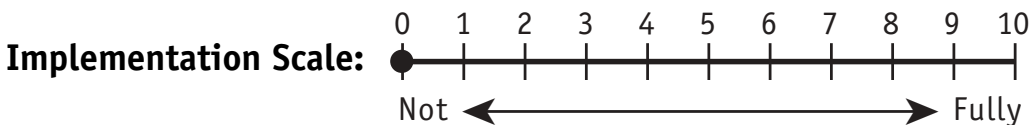
### Finding

1. The district does use some non-voter approved, long-term financing arrangements, basically capital leases. However, the district does not have specific policies/procedures established to address the appropriate use of such financing arrangements.

### Recommendations and Recovery Steps

1. The district should evaluate the current and potential future uses of non-voter 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 on-going use of such financing mechanisms.

### Standard Implemented: Not





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

---

## Professional Standard

1. 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.
2. The district should project cash receipts from the dedicated revenue sources to ensure that it will have sufficient funds to make periodic debt payments.
3. The cash flow projections should be monitored on an on-going 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 Director of Accounting
3. The district’s comprehensive monthly cash-flow projections.

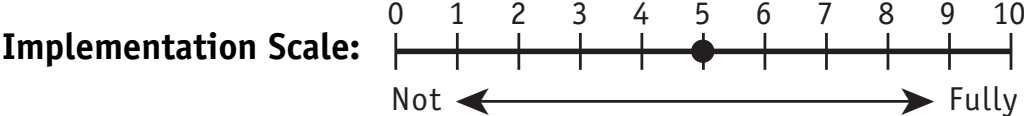
## Findings

1. The district does have several types of long-term obligations including an emergency loan from the State, 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.
5. The district does not prepare monthly cash-flow statements that specifically address the revenue sources dedicated to repaying long-term obligations.

## Recommendations and Recovery Steps

1. This standard was met.
2. This standard was met.
3. This standard was met.
4. The district should consistently identify the specific revenue sources that will be used to repay long-term obligations, and funds from these sources should be reserved to specifically repay the obligations.
5. The district should prepare comprehensive monthly cash-flow statements that include projection of the revenues from sources that are dedicated to repaying long-term obligations.

**Standard Implemented: Partially**



# 16.1 Multi-Year Impact of Collective Bargaining Agreements – Development of Parameters and Guidelines for Collective Bargaining

## Professional Standard

The governing board is the final signature of a collective bargaining agreement and they must, consequently, work closely with the superintendent and the district’s chief negotiator to ensure that the bargaining agreement effectively reflects the policy interests of the district. The governing board must be able to develop, with the district administrative team, parameters and guidelines for the collective bargaining negotiation; district board guidelines must represent the public interest and avoid, throughout the negotiating debate, representation of special interests or selected district employees. The board must ensure that the agreement enhances the instructional delivery while at the same time maintaining fiscal solvency for the district. Governing board parameters must be provided in a confidential environment reflective of the obligations of an closed executive board session.

## Source and Documentation

- 1. Interview with district officials

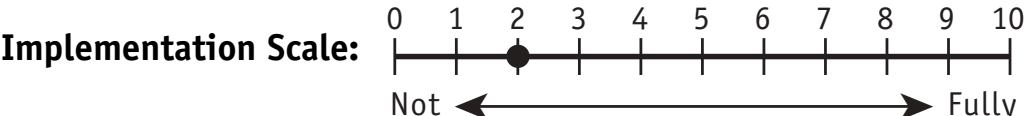
## Findings

- 1. The current district collective bargaining decisions are made with the assistance and guidance of the district’s administrative team and the state administrator. The state administrator is the ultimate agent for determining the fiscal characteristics of the final collective bargaining agreement.
- 2. The governing board fulfills the statutory obligations by sunshining the initial collective bargaining agreement and holding a public hearing prior to the adoption of the final agreement.

## Recommendations and Recovery Steps

- 1. In order for the district governing board to have a broader role in the collective bargaining agreement, the governing board should participate, along with the administrative team, in a training process regarding the appropriate development of collective bargaining parameters and guidelines and the do’s and don’ts of the bargaining process.
- 2. Incremental implementation of broader participation by the governing board would be appropriate with an assurance from each of the governing board members that the discussion of bargaining guidelines and parameters are confidential as required of closed session issues.
- 3. The board should use the district’s chief negotiator for development of appropriate guidelines for their participation in the process and following the training program be given added responsibility for development of parameters, guidelines and general communication regarding collective bargaining decisions.

## Standard Implemented: Partially



## 16.2 Multi-Year Impact of Collective Bargaining Agreements – Ability to Compute and Use Effectively Multi-Year Fiscal Analysis in the Development of Collective Bargaining Decisions

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### Professional Standard

A collective bargaining decision can dramatically change the most well thought out and committed goals and objectives of a district. A collective bargaining agreement, both fiscally and organizationally, can dramatically change the nature of a district’s ability to be able to maintain multi-year fiscal solvency. District administration and the governing board should consider and have available multi-year projections at all times when they are concluding substantive fiscal decisions of the collective bargaining agreement.

### Source and Documentation

1. Interviews with district officials

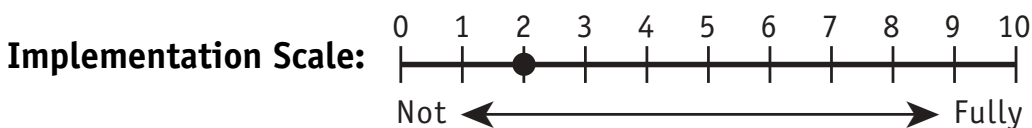
### Findings

1. In general, the state administrator and the governing board consider the financial impact of collective bargaining decisions, but multi-year projections are not used as part of that decision making process.
2. At present, the staff are preparing financial projections as part of the recovery plan, but the projections are used only generally to make decisions regarding collective bargaining conclusions.
3. The district’s use of an Excel spreadsheet to prepare multi-year financial projections can be updated as needed for final collective bargaining decisions.

### Recommendations and Recovery Steps

1. Throughout the collective bargaining process, the administration should be able to reflect the multi-year fiscal impact of any collective bargaining decisions and be able to share those multi-year fiscal issues with the governing board and other major participants in the management guidelines for collective bargaining.
  - a. In order to accomplish the above, the administration should continue its efforts to prepare multi-year projections where major expenditure commitments are contemplated and must be able to amend their financial projections with alternate collective “what if” questions.
  - b. The multi-year projections must be maintained and updated with each interim report so that they are available to continue to be used for multi-year analysis. As necessary, the multi-year projections must be made available to the governing board when final decisions must be made regarding fiscal issues of the collective bargaining settlement.
2. The Excel program used to prepare a Multi-Year Projection should be re-evaluated.

### 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 and Administrative Services

### **Findings**

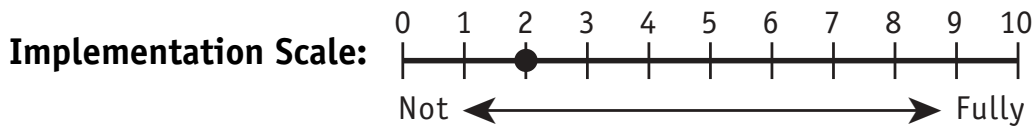
1. Compton USD does have a draft of a district technology plan for implementation of instructional technology. The parts of the plan dealing with, staff development, teaching and learning, network infrastructure and classroom hardware and software are well done. The plan does not address administrative system needs, beyond the networking standards, and there was no separate plan to address those important needs.
2. Major goals are well defined, but since the plan is still in draft form, no formal adoption 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.
3. The district did not have a complete financing plan for implementation of technology. The draft instructional technology plan relied upon an annual infusion of \$2.5 million in funding from desegregation grants, revenue that is uncertain and may or may not be sufficient to meet plan goals. There was no financing plan in place for the substantial administrative system upgrades required to deal with Year 2000 issues and the implementation of the Standardized Account Code Structure (SACS).

### **Recommendations and Recovery Steps**

1. The district will need to actively manage the technology planning process if progress is to be made. The technology plan specifies that the plan is for 1997-2002, but as 1999 approaches, it has still not been finalized and adopted. The plan needs to be completed and adopted.
2. Administrative technology needs should be incorporated into the existing plan or included in a separate plan.
3. The district should develop a 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 financing plan should address total dollars required, the timing of the need for funds, sources of funding must be identified and cash flow projections supporting the availability of funding should be prepared.

- The draft instructional technology plan carries substantial policy implications for the district. It specifies policies for student access to technology, establishment of new positions, duties of those 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

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### 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 and Administrative Services
3. User survey results

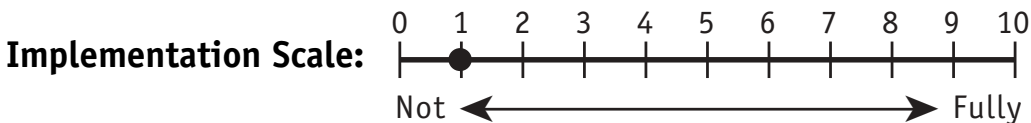
### Findings

1. The district was unable to produce written inventories and system descriptions for the variety of administrative systems it operates. The director of the administrative technology function had left the district (the position had not yet been filled) and many questions could not be answered by the staff below that position. The technical people interviewed were knowledgeable in their own areas, but there was a real leadership void.
2. Needs assessments are not 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. In answer to many questions about what the various systems did, how they interacted with each other, and why a particular vendor or system had been chosen, we were told that we would have to question the functional users and that the information services people were not responsible for any of those areas. No one could produce any policies or procedures requiring that needs assessments be performed.
3. The district is facing serious problems with near term obsolescence of important systems. The current student information system, the AS 400 version of the SASI software, will not be supported by the vendor beyond the current fiscal year. This system maintains all student attendance records, among other things, and is the primary source of documentation to support attendance drive revenues, the primary source of district funding. Staff had definite plans as to what needs to be done to replace this system but those plans had not been approved by management. Equally important, there was no specific plan to finance this major initiative.
4. The staff had determined that the Novell network software currently in use is not Year 2000 conformant and must be upgraded. No specific approval had been given for the upgrade nor had any funding commitments been made.
5. The major financial and human resources systems are operated by the Los Angeles County Office of Education and the SACS and Year 2000 issues for them will be resolved at the County level. The district does, however, have a variety of adjunct systems that have not been tested for Year 2000 conformance.

## Recommendations and Recovery Steps:

1. The district needs to make major improvement in this important area. Correcting the deficiencies noted will require a major infusion of capital in the very near term to avoid major problems. Financing will be an important and critical part of the plan to resolve information system deficiencies.
2. The director of information systems position needs to be filled as soon as possible; this leadership position is critical to correcting the deficiencies that now exist.
3. Needs assessments should be performed on all current systems; those that are essential should be tested for Year 2000 operations. Deficiencies noted for essential systems need to be corrected.
4. The AS 400 version of the SASI system needs to be replaced now. 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 districts' financial claims upon the state.
5. The Novell network software needs to be upgraded now. Funding must be identified for this important system; it is the backbone of the district network.
6. The district should maintain close co-ordination with the Los Angeles County Office of Education to ensure that Compton is prepared to support the County's efforts to meet SACS and Year 2000 conformance for the PBAS and HRS systems.

## Standard Implemented: Partially





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

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### **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.

### **Source and Documentation**

1. Interview with Information Technology department management and staff

### **Findings**

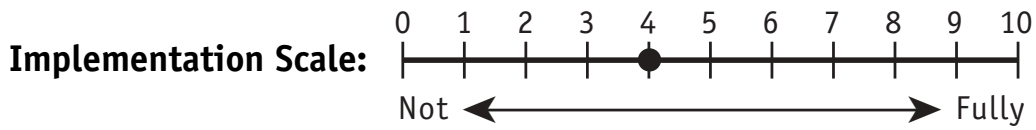
1. The district relies primarily on the Los Angeles County Office of Education supported PBAS and HRS systems for financial and human resources information. The district augments these systems with PC Products, a package that enables school sites to access information independently. The district also operates a variety of automated systems including a textbook management system, Edulog to support the Novell network software, SNAP to support food services, Phone Master, Kronos time-keeping software, and other independent software systems. Some are maintained by third-party vendors and some by in-house programmers.
2. Formal needs assessments have not been performed for the adjunct systems. Functional users have made determinations about which systems are needed and how they should be used and supported.
3. There was no evidence of any system testing or reviews of system operations or internal controls beyond the normal annual audit requirements.
4. The district had committed a full time position for employee training. This person provides support to both district offices and school sites in the implementation of technology.

### **Recommendations and Recovery Steps**

1. The district should cooperate fully with LACOE in the implementation of PBAS modifications/replacements for both Year 2000 conformance and SACS compliance.
2. The district should inventory its' systems and determine the objectives of each system, support requirements, and the effectiveness of the system in meeting the identified need. There should be a goal to move to third-party support for all systems.
3. Adjunct systems should be tested for internal accuracy and internal control. Vendors may be able to provide assurance from independent tests that they have engaged others to perform, but the implementation of the system in Compton should also be examined. Of particular concern are the separation of duties and the need for qualified people in the performance of critical or sensitive tasks.

- The district trainer has made a positive impact on implementation of new systems. If the commitment to administrative and instructional technology plans is to be maintained, this function will need to be reinforced with additional resources.

**Standard Implemented Partially**



# 17.4 Management Information Systems – Cost/Benefit Analyses and Comparisons

## 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

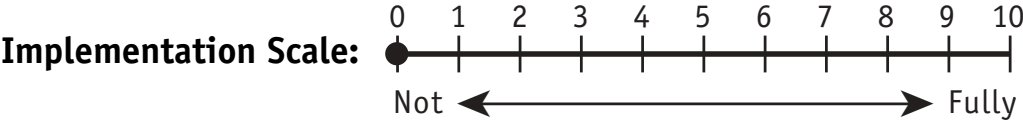
## Findings

- 1. There was no evidence that cost/benefit analyses are performed prior to acquisition or modification of systems. Although several new systems had been added in recent years, no documentation was available. The district has near term needs for several major upgrades/acquisitions, cost/benefit analyses have not yet been performed for any of these costly initiatives.

## Recommendations and Recovery Steps

- 1. The district should implement a meaningful cost/benefit analysis procedure prior to any future major systems acquisitions or modifications. Decision-makers should insist on receiving complete analyses prior to making any major commitments of resources.

## Standard Implemented: Not



## 17.5 Management Information Systems – Technology Selection Process

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### 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.

### Source and Documentation

1. Interviews with Information Technology department management and staff

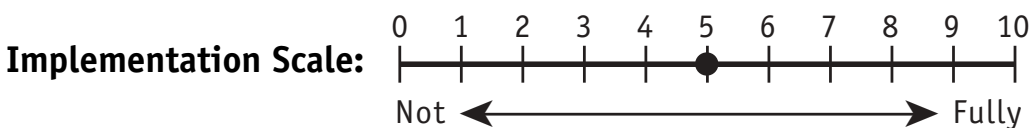
### Findings

1. The district does not routinely document the process for system selection and acquisition. Not found was a consistent process for involving users or for considering support, training, and other costs of ownership in life-cycle cost analyses.
2. The standard for acquisition of technology networks for schools was supported by a detailed specification that was prepared by a vendor. The standard was well done and will serve schools well. In other cases, a system was acquired because a high-level administrator directed that it be acquired.
3. The district did have a generic PC contract in place to allow schools and offices timely access to hardware and office software while conforming to bidding procedures. This is a positive step.
4. No violations of the procedures outlined in the Public Contract Code were found, rather the deficiencies were in the analysis and decision information processes.

### Recommendations and Recovery Steps

1. The district should adopt consistent procedures for system acquisition. The procedures should include needs analysis, cost/benefit analysis, and compliance with legal provisions.

### Standard Implemented: Partially



# 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.

## Source and Documentation

- 1. Interviews with Information Technology department management and staff

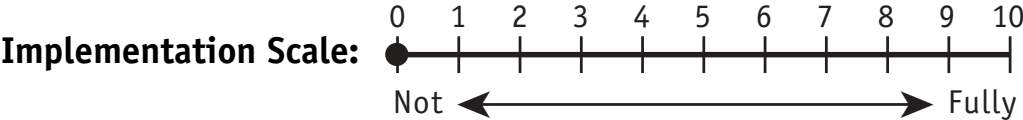
## Finding

- 1. The district did not produce formal plans for implementation, training, and support. Training and support, while recognized as unavoidable implementation costs, were not formally considered. Financing plans were not prepared. There were no written policies or procedures for system implementation and support.

## Recommendations and Recovery Steps

- 1. The district should develop standards and procedures for support of information systems. Specific detailed plans should be prepared for each new acquisition. The plans should cover hardware and software selection, delivery, and installation, support, training, and financing.

## Standard Implemented: Not



## 18.1 Maintenance and Operations Fiscal Controls – Risk Management

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### 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.

### Source and Documentation

1. Interview with the Associate Superintendent, Business and Administrative Services

### Findings

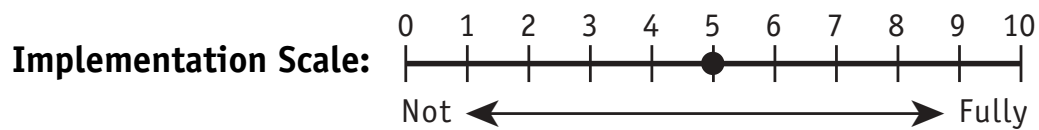
1. During the interview, property and liability insurance and the workers compensation program were discussed.
2. The property and liability (P & L) insurance is based on a 3-5 year experience rating with the JPA known as ASCIP. By participating in a large JPA, the district can benefit from a lower overall rate rather than competing on its own with high cost experiences. If the district were to go on the open market to obtain P & L insurance, it would pay much higher premiums that ASCIP provides.
3. The district currently pays a \$100,000 deductible per incident for fire insurance which is extremely high when compared to other districts in California but is actually lower than in the past for the district.
4. The district's Workers Compensation program is currently self-insured. It is administered by the Southern California Risk Management Associated (SCRMA). SCRMA has weekly meetings with district administrators to review the current workers compensation cases for presentation to the State Administrator.
5. The 1998-99 Mod factor that is used to determine the rate the district will charge for workers compensation on the payroll is 5.75. When this is compared to a starting point of 2.00, and with the average mod factors ranging between 1.80 and 2.60, the district has to pay more than double the average rate to cover its employees for workers compensation coverage.
6. The district has no Risk Manager at this time. The district is in the process of contracting with ASCIP for at least one day a week at \$18,000 per day/year.

### Recommendations and Recovery Steps

1. Expand the current employee safety-training program. For example, add training for areas such as:
  - a. Required use of hernia belts for lifting.
  - b. Proper use of certain cleaning solutions.
  - c. Proper handling and storage of maintenance supplies and materials.
  - d. Appropriate attire for specific positions.
  - e. Reporting of all safety hazards to safety manager immediately.

- f. Include in the safety-training program specific requirements that employees will be evaluated on during annual evaluation process.
  - g. Finally, hold employees accountable for not following district's safety regulations.
2. Implement a mandatory employee safety-training program by:
- a. Developing a mandatory training program that all employees will attend annually.
  - b. Requiring employees to sign in at the beginning of the training and pass the test at the end of the training.
  - c. Requiring all employees that are unable to pass the test to attend training until such time as they are successful.
  - d. Once an employee has successfully passed the written test, the district must hold employees accountable for not following district's safety regulations.

**Standard Implemented: Partially**



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

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### 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

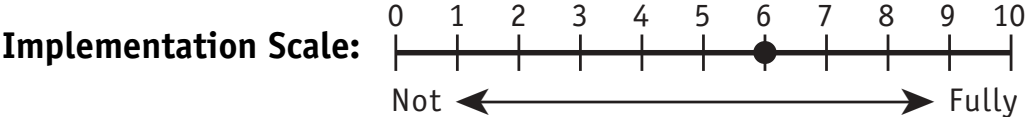
1. The district has a computerized maintenance work order system.
2. The work orders are prioritized into four categories. Emergency orders have first priority and these may be called in directly. The district is not keeping up with work orders in a timely manner. We noted that some orders were placed over one year old and a total of 4,000 orders were outstanding. However, a new response system will be in effect starting in 1998-99 that should help to reduce the backlog. A mobile maintenance shop is being formed. The mobile shop will include about 5 workers and they will be assigned to one site for 7 - 10 days. While at the site, they are to work on the backlog and any other maintenance that the site administrator deems necessary.
3. Time and the cost of materials per work order is not being tracked. However, workers are required to complete a Daily Activity Report that identifies the time spent at each location and the maintenance request number. It was reported that some workers have been caught forging the Daily Activity Reports to cover time not working. The workers are supposed to sign in and out at each location. The Director of Maintenance states that he periodically checks the attendance logs at the school sites and matches the logs to the Daily Activity Reports.

### Recommendations and Recovery Steps

1. The district should fully utilize the work order system by tracking the cost of labor and materials. Estimates of labor time and materials costs should be made by management. The maintenance worker would then record the time spent and materials used. Once completed, the supervisor should review the completed work order and follow up with the worker on reasons why time and materials might significantly exceed estimates.
2. Management should match the time recorded on the work orders to daily time records. The cost of materials could be reconciled to total purchases for the department.
3. Require that the supervisors routinely check the site attendance logs against the Daily Activity Reports in order to account for time worked.
4. Require that a site administrator or plant worker inspect the work and sign off that it was completed satisfactorily.



**Standard Implemented: Partially**



## 18.3 Maintenance and Operations Fiscal Controls – Facilities use fees

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### Professional Standard

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

### Sources and Documentation

1. Facilities fee table
2. Facilities use forms and permits

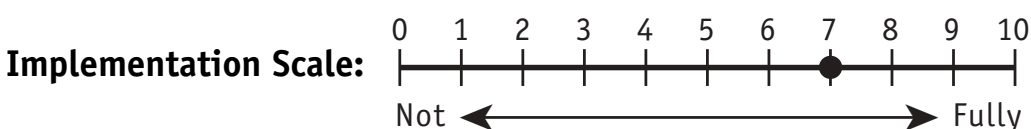
### Findings

1. We were unable to locate in the policy manual housed in Business and Administrative Services a policy on facilities use, despite the subject being listed under the Table of Contents. However, the facilities department did have board approved facilities fee tables, dated 1992. The facilities department was in the process of updating these tables for administrator/board approval.
2. Any outside organization using district facilities is suppose to obtain a permit and pay appropriate fees that cover the costs of plant maintenance, including custodial time. A standard form is used that originates from the school site where the facility use is being requested. The form is signed by the site administrator and routed to the Facilities department. District staff then verify insurance or assists the group in obtaining insurance for the event. There are three approval signatures from the Facilities department and an approval by the Associate Superintendent of Business. Once approved, the fee is paid at the Fiscal Services Department and the Facilities department issues a permit number. The permit number is needed to assign custodial time.
3. Overall, the process appears to be effective. However, it was reported to us that custodial time in excess of the amount charged initially is not being collected by the district. Instead, the plant workers are either not being paid or being paid directly by the organization, a clear violation district policy.

### Recommendations and Recovery Steps

1. Ensure that policy manuals are complete and inclusive of policy related to facilities use.
2. Three approval signatures from the Facilities Department is excessive. Probably one signature would suffice since the site administrator and the Associate Superintendent of Business sign, as well.
3. Communicate to plant workers that payment directly by organization using the facilities is against district policy and that any workers known to take money will be disciplined and/or terminated.

### Standard Implemented: Partially



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

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### Professional Standard

Open purchase orders should be controlled by limiting the employees authorized to make the purchase and the amount.

### Source and Documentation

1. Interview with the Director of Maintenance and Operations

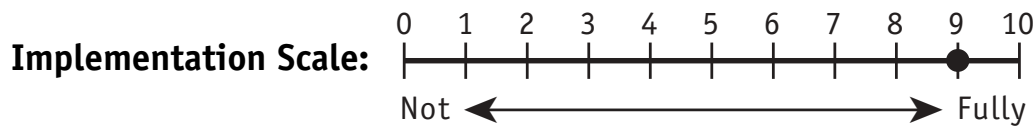
### Finding

1. A report produced by the Director of Maintenance showed that there are approximately 21 open purchase orders. We looked at a sample order and found that the order is limited monetarily and can only be used the supervisor or one alternate employee.

### Recommendations and Recovery Steps

None.

### Standard Implemented: Fully — Substantially



## 18.5 Maintenance and Operations Fiscal Controls – Materials and Equipment/Tools Inventory

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### Professional Standard

Materials and equipment/tools inventory should be safeguarded from loss through appropriate physical and accounting controls.

### Sources and Documentation

1. Physical inspection of warehouse buildings
2. Equipment/tool inventory sheets
3. Interview with Director of Maintenance and Operations and office staff

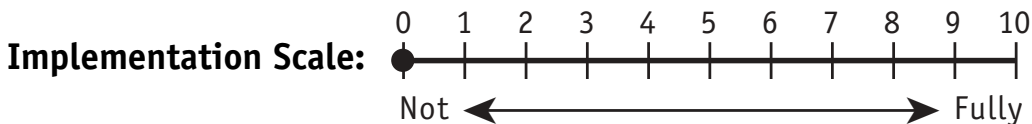
### Findings

1. Maintenance does not inventory materials received and used. However, stock on hand is not significant with the exception of paint. The buildings are locked and alarmed but have been frequently burglarized.
2. Equipment/tools are periodically inventoried. When equipment/tools are issued to an employee, an individual Equipment Issue List is updated by the Supervisor. However, they are not reconciling the inventory to the employee issue list and other records of district-owned equipment and tools.
3. Supervisors are not keeping the Equipment Issue Lists up-to date and there are no accounting controls to match the purchases subsequently made to the list. Thus, the supervisors (who do the purchasing) and the workers have an opportunity to misuse both materials and equipment/tools.

### Recommendations and Recovery Steps

1. All materials should be centrally received and inventoried. The district warehouse operations, which appear to be operating effectively, might also receive and inventory materials for maintenance. Warehouse requisitions should be used.
2. An account clerk should ensure that all equipment/tools are added to the employee equipment issue lists. The inventory of equipment/tools should be reconciled to the employee lists and to other records of property-owned.

### Standard Implemented: Not



## **18.6 Maintenance and Operations Fiscal Controls – Use of District-Owned Vehicles**

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### **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. Mileage records
2. Fuel card system
3. Physical inspection of parts inventory
4. Fuel consumption reports
5. Interview with the Transportation Director

### **Findings**

1. Mileage records are kept daily by campus security and transportation departments. However, the warehouse, maintenance and operation departments are not keeping records.
2. For the departments keeping mileage records, there is a papertrail for each vehicle that can be reviewed if it appears excess mileage or fuel is being consumed. The Director of Transportation also reviews reports on fuel consumption by card holder and reports to the employee's supervisor any seemingly excessive usage.
3. Last year all fuel cards were pulled and reissued. The cards are strictly controlled and must be used in order to activate the pump. The user must enter the odometer reading on the vehicle. The cards also restrict the type of fuel that can be pumped and the quantity that can be pumped at one time.
4. The fuel pumps print out daily reports on fuel usage and odometer readings by card holder and department. An account clerk recaps the reports weekly by department and bills the department.
5. **An inventory of district-owned vehicles is maintained.**

### **Recommendations and Recovery Steps**

1. All employees assigned a district-owned vehicle should prepare daily mileage reports that are reviewed by the supervisor.

**Standard Implemented: Partially**

**Implementation Scale:**

## 18.7 Maintenance and Operations Fiscal Controls – Vending Machines

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### Legal 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]

### Source and Documentation

1. Discussion with Food Services Director.

### Finding

1. Per the Food Services Director, the district contracts for vending machine services. No inventory or cash is handled by district employees.

### Recommendations and Recovery Steps

None.

**Standard Implemented: Fully - Substantially**

**Implementation Scale:**

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

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### 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
2. Inventory engraving equipment
3. Inventory records

### Finding

1. The warehouse engraves, or otherwise identifies, equipment and furniture as district-owned. Inventory records are kept on a computer. Lists are printed by schoolsite and distributed to administrators for a physical inventory count. However, the inventories are not completed by all sites.

### Recommendations and Recovery Steps

1. Require at least an annual physical inventory on all district-owned property.

### Standard Implemented: Partially

### Implementation Scale:

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

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### 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:

1. Only properly authorized purchases are made consistent with district policies, federal guidelines, and management direction.
2. Adequate physical security measures are in place to prevent the loss/theft of food inventories.
3. 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 Director of Accounting
3. The food services department purchasing procedures.

### Findings

1. Cafeteria Programs
  - a. All food purchases are made by food services department, using an open P.O.s with vendors selected at the beginning of the year through a bid process. As the purchases do not go through the purchasing department, the level of assurance that the purchases are consistent with policies and procedures is reduced.
  - b. General food inventory is stored in a secured warehouse maintained by the food services department.
  - c. Prior to each year, food services gets bids from vendors. Based on those bids, food services has open P.O.s with the selected vendors. Food stock is ordered by the food services department staff. Ordered items are delivered to the warehouse, where the merchandise is received and counted, with a copy of receiving slip forwarded to food services accounting clerk. The inventory is recorded, and the invoice is processed for payment.
  - d. Sites requisition food from the warehouse using a requisition form, and the warehouse delivers the food to the school sites.

The requisitions are supported by menu production sheets. However, no analysis/reconciliation of the food requisitioned to the meals served is done. Therefore, the district cannot verify that the amount of food requisitioned is reasonable, supportable, or used only for school lunches.
  - e. Physical inventory is taken at the warehouse quarterly by program staff and warehouse staff.
  - f. At the district level, all management of the food services program is controlled by the Food Services department. While the department appears to have adequate procedures for purchasing and warehousing , we noted that the department operates independently with minimal oversight. Accordingly, controls would be strengthened if vendor bidding and selection was done through the purchasing department and accounts payable processed through the business office.
  - g. As 95 percent of the district students qualify for free or reduced lunches, Compton qualifies as a “Provision 2” district and does not charge for lunches. All meals are reimbursed



by the federal government. Therefore, basically no cash is handled by the sites for the lunch program. Revenues are deposited directly in the county treasury and posted by LACOE.

## 2. Snack Bars

- a. All middle school and high schools operate snack bars that sell items such as candy, chips, and soda. All sales are made on a cash basis.
- b. Inventory is ordered by the manager at each site using an open P.O. The stockroom is inventoried monthly by the manager.  
However, there is no reconciliation between the inventory purchased by each site and the reported sales/cash remitted. Therefore, the district has no assurance that all sales are being reported/cash remitted.
- c. Inventory is stored in locked storage closet at the site.  
The manager gives inventory and the cash bag to the staff each day. At the end of lunch, the staff worker counts cash receipts and inventory, and prepares an inventory sheet. Unsold items are returned to the manager for storage in the stockroom.  
The manager verifies the cash, reviews the inventory sheet — cash/sales are verified by reviewing the change in inventory as documented on inventory sheet. The manager prepares a sales/inventory report that is forwarded to the director of food services. However, a copy of the signed inventory sheet is not forwarded to the food services office. Therefore, the food services department cannot directly verify that all cash receipts were deposited.
- d. 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.
- e. Bank statements are received by the food services office, where the reconciliations are done.
- f. The cafeteria fund balance is very high. This level of reserve funds is not warranted and not appropriate for a federal program.
- g. The food services department only transfers cash to the county treasury once a year. This results in large amount of cash being maintained in a commercial bank during the year. As a result, the director of food services has unrestricted access to large sums of money and the fund is likely losing interest. Unless the account is collateralized, the fund could lose any amounts on deposit in excess of \$100,000.
- h. The food services department does not monitor/analyze profit margin (revenues-expenditures) to determine if it is reasonable or identify potential irregularities.

## Recommendations and Recovery Steps

### 1 Cafeteria Programs

- a. The district should consider having the bids and purchases processed through the regular purchasing procedures/department.
- b. This standard was met.
- c. This standard was met.
- d. The district should perform a monthly analysis/reconciliations between the number of meals actually served, the menu production sheets to verify that the amount of food requisitioned by each school site is reasonable, supportable, and used only for school lunches. This would help identify waste or theft at the sites. Unusual variances in either

- the number of meals served or the quantity of food requisitioned should be investigated.
- e. The district should have independent staff, particularly the internal audit staff, observe the taking of inventory and the inventory counts to provide assurance that the inventory actually exists and the counts are proper.
  - f. All management of the food services program is controlled by the Food Services department with virtually no independent oversight. Therefore, to increase control and oversight, the vendor bidding and selection process should be handled by the purchasing department, and accounts payable and bank reconciliations should be processed through the business office.
  - g. This standard was met.

## 2. Snack bars

- a. This standard is met.
- b. The business office should perform an independent reconciliation of the inventory purchased, the cash, and the inventory in stock to ensure that all sales are being reported/ cash remitted.
- c. The district should require the snack bar manager and staff person to sign the inventory sheets and forward the original to the district office for reconciliation. This would provide a level of assurance that neither individual is single-handedly misstating the sales/inventory reports.
- d. This standard was met.
- e. This standard was met.
- f. The district should review the department's fund balance as it is unusually high. This could indicate that the district is reporting more meals to the government for reimbursement than it actually serves.
- g. In order to strengthen controls over cash, money in the bank account should be transferred to the county treasury at least monthly, if not weekly. This would reduce the exposure of loss due to misappropriation, increase interest earnings, and protect the fund from potential losses for uncollateralized amounts greater than the FDIC insured amount of \$100,000.
- h. The food services department should monitor gross profit (revenue-expenditures) in order verify reasonableness of sales, prices, and inventory balances, and/or to identify other irregularities.

**Standard Implemented: Partially**

**Implementation Scale:**

## 19.2 Food Service Fiscal Controls – Program Compliance

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### Professional Standard

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

### Sources and Documentation

1. Audits report and/or program reviews regarding the operation of the Food Services program.

### Findings

1. A recent coordinated review of the National School Lunch Program disclosed that the district was not in compliance with the following provisions:
  - a. Not all school sites reviewed had base year eligibility data available for review;
  - b. New sites had not established a base year for eligibility purposes;
  - c. Some sites claimed reimbursement amounts that were not supported by the daily meal counts;
  - d. Some sites reported meal counts that exceeded the possible free attendance based on the national attendance factor.

### Recommendations and Recovery Step

1. The district should maintain all base year eligibility data as long as that base year data provides the basis for reimbursement claims.
2. The district should collect eligibility data whenever a new site is added.
3. Daily meal count procedures should be in conformance with NSL procedures, and consistent throughout the district to ensure accuracy (i.e. not exceeding possible amounts). Further, reimbursement claims should be based on/supported by these meal counts.
4. The district should monitor meal counts reported by the sites, and perform follow-up reviews and investigations whenever the counts exceed the maximum possible amount based on the national attendance factor.

**Standard Implemented: Not**

**Implementation Scale:**