



# **Gateway Unified School District**

## **Fiscal Review**

May 20, 2010

Joel D. Montero  
Chief Executive Officer





**CSIS California School Information Services**

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May 20, 2010

Robert H. Hubbell, Superintendent  
Gateway Unified School District  
4411 Mountain Lakes Boulevard  
Redding, CA 96003

Dear Superintendent Hubbell,

In November 2009, the Gateway Unified School District School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for a fiscal review of the district. Specifically, the agreement stated that FCMAT would perform the following:

1. Conduct a review of the district's Business Department processes and procedures and provide recommendations for improvements, if necessary, to improve the efficiency and productivity of the department in the following areas:
  - Budget Development - All Funds (including categorical programs)
  - Budget Monitoring - All Funds (including categorical programs)
  - Internal Controls
  - Payroll
  - Position Control
  - Accounts Payable
  - Accounts Receivable
  - Cash Flow Statement Assumptions
  - Financial Reporting
  - Charter School Oversight

The attached final report contains the study team's findings and recommendations with regard to the above areas of review. We appreciate the opportunity to serve you, and we extend our thanks to all the staff of the Gateway Unified School District.

Sincerely,

Joel D. Montero  
Chief Executive Officer

**FCMAT**

Joel D. Montero, Chief Executive Officer

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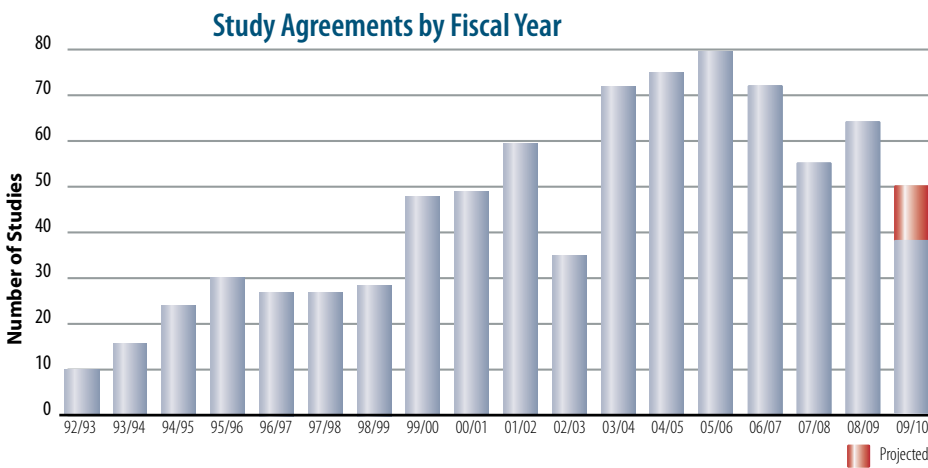
# Foreword - FCMAT Background

The Fiscal Crisis and Management Assistance Team (FCMAT) was created by legislation in accordance with Assembly Bill 1200 in 1992 as a service to assist local educational agencies (LEAs) in complying with fiscal accountability standards.

AB 1200 was established from a need to ensure that LEAs throughout California were adequately prepared to meet and sustain their financial obligations. AB 1200 is also a statewide plan for county offices of education and school districts to work together on a local level to improve fiscal procedures and accountability standards. The legislation expanded the role of the county office in monitoring school districts under certain fiscal constraints to ensure these districts could meet their financial commitments on a multiyear basis. AB 2756 provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans. These include comprehensive assessments in five major operational areas and periodic reports that identify the district’s progress on the improvement plans.

In January 2006, SB 430 (charter schools) and AB 1366 (community colleges) became law and expanded FCMAT’s services to those types of LEAs.

Since 1992, FCMAT has been engaged to perform nearly 750 reviews for local educational agencies, including school districts, county offices of education, charter schools and community colleges. Services range from fiscal crisis intervention to management review and assistance. FCMAT also provides professional development training. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The agency is guided under the leadership of Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.



<b>Total Number of Studies.....</b>	<b>743</b>
<b>Total Number of Districts in CA.....</b>	<b>1,050</b>
Management Assistance.....	705 (94.886%)
Fiscal Crisis/Emergency .....	38 (5.114%)
Note: Some districts had multiple studies.	
Eight (8) districts have received emergency loans from the state (Rev. 12/8/09)	





# Introduction

## Background

Located in Shasta County, the Gateway Unified School District has a seven-member governing board. The district serves approximately 2,700 kindergarten through 12<sup>th</sup>-grade students in two elementary, one K-8, one comprehensive high school, one alternative high school, an independent study program, and a community day school. The district is the lead agency for the GREAT Partnership special education program and is also the authorizing agency for four charter schools.

The district's 2009-10 general fund revenue budget is \$25.3 million. Approximately 3% of the district's students are English learners and 54% are eligible for free and reduced-price meals. According to the 2009 Adequate Yearly Progress (AYP) Report, Gateway Unified has met all 28 criteria for AYP. Schools and local educational agencies (LEAs) that do not make AYP are identified as Program Improvement (PI) under the federal Elementary and Secondary Education Act (ESEA). The ESEA requires all states to implement statewide accountability systems based on challenging state standards in reading and mathematics, annual testing for all students in grades three through eight, and annual statewide progress objectives ensuring that all groups of students reach proficiency within 12 years. Assessment results are disaggregated by socioeconomic status, race, ethnicity, disability, and limited English proficiency. Schools that fail to make AYP toward statewide proficiency goals are subject to improvement and corrective action measures.

The community passed a \$19 million general obligation bond in 2008 to help provide funding for renovation and construction of school facilities. The district is in the planning stages of constructing the first project, a multipurpose building.

In November 2009 the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement with the district for management assistance. The study agreement specifies that FCMAT will complete the following:

1. Conduct a review of the district's Business Department processes and procedures and provide recommendations for improvements, if necessary, to improve the efficiency and productivity of the department in the following areas:
  - Budget Development – All Funds (including categorical programs)
  - Budget Monitoring – All Funds (including categorical programs)
  - Internal Controls
  - Payroll
  - Position Control
  - Accounts Payable
  - Accounts Receivable
  - Cash Flow Statement Assumptions
  - Financial Reporting
  - Charter School Oversight

## Study Guidelines

FCMAT visited the district from February 3-5, 2010, to conduct interviews, collect data and review documentation. This report is the result of those activities and is divided into the following sections:

- Executive Summary
- Business Department Processes and Procedures
- Appendices

## Study Team

The FCMAT study team was composed of the following members:

Diane Branham  
FCMAT Fiscal Intervention Specialist  
Bakersfield, California

Julie Auvil, CPA\*  
Chief Administrator of Business Services  
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Tehachapi, California

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FCMAT Public Information Specialist  
Bakersfield, California

Lynn Kamph  
FCMAT Consultant  
Chico, California

\*As a member of this study team, this consultant was not representing her employer but was working solely as an independent contractor for FCMAT.

## Executive Summary

The Gateway Unified School District's Business Services Department provides budget, payroll, and accounting services to all sites and departments as well as two district-authorized charter schools. The district's organizational chart dated January 24, 2010, includes a position of Assistant Superintendent Business Services. Because this position no longer exists, the chart should be updated to reflect that the Director of Business Services is the head of the department.

The Business Services Department has experienced numerous personnel changes in the last few years including significant turnover in the chief business official (CBO) position. This has underscored the necessity for cross-training, and while efforts have been made to begin this process, efforts should be increased so at least two employees are trained in all essential functions. Emphasis

also should be placed on revising the district's board policies and administrative regulations because

many are out of date and do not include current laws and regulations.

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**The Business Services Department has experienced numerous personnel changes in the last few years, including significant turnover in the chief business official position.**

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The learning curve for a CBO can be quite extensive. Because the district's CBO is new to the position, the district should continue to provide training to increase her knowledge of the district's finances and her proficiency in generating the required state reports.

The district uses the Escape financial software system that is independent from the county office system. Thus, the district is responsible for processing its own payroll and accounts payable warrants. The employee responsible for processing payroll or accounts payable warrants oftentimes picks up the endorsed warrants from the county office. The district should implement procedures to ensure that the employee who processed the warrants doesn't have custody of them once they are endorsed.

The district has no system for collecting salary overpayments. Because overpayments are inevitable on occasion, legal counsel should be consulted regarding the development of specific procedures for the consistent handling of salary overpayments. The procedures should include the process for collections if such action becomes necessary.

The payroll clerk and the payroll technician have access to the demographic and payroll screens in the Escape position control module. Allowing any individual access to all the screens necessary to set up and pay an employee does not provide for a separation of duties. The district should investigate allowing the payroll clerk read-only access to payroll screens and allowing the payroll technician read-only access to demographic data screens.

Special education extended school year employees, one-time stipends and retiree health and welfare benefits are not included in the position control system. The district should include all board-approved positions in position control to ensure consistency and provide proper internal controls. Caution should also be used to ensure that one-time payments, not included in position control, are not budgeted in the following fiscal year. In addition, staffing ratios should be established for all positions, including classified.

Additional procedures should be implemented that provide for appropriate segregation of duties for invoicing and the receipt and recording of cash and checks. In addition, once funds have been processed and deposited to the bank by accounts receivable, a separate employee should compare the deposit slips to the control list to ensure all funds have been deposited. These procedures and internal controls should be used for all cash collections in the district

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**Additional procedures should be implemented that provide for appropriate segregation of duties for invoicing and the receipt and recording of cash and checks.**

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and additional procedures should be utilized when dealing with large amounts of cash. School sites should be provided additional training regarding deposit procedures, and district staff should

conduct periodic site visits to ensure procedures are followed and deposits are made at least weekly.

The district should ensure proper segregation of duties in the areas of petty cash, the revolving cash fund and associated student body funds. A system of checks and balances should be in place so that no single employee handles these accounts from initiation to reconciliation.

The purchasing process could be streamlined by using the electronic purchase requisition capabilities included in the Escape financial system software. The process could be further simplified by routing purchase requisitions to the director of business services to review and approve one time rather than twice. In addition, Escape training and procedure manuals should be provided to the sites and departments to ensure they are able to take full advantage of Escape's capabilities.

The district's budget development calendar and guidelines contain very general descriptions and procedures for the budget process. A more detailed calendar should be implemented that includes the specific function, staff member responsible and the due date for each task. Site and department budget managers should be included in budget development, and the calendar should include the date that budget worksheets/allocation forms will be distributed to the sites and departments as well as the date the worksheets are due back to the business office. School sites and departments should also be provided carryover amounts from the prior year as soon as the books are closed in the budget year.

When completing the required state budget reports, the district should ensure that all the required forms are included and that information, such as average daily attendance, is consis-

tently reported throughout the document. Care should be taken to ensure that presentation materials are clear and agree with data in the budget report. The annual board meeting calendar should be reviewed to ensure that all required state budget reports are submitted to the governing board by the deadlines prescribed in the Education Code.

Consideration should be given to including additional charts and graphs in board presentations that depict year-over-year trends in key areas, including net ending balances for the unrestricted and restricted general fund; net change in the ending balance and deficit spending for the unrestricted and restricted general fund; enrollment and ADA history and projections, and program encroachment information.

The district currently charges all other post employment benefit (OPEB) expenses to the unrestricted general fund. However, a portion of the expenses could be charged to the restricted resources and to the other funds in proportion to the salaries paid in the fiscal year. The district should review the California School Accounting Manual (CSAM) and consult with its independent auditor and county office to set up procedures to properly account for the OPEB obligation.

The district should also consult with its county office and independent auditors to ensure that the proper accounting procedures are in place for the funds received from the American Recovery and Reinvestment Act for special education.

Proper accounting procedures for the ongoing and major maintenance account require the actual maintenance costs to be tracked using the correct object codes for all expenditures rather than using object code 5710 to transfer funds to a locally defined resource. The district should change the manner in which it expends funds in the ongoing and major maintenance account so that expenses are properly tracked. The district should also ensure that positions charged to maintenance include only the portion of time spent on maintenance duties as specified in the CSAM.

The district presented its 2008-09 annual developer fee report at the December 16, 2009 regularly scheduled board meeting. However, the report did not include the beginning and ending balances for the capital facilities fund, descriptions of the individual projects, and whether any projects are pending as outlined in Government

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**Consideration should be given to including additional charts and graphs in board presentations that depict year-over-year trends in key areas**

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Code Section 66006. Consideration should be given to including the wording directly from Government Code Section 66006(b)(1)(A-H) in a narrative format on the report with a response provided for each requirement.

The 2008-09 and 2009-10 state budget acts included additional cash deferrals and new apportionment schedules. In addition, the 2009-10 special legislative sessions included more

deferrals for K-12 education in the 2010-11 fiscal year. Therefore, the district should review its cash flow assumptions to ensure all the deferrals and the revised apportionment schedule are included in its cash flow projection. The district should also complete cash flow projections monthly for the current and next fiscal year and include the balances from prior year transactions that affect cash, including accounts receivable and accounts payable balances, on its cash flow statement.

The state's cash flow crisis has caused the payment of funding for numerous categorical programs to be deferred. The district should review the information from the California Department of Education to ensure that it is projecting cash receipts for other state revenues as accurately as possible. The district's 2009-10 first interim cash flow projections indicate that property taxes are received in January rather than December. The district should ensure that property tax estimates and receipts are reflected in the correct month on the cash flow projections.

Consideration should be given to including a list of the financial reports required by the district to complete its charter school oversight duties in the memorandum of understanding (MOU) with each charter. For example, in addition to the reports included in Education Code Section 47604.33, the MOU could include student attendance reports, multiyear projections, a cash flow statement and a monthly financial report from each charter school.

The MOUs should be clear regarding the funding sources that are used to calculate the oversight fees and the fees for fiscal and/or technology services. It should be noted that the required oversight fees are to be based on the general purpose entitlement and the categorical block grant funding as outlined in Education Code Section 47613.

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**The district should work with the county office to ensure it is receiving the property taxes when apportioned.**

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A review of the California Secretary of State's Web site indicated that the nonprofit status for Rocky Point Charter School has been suspended. Based on

language included in the charter petition and the MOU, the district should work with Rocky Point Charter School to ensure it completes the necessary requirements to maintain active status as a nonprofit public benefit corporation.

As with processes and procedures in all local education agencies, there are areas that may be improved and efficiencies that may be achieved following review by an external, independent organization.

# Findings and Recommendations

## Business Department Processes and Procedures

FCMAT has developed an extensive list of standards to evaluate the financial management functions of public school agencies. These standards cover the department's general functions such as policies and procedures, internal controls, budget development, monitoring and reporting, multiyear financial projections, accounting, purchasing and warehousing, collective bargaining, management information systems and fiscal controls. The district should review all the standards to ensure they are being met and to help develop best practices for its financial operations. The standards may be accessed and downloaded at the following Web address:

<http://wwwstatic.kern.org/gems/fcmat/FCMATStandards2009.pdf>

## Internal Controls

Basic internal controls are the foundation of sound financial management and allow districts to fulfill their educational mission while helping to ensure efficient operations, reliable financial information and legal compliance. Internal controls also help protect the district from material weaknesses, serious errors and fraud.

All educational agencies should establish internal control procedures to do the following:

- Prevent internal controls from being overridden by management
- Ensure ongoing state and federal compliance
- Provide assurance to management that the internal control system is sound
- Help identify and correct inefficient processes
- Ensure that employees are aware of the proper internal control expectations

Districts should apply the following basic concepts and procedures to their transactions and reporting processes to build a solid internal control structure:

- System of checks and balances. Formal procedures should be implemented to initiate, approve, execute, record and reconcile transactions. The procedures should identify the employee responsible for each step and the time period for completion. Key areas of checks and balances include payroll, purchasing, accounts payable and cash receipts.
- Segregation of duties. Adequate internal accounting procedures should be implemented and necessary changes made to segregate job duties and properly protect the district's assets. No single employee should handle a transaction from initiation to reconciliation, and no single employee should have custody of an asset (such as cash or inventory) and maintain the records of related transactions.

- Staff cross-training. More than one employee should be able to perform a job. All staff members should be required to use accrued vacation time while another staff member performs the related duties. Inadequate cross-training is often a problem even in the largest central business offices.
- Use of pre-numbered documents. Checks, sales/cash receipts, purchase orders, receiving reports and tickets should be preprinted by an outside printer. Physical controls should be maintained over the check stock, cash receipt books and tickets. It is not sufficient simply to use pre-numbered documents. A log of the documents and numbers should be maintained and reconciliation performed periodically.
- Asset security. Cash should be deposited daily, computer equipment should be secured, and access to supplies/stores, food stock, tools and gasoline should be restricted to designated employees.
- Timely reconciliations. Bank statements and account balances should be reconciled monthly by a person independent from the original transaction and recording process. For example, a central office accountant should reconcile ASB accounts every month and the district office employee reconciling the revolving checking account should not be the same person who maintains the check stock.
- Comprehensive annual budget. The annual budget should include sufficient detail for revenues and expenditures (by school site, department and resource) to identify variances and determine whether financial goals were achieved. Material variances in revenues and expenditures should be investigated promptly and thoroughly. This includes ensuring that potential revenues and expenditures for ASB funds are identified at the start of each year.
- Inventory records. Inventory records should be maintained that identify items and quantities purchased and surplus/sold. Periodic physical inventory should be taken and reconciled with inventory records. Typical inventoried items include computer equipment, warehouse supplies, food service commodities, maintenance and transportation parts and student store goods.

The district office has experienced a great deal of change in the last few years including employees moving into new positions, employees leaving the district, new employees being hired to fill vacancies, and employees being absent from their positions due to long-term leaves of absence. These events have emphasized the necessity for cross-training, and the Business Services Department has begun initiating efforts to meet this need. However, the district should maintain and expand its emphasis on cross-training so that every position has at least one employee who can temporarily perform the related duties in the event of an employee absence or position vacancy, thus allowing essential functions to continue without interruption.

Desk procedure manuals are important to ensure proper internal controls and provide for a better understanding of position responsibilities. The Business Services Department does not have procedure manuals that include step-by-step procedures for each position's job duties.



Board policies (BP) and administrative regulations (AR) are based on laws contained in numerous codes including the Education Code, Government Code, and Public Contract Code as well as federal regulations, case law and individual district practice. Policies and regulations provide a key component of internal control within a school district. They supply the guidelines and directives by which a district and its personnel operate and, because they are based on laws and regulations that are revised frequently, it is important to ensure that board policies are updated and revised as changes are made. A review of the district's board policies and administrative regulations indicated that most of the documents have not been revised since 1992. As a result, many are not in compliance with current law and district practice. For example:

- BP 3280 relates to the sale, lease, or rental of district-owned real property and states in part: "Before offering to sell or lease surplus real property to any other parties, the district may offer it to designated child care providers for child care and development purposes." However, numerous sections of the Education Code, including 17230, 17485-17500, 17458, 17464 and Government Code 54222, relate to this issue. The district's purposes with regard to the sale, lease or rental of the property define which code section should be followed and list the order in which agencies/organizations must be offered the property. Additionally, this BP cites Education Code sections which no longer exist; for example, sections 17722, 39015-39478 and 40043.
- AR 3311 sets forth various thresholds for bidding requirements. According to this administrative regulation, public works projects have a bid limit of \$15,000. The regulation further sets a bid limit of \$21,000 for the purchase of materials and supplies.

Public Contract Code Sections 20111 and 22002 require school districts to bid and award to the lowest responsible bidder any contract for \$15,000 or more for the construction, reconstruction, erection, renovation, alteration, improvement, demolition, and repair of publicly owned, leased or operated facilities; and \$78,500 for equipment, materials, supplies and services not defined as public works projects. PCC Section 20116 prohibits splitting or separating into smaller work orders or projects any work, project, service or purchase for the purpose of evading the law that requires competitive bidding. The bid limit attached to public works projects has not been adjusted for many years. However, the limit associated with equipment, materials or supplies is adjusted annually for inflation, with the new limit issued each December and effective the following January 1.

- BP 3541.1 allows drivers to utilize their private automobile to transport students for approved field trips and activities. This policy sets the liability insurance requirement of at least \$25,000 per occurrence while the district's Application to Provide Student Transportation includes insurance requirements of at least \$100,000 per person for bodily injury, \$300,000 per occurrence for bodily injury, \$50,000 for property damage or a combined single limit of \$300,000 per occurrence.
- BP 3541.2 allows the Individualized Education Program (IEP) team to authorize transportation for special education students. The district's special education program has, like most districts, a large contribution (approximately \$760,000 at the 2009-10 first interim reporting period) from the unrestricted general fund. Given that expenditures can escalate quickly, the district should ensure that the IEP team has

clear guidance from the superintendent or his designee regarding these types of expenditures.

FCMAT also noted that some key policies and regulations were missing, including:

- BP 3111, Deferred Maintenance Funds
- BP 3515.4, Recovery for Property Loss or Damage
- AR 3515.6, Criminal Background Checks for Contractors
- BP 3516, Emergencies and Disaster Preparedness Plans
- BP 3517, Facilities Inspections
- BP 3600, Consultants

Interviews indicated that the district uses the California School Boards Association GAMUT policy subscription service to update the policies. However, completion of this process should be an immediate priority, and the district should continue to revise the policies and regulations as necessary.

California Education Code, California Administrative Code Title 5, Commercial Code and Government Code set forth the records retention guidelines for local education agencies. Under California Administrative Code Title 5, Sections 16020-16027, records are categorized as Class 1 - Permanent Records, Class 2 - Optional Records or Class 3 - Disposable Records based on the following criteria:

- Class 1 - Permanent Records  
The original, or one exact copy, shall be retained indefinitely unless microfilmed. These records are specified in Title 5, Section 16023 and include, but are not limited to, such items as all J-forms, most payroll records and the summary of expenditure and construction progress.
- Class 2 - Optional Records  
Not required by law to be retained permanently but deemed worthy of further preservation as specified in Title 5, Section 16024. This classification includes, but is not limited to, the consolidated application, architect agreements and vendor files.
- Class 3 - Disposable Records  
Required retention periods and procedures for destruction or transfer as specified in Title 5, Section 16025, and includes such items as purchase orders, purchase requisitions and garnishments.

Interviews with staff members indicated that the district follows the prescribed four-year retention period for its special education payments/reimbursements. However, because special education is an area that may involve extensive litigation, the district should review its records retention policy for special education documents to determine if these records should be retained for a longer period of time.

## Recommendations

*The district should:*

1. Review FCMAT's list of standards for financial management functions and ensure they are being met.
2. Ensure that solid internal control processes are implemented and that employees are cross-trained in all key areas of responsibility.
3. Ensure that each employee includes the step-by-step procedure for all assigned duties in their desk manual.
4. Act to immediately update its board policies and administrative regulations and continue to update them as necessary.
5. Review its records retention policies, particularly for special education documents, to determine if the retention period should be extended.

## Payroll

The director of business services supervises the two district employees who process the monthly payroll transactions for the district and the two charter schools for which the district provides direct fiscal services. The payroll clerk has been employed by the district for a year and a half but has served in her current capacity for approximately seven months. Her primary duties include processing employee health and welfare insurance, tracking employee attendance and distributing payroll warrants. The district also employs a payroll technician who has been with the district for two and a half years and is responsible for processing the payroll for all employees on two monthly payroll cycles:

- Supplemental payroll for all personnel paid on the tenth of the month
- Contracted employee payroll paid at the end of the month

The district uses the Escape financial software system and is responsible for processing its own payroll warrants because the financial system is separate from that used by the county office of education.

At some point in the payroll process, it is inevitable that an overpayment or underpayment will occur. Education Code Section 45167 provides direction regarding underpayment errors that are the fault of the district and requires those types of errors to be corrected within five workdays. However, it is the settlement of overpayments that can become the most problematic. Article 16.12 of the district's collective bargaining agreement with the California School Employees Association (CSEA) provides some assistance in this area by requiring overpayments to be repaid to the district; however, the district's collective bargaining agreement with the Gateway Teachers Association (GTA) contains no provisions regarding overpayments.

Interviews indicated that the district does not have a standard procedure to recapture overpayments and, in some instances, the district has written off the overpayment without prior approval by the governing board. In some instances, this may be considered a gift of public funds. The district should consult with its legal counsel and implement specific procedures for the consistent handling of overpayments and include in those procedures a collection process should such actions be necessary.

The district's BP 3551 provides that, "The wages, salaries and benefits of food service employees shall be paid from the district general fund and may be reimbursed from the cafeteria fund to the general fund whenever so ordered by the Board. (Education Code 39902)" However, several of the education codes cited in the policy, including 39902, no longer exist, and the district pays the salaries and benefits of cafeteria employees from the cafeteria fund. To avoid such conflict, the district should revise its board policies to comply with current law and regulations and conform to the district's current practices.

## Recommendations

*The district should:*

1. Consult its legal counsel to write specific procedures for the consistent handling of salary overpayments and include in those procedures a collections process should such actions be necessary.
2. Revise its board policies to comply with current law and regulations and conform to its current practices.

## Position Control

One of the most critical elements in budgeting for expenditures is accurately projecting employee salary and benefit costs. These costs are the largest part of school district budgets, averaging approximately 91% of the unrestricted general fund budget in unified districts throughout California.

A reliable position control system establishes positions by site or department, assigns a unique number for each position, and helps prevent over- or under-budgeting of staff by including all district-approved positions. In addition, a reliable position control system prevents the omission of routine annual expenses tied to district positions from the budgeting process such as substitutes, extra duty pay, stipends, vacation payouts and column changes. To be effective, there should be one position control system that is integrated with other financial modules such as budget and payroll. Position control functions must be separated to ensure proper internal controls. The controls must ensure that only board-authorized positions are entered into the system, that human resources hires only employees for authorized positions, and that the payroll department pays only employees hired for authorized positions. The proper separation of duties is a key factor in creating strong internal controls and a reliable position control system.

Internal controls help ensure efficient operations, reliable financial information and legal compliance. They also help protect the district from material weaknesses, serious errors and fraud. These controls should be part of any position control system. The following table provides a suggested distribution of labor between the Business and Human Resources departments to help provide the necessary internal control structure.

<b>Task</b>	<b>Responsibility</b>
Approve or authorize position	Governing Board
Input approved position into position control, with estimated salary/budget. Each position is given a unique number.	Business Department
Enter demographic data into the main demographic screen, including: Employee name Employee address Social Security number Credential Classification Salary schedule placement Annual review of employee assignments	Personnel Department
Update employee benefits Review and update employee work calendars	Business or Personnel Department
Annually review and update salary schedules	Business Department
Account codes Budget development Budget projections Multiyear projections Salary projections	Business Department

The rollover of position control data from the current fiscal year to the budget year provides a starting point for development of the district’s budget and should be completed early in the cycle. Position control files for the budget year should then be updated to eliminate positions as necessary, add new approved positions, make changes in statutory and health and welfare benefit rates and any other adjustments that will affect salaries and benefits for the budget year. A fully functioning position control system helps districts maintain accurate budget projections, employee demographic data and salary and benefit information. The system should be fully integrated with payroll and budget modules and used to update the budget at each reporting period.

The district’s position control system is contained within its Escape financial accounting software. A new position is requested using the district’s Position Requisition form and is approved by the governing board. When a person is hired for a position, the payroll clerk enters the employee’s basic demographic data into Escape and the payroll technician enters the pertinent payroll information. The payroll clerk and the payroll technician have access

to the demographic and payroll screens. Allowing any individual access to all the screens necessary to set up and pay an employee does not provide for a separation of duties. A ghost employee may be created and paid without the district's knowledge. The district should investigate allowing the payroll clerk read-only access to payroll screens and allowing the payroll technician read-only access to demographic data screens.

The district's position control system contains active and open positions and includes routine annual expenses for such items as substitutes, extra duty pay, stipends, vacation payouts and column changes. Expenses related to the annual cost of individual retiree health and welfare benefits could also be included in position control, which would alleviate the necessity for a spreadsheet to track this item and reduce the possibility of inadvertent errors due to reliance on a manual system.

Interviews indicated that prior to completion of each interim report there is a meeting between the director of human resources, the director of business services and the accountant to verify the position control database. Position control is also checked against an independent list of changes kept by the director of human resources. Consideration should be given

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**The district should include all board-approved positions in the position control database to ensure consistency and provide for proper internal controls.**

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to including the directors of curriculum/categorical programs and special education in this meeting as they may have specific knowledge of any personnel changes related to the programs they oversee.

The accountant also checks payroll reports against position control and employee contracts at each reporting period. Discrepancies are researched and the information is passed on to the director of business services who makes the changes in position control if needed. Position control is then rolled into the budget prior to completing the state mandated interim reporting forms.

A review of the position control report dated January 27, 2010 and the 2009-10 first interim report reflected that the first interim includes \$584,077 more for salaries than position control. Interviews indicated that the difference is because the special education extended school year employees and one-time stipends are not included in position control. The district should include all board-approved positions in the position control database to ensure consistency and provide for proper internal controls. Caution also should be given to ensure that one-time payments that are not included in position control are not left out of the budget or budgeted again in the following fiscal year.

One of the expenditures associated with classified staff is the payment of a percentage of payroll to the Public Employees Retirement System (PERS). Payment for eligible PERS members is divided between the employer and employee, with the employer responsible for an actuarially determined amount of up to 13.02% and the employee responsible for a 7% contribution. For the 2009-10 fiscal year, the employer portion is further divided between regular

PERS at 9.709% and PERS reduction at 3.311%. The PERS reduction is an amount that is reported as a reduction to the revenue limit calculation; however, it is not required to be paid on salaries associated with federal programs. A review of the position control report dated January 27, 2010 indicated that positions paid from federal resources contained \$22,756 in total expenses for PERS reduction. The district's budget report dated February 12, 2010 reflected that the PERS reduction is being deducted from by manually posting a negative amount to the budget. While the use of this accounting method corrects the budgeted expenditure, it allows for inadvertent errors to occur due to reliance on a manual system.

Because salaries and benefits are the largest portion of a district's budget, it is important to review positions to control costs in light of factors relevant to the position; for example, the number of students per teacher, students per counselor, secretaries/clerks per school site and custodians per areas to be serviced. Interviews indicated that staffing ratios are utilized for certificated positions; however, staffing ratios have not been established for classified positions.

Costs of a school district can be categorized as direct or indirect. The activity associated with the cost that determines if it is a direct or indirect cost. Direct costs can be identified with a particular instructional program or support service necessary to maintain the program, whereas indirect costs are more global in nature. Indirect costs are those costs of general management that are districtwide and consist of expenditures for administrative activities necessary for the general operation of the district; for example, accounting, budgeting, payroll preparation, personnel management, purchasing, and centralized data processing. Each district establishes an annual indirect cost rate based on its individual expenditures as applied to the California Department of Education's (CDE) federally approved indirect cost plan. This individual district rate is then multiplied by each program's actual allowable expenditures so the program can be charged for its share of the cost of general administrative activities.

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**Because salaries and benefits are the largest portion of a district's budget, it is important to review positions to control costs in light of factors relevant to the position.**

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While most programs can be charged the district-specific indirect cost rate, some programs are limited to a lesser percentage. For example, Education Code Sections 38101(c) and 52616.4(a)(3) limit the amounts that can be charged for the adult education and food services programs to the lesser of the school district's indirect rate or the statewide average indirect cost rate for these programs. For the 2009-10 fiscal year, districts are limited to the lesser of their CDE-approved indirect cost rate or 4.42% for adult education and 4.52% for food service.

Interviews indicated that the director of business services functions in a supervisory role for the food service program. In addition, the 2009-10 first interim report reflects that indirect costs were applied to the program in accordance with the California School Accounting Manual (CSAM) Procedure 915. However, the position control report dated January 27, 2010 reflects that 10% of the director of business services position is directly charged to the food service program. Unless the director of business services is providing services to the food service program above and beyond that of general administration, the district should review

its current practice of directly charging a portion of the director's salary to the food services program in addition to indirect costs.

If the district determines that a portion of the director's salary may be charged to food services, it should review CSAM Procedure 905 to ensure that the proper time accounting requirements are followed.

## Recommendations

*The district should:*

1. Provide read-only access to the payroll clerk for payroll screens and to the payroll technician for demographic data screens.
2. Update position control to include retiree health and welfare benefits and all board-approved positions.
3. Include the director of curriculum/categorical programs in meetings involving the verification of the position control database.
4. Revise the position control reports to remove the PERS reduction expenditure from positions charged to federal resources.
5. Develop staffing ratios for all positions.
6. Review its current practice of directly charging a portion of the director of business services position to the food service program in addition to indirect costs.

## Accounts Receivable

The Business Services Department's senior secretary/account clerk reports to the director of business services and processes the district's accounts receivable transactions. Her primary duties include preparing invoices, collecting cash and checks, preparing bank deposits, coding transactions to the appropriate accounts in the Escape financial system, marking invoices as paid in Escape, student attendance accounting and processing petty cash and revolving fund transactions. This position also provides secretarial services for the director of business services.

A sound internal control structure requires job duties to be segregated to properly protect the district's assets. No single employee should handle a transaction from initiation to reconciliation and no single employee should have custody of an asset (such as cash) and maintain the records of related transactions.

Additional procedures should be implemented that provide for appropriate segregation of duties for invoicing and the receipt and recording of cash and checks. As an example, the employee that opens the mail could make a control list of all receipts and endorse all checks



received “for deposit only.” The district is stamping checks “for deposit only” at the time the deposit is being prepared, which could allow checks to be fraudulently negotiated while awaiting deposit. Marking the checks “for deposit only” as soon as they are received would help to prevent unauthorized negotiation of checks prior to deposit.

Once the funds have been processed and deposited to the bank by accounts receivable, a separate employee should compare the deposit slips to the control list to ensure all funds have been deposited. In addition, the person who receipts the cash/checks should not also be responsible for preparing invoices nor should they have the capability to mark the invoices as paid in the financial system. Combining these duties provides the possibility for one employee to generate an invoice, receive the funds, mark the invoice as paid and utilize the payment received for their own purposes.

These procedures and internal controls should be used for all cash collections in the district. Additional procedures should be added when dealing with large amounts of cash such as with cafeteria collections, including duplicate counting at the collection site, signatures at delivery, and another cash count to verify before deposit.

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**A sound internal control structure requires job duties to be segregated to properly protect the district’s assets.**

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The 2006-07, 2007-08 and 2008-09 annual independent

audit reports included audit findings related to deposits not being made timely. Specifically, the audit report dated June 30, 2008 noted a prior year finding at Central Valley High that six of 10 (60%) of the receipts tested were not deposited timely. The audit also reflected a current year finding at Central Valley High whereby one of 10 (10%) of the receipts tested were not deposited timely. The same condition was noted at Grand Oaks Elementary School, with one of two (50%) of the tested receipts not deposited timely. For the year ending June 30, 2009, the district’s auditors found that at Shasta Lake School one of five (20%) of the receipts tested were not deposited timely.

The audit reports include the district’s response indicating that procedures will be adopted to rectify these ongoing findings. However, this appears to be an ongoing issue because in a memo to sites dated December 2008, the district reported a check dated May 2008 being processed for deposit in December.

## Recommendations

*The district should:*

1. Provide a system of checks and balances so that no single employee handles a transaction from initiation to reconciliation, or has custody of an asset and also maintains the records for the related transactions.
2. Separate duties in the invoicing and cash receipts process.
3. Stamp checks “for deposit only” as soon as they are received.
4. Provide one-on-one training to school sites regarding deposit procedures, conduct periodic visits to and audits of sites to monitor progress, and ensure deposits are made at least weekly.

## Accounts Payable

The Business Services Department has one account clerk that is responsible for processing accounts payable transactions for the district and the two charter schools for which the district provides direct fiscal services. The food services clerk processes all the purchase orders, invoices and packing slips for the food services department, and the business services account clerk processes the warrants for that department.

The account clerk organizes and assembles the documentation needed for accounts payable, including purchase orders, invoices, and packing lists. If she has not received the green copy of the purchase order or the packing list from the school site indicating that the merchandise has been received, the original invoice is sent to the school site for approval and confirmation of the receipt of merchandise. Because best business practices require that payment be made from an original invoice, the original should be retained by the account clerk as sending it to the site/department increases the possibility that it may be lost. Instead, a copy of the invoice should be sent to the site for approval and included in the documentation for payment.

The district uses the Escape financial software system and is responsible for processing its own accounts payable warrants because the financial system is separate from the county office of education. Warrants are processed two to three times per week, with each accounts payable run producing approximately 50 warrants. The blank warrant stock is kept in a

**No control is in place that would detect whether the account clerk processes the warrant as noted.**

fire-safe file cabinet in the workroom. The key to the file cabinet and the procedures to process the warrants are kept in a safe located elsewhere in the

office. When it is time to print warrants, the account clerk enlists the help of another district office employee to help print and verify the starting and ending numbers of the warrants. Both employees remove the warrants from the file cabinet together, and after the run is completed, the warrant numbers are recorded on a log kept in the same drawer as the warrants.

The employee assisting the account clerk signs her name on the log, and the account clerk initials and dates the log. Voided warrants are also kept in the file cabinet, and interviews indicated that “void” is written on them. The district should consider keeping a log of all voided warrants. The log should include the signature of the employee entering each voided warrant and should be double checked and initialed by a second employee. This would allow for the voided warrants to be destroyed following the district’s record retention period.

The account clerk delivers the printed warrants to the county office, where they are endorsed, and picks up the endorsed warrants from the county office. Upon returning to the district, the account clerk copies the warrants, attaches them to the payment documentation and mails them. Effective internal controls and separation of duties would prevent the same person from initiating, processing, printing, transporting and mailing the warrants. The account clerk should not have custody of the warrants once they are endorsed by the county office. No control is in place that would detect whether the account clerk processes the warrant as noted.

### **Travel Expenses**

The district uses a Conference/Meeting Attendance Request form for employees wishing to attend conferences, trainings and workshops. If professional growth credit is requested for the event, an additional Professional Growth Approval form must be submitted prior to attending the conference. The attendance request form authorizes the employee to attend and estimates the costs associated with the event. After the conference, the employee completes a Conference Expense Report and

Reimbursement Request. Actual expenses are itemized and original receipts must be attached for all expenses, other than per diem meal reimbursements. The

district’s AR 3350 authorizes per diem meal reimbursement at the rate of \$10 for breakfast, \$15 for lunch and \$25 for dinner. This per diem rate of \$50 is higher than the standard rate of \$46 set in Table 4 of IRS Publication 1542 ([www.irs.gov](http://www.irs.gov)) for all locations except those specifically listed in the publication.

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**Additionally, because the district’s employees are considered government employees, hotels may waive the transient occupancy tax.**

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IRS revenue ruling 2006-56, dated November 13, 2006, requires organizations to track and record employee per diem meal reimbursements. Per diem reimbursements that are higher than the federal per diem rates must be included as gross wages on the employee’s W-2. In addition, per diem rates cannot be used for non-overnight travel.

Many hotels offer a state government rate to employees of local education agencies when they travel for school business. Employees should be instructed to inquire about and obtain this discounted rate when available as the savings associated with the government rate can be substantial over the course of a fiscal year. Additionally, because the district’s employees are considered government employees, hotels may waive the transient occupancy tax. When making reservations, the employee should ask whether the hotel will accept the waiver. If so, a Hotel/Motel Transient Occupancy Tax Waiver Exemption Claim for Governmental

Agencies form should be faxed to the hotel or taken with the employee for use at the time of arrival. A sample form is included in the appendix of this report. The district should consider printing its conference attendance policies and procedures on the back of the Conference/Attendance Meeting Request form to help employees comply with the policies and complete the form accurately.

### **Revolving Fund/Petty Cash/Associated Student Body (ASB)**

The district's senior secretary/account clerk has responsibility for transactions related to the revolving fund, petty cash and the ASB.

Petty cash is a necessary component for many sites and departments as it allows for small, unforeseen expenses such as postage or supplies. The amount of a local education agency's petty cash fund is set by administrative regulation. The district's AR 3451 (adopted October 1992) states, "The amount of cash funds at any school site shall not exceed \$50." Interviews indicated that sites maintain petty cash balances of \$100 to \$200 per site.

Revolving cash funds are similarly maintained to provide for larger immediate cash needs. The maximum amount allowed in any district's revolving cash fund is governed by Education Code Section 42800(b). Most commonly, the district is called upon to utilize its revolving account in the instance where a payment must be made immediately and the district does not have the time available to process the payment through the normal accounts payable or payroll process. Interviews indicated that there is no standard district form used to request/authorize payment from the revolving cash fund. Purchase orders are issued and the funds encumbered for some of the checks issued through the revolving fund; however, this is not the case in all situations. If a purchase order is not completed for the revolving fund transaction, a handwritten notation is made on the backup documentation for the requested payment.

The district should conduct an in-depth review of the segregation of duties in the following areas:

- Petty Cash:
  - The same employee has custody of the account, is the payee on the checks to replenish the account and reconciles the statement. This system provides an opportunity for checks to be altered and not discovered timely by the district.
  - As schools close for the summer break, the site secretary prepares the final accounting for petty cash and brings the accounting to the Business Services Department. The accounting is verified, a replenishment check is written and cashed, and the cash is placed in the safe for the remainder of the summer. The district's audited financial statements reveal that, for the 2007-08 and 2008-09 fiscal years, the amount in petty cash/cash awaiting deposit at June 30 is \$3,400. Over the course of the summer months, various personnel have access to the safe, which can invite the possibility of the funds being taken or borrowed due to their accessibility and the knowledge that discovery of a shortage will not occur until a specific point in the future.

- Revolving Cash:
  - The custodian of the revolving cash fund has custody of the check stock, prepares the checks, replenishes the account and reconciles the bank statement. This procedure provides an opportunity for checks to be altered and not discovered timely by the district.
- Associated Student Body (ASB):
  - Interviews indicated that the same employee writes the checks, is a signatory on the account and reconciles the bank statement of the Shasta Lake School ASB account. This system allows for the possibility of an employee writing a check, obtaining signatures, and then altering the check and concealing that alteration.

## **Recommendations**

*The district should:*

1. Implement procedures to retain the original vendor invoices at the district office and send a copy of invoices to sites for approval.
2. Consider keeping a log of all voided warrants so that they can be destroyed following the district's record retention period.
3. Review and adjust warrant processing procedures to ensure that warrants do not return to the custody of the account clerk once the county office has endorsed them.
4. Confer with its independent auditors to determine if procedures for per diem meal reimbursements comply with IRS regulations.
5. Modify conference attendance procedures to require employees making hotel reservations to inquire about the hotel's state government discount rate and waiver of the transient occupancy tax.
6. Consider printing conference attendance policies and procedures on the back of the Conference/Meeting Attendance Request form.
7. Deposit petty cash funds in the bank during the summer.
8. Revise its administrative regulation regarding petty cash to reflect district practice.
9. Implement a form to request and authorize payments from the revolving cash fund that were not authorized by a purchase order.
10. Implement a system of checks and balances so that no single employee handles the revolving cash fund from initiation to reconciliation.
11. Implement a system of checks and balances so that no single employee handles the ASB checking account from initiation to reconciliation.

## Purchasing

Several members of the district office staff are involved in the processing of purchase orders. School sites and departments send their purchase orders to the district accountant. The accountant verifies that the purchase order has been approved by the site principal or department manager, the account code is correct, funding is available in the account, and that any required price quotations are attached. The Escape financial software provides an alert if there is not enough money in the line-item budget for the purchase. If there are not sufficient funds in the account, the district accountant checks the resource for available funds and makes a budget transfer. If there are not sufficient funds in the resource, the principals or department manager is contacted for another funding source. The purchase order is then forwarded to the director of business services for approval.

The director reviews the purchase requisition and, if it is coded to a restricted resource, forwards it to the director of curriculum/categorical programs to review for compliance. The purchase requisitions are then given to the department secretary/receptionist to be entered into the Escape software. After the purchase orders are entered, they are returned to the director of business services for electronic approval in the Escape system. The district secretary/receptionist prints the purchase orders, puts them in a folder with all of the back-up documentation and sends them to the superintendent for his signature.

The purchasing process could be streamlined by routing purchase requisitions to the director of business services to review and approve one time rather than twice. The director's approval could be completed in Escape prior to releasing the purchase orders to be printed.

The processing of purchase orders could be further simplified by using the electronic purchase requisition capabilities included in the Escape software. Interviews indicated that the district is planning to convert to the Windows version of Escape in the near future and may institute the online purchasing procedures at that time. The district office currently uses the online tracking screens regularly. Training the sites and departments to use the online capabilities of Escape prior to the anticipated software conversion would increase the efficiency of the purchasing process and allow the sites/departments to track the progress of their own purchase orders and print their own financial reports. This would decrease the need for site personnel to contact the district office with inquiries regarding purchase requisitions, thereby saving time for site and district staff.

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**The purchasing process could be streamlined by routing purchase requisitions to the director of business services to review and approve one time rather than twice.**

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district is planning to convert to the Windows version of Escape in the near future and may institute the online purchasing procedures at that time. The district office currently uses the online tracking screens regularly.

The district's BP 3300 allows for the use of "a 'blanket' or 'open' purchase order system for the purchase of minor items as needed from a vendor." The policy further states that the superintendent or his designee "shall ensure that the 'open' purchase order system details a

maximum purchase amount, the types of items that can be purchased under this order, the individuals authorized to approve purchases and the expiration date of the 'open' order.”

The district makes use of this policy and has approved numerous open purchase orders. However, the open purchase orders do not include a specific expiration date and are therefore open for the remainder of the fiscal year in which they are issued. The district would be prudent to consider a term of three months or one fiscal quarter for its open purchase orders. This shortened time period allows for frequent review of the personnel who are authorized to sign on the purchase order and ensures they are active employees working in the department that issued the order.

Education Code Section 35168 requires school districts to maintain an equipment inventory and states the following:

The governing board of each school district, shall establish and maintain a historical inventory, or an audit trace inventory system, or any other inventory system authorized by the State Board of Education, which shall contain the description, name, identification numbers, and original cost of all items of equipment acquired by it whose current market value exceeds five hundred dollars (\$500) per item, the date of acquisition, the location of use, and the time and mode of disposal. A reasonable estimate of the original cost may be used if the actual original cost is unknown.

The physical inventory is to be completed every two years and is to account for items of a relatively permanent nature that have an estimated useful life greater than one year. The district's BP 3440 directs the superintendent or designee to maintain an inventory of “all items currently valued in excess of \$200.” This lower inventory threshold creates unnecessary work for staff members and may provide for the inclusion of consumable items in the equipment inventory.

## Recommendations

*The district should:*

1. Review and adjust the purchasing process to require the director of business services to review and approve purchase requisitions/orders once.
2. Consider training the sites in the use of the electronic purchase requisition and tracking system in the Escape financial software prior to the conversion to the Windows version.
3. Include a specific length of time, such as a fiscal quarter, on each open purchase order.
4. Revise Board Policy 3440 to reflect the inventory threshold included in Education Code Section 35168.

## Budget Development

The district adopted its annual budget on June 30, 2009, which is within the statutory timelines established by Education Code Section 42127. This section requires the governing board of each school district to hold a public hearing on the budget to be adopted for the subsequent fiscal year on or before July 1. No later than five days after that adoption or by July 1, whichever occurs first, the governing board is required to file the budget with county superintendent of schools. The budget should reflect district goals and objectives that are developed annually and approved by the board.

The district has experienced significant turnover in its chief business official (CBO) position. The district has had five CBOs in the past five years creating considerable volatility and change in the business office. The current director of business services has served as the CBO since August 2009 and, in the absence of the former CBO, assumed some of the duties beginning in February 2009. The director has been an employee of the district since 1992 and has served in numerous positions in the business office during that time including accounts payable, payroll and accountant.

The district hired two consultants to assist with closing the books for the 2008-09 fiscal year and creating the 2009-10 budget. One of the consultants was a retiree from the county office and, prior to her retirement, was assigned to help the district with its 2008-09 second interim report and thus is familiar with the district's financial information. This consultant continues

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**A more detailed budget development calendar should be implemented that includes the specific function, staff member responsible (including site and department managers) and the due date for each task.**

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to work for the district, providing some training to the new CBO and providing budget services for two of the district's charter schools.

districts begins as early as November or December of the prior fiscal year. Position control is revised and updated, revenues are estimated, and the district should prioritize its goals and ensure that expenditures reflect those goals. Districts should construct a budget development calendar so that each staff member understands and meets deadlines to allow the next budget function to proceed.

Budget development is a detailed process that for some

In the absence of a CBO, the consultant and current director quickly put together the 2009-10 budget to meet the state's July 1 deadline. Revenues were estimated with the help of the county office that completed the revenue limit calculations and provided estimated revenues for many of the categorical programs. After revenues were determined, salaries and benefits were rolled into the budget from the position control module, the budgets for supplies and services were rolled in from the prior year budget and adjustments were made to balance each resource. The state-mandated reporting forms were compiled and the budget was presented to the board on June 30, 2009.



The district's budget development timelines calendar and guidelines contain very general descriptions and procedures for the budget process. A more detailed calendar should be implemented that includes the specific function, staff member responsible (including site and department managers) and the due date for each task. For example, the calendar should indicate the person responsible for enrollment and staffing projections and the date each of these tasks is to be completed. The calendar should also include the date that budget worksheets should be distributed to the sites and departments as well as the date the worksheets are due back to the business office. The date the budget will be made available for public inspection and the board adoption date also should be included.

The district's budget timelines state that the budget process begins in February or March. However, while the process should begin even earlier to ensure the required timelines are met, interviews indicated that the process has started later than February or March in some years. In addition, detailed budget development processes and procedures should be included in a desk manual to help improve efficiency, accuracy of data and continuity of information, particularly in the case of staff turnover.

Board Policy 3100 states, "The district budget shall be prepared annually from the best possible estimates that individual schools and district administrative staff can provide." However, the sites are not currently included in the budget development process. Interviews indicated that the school sites do not receive their unrestricted budgets until August and the restricted budget allocations are not received until at least fall of the budget year. This timeline hinders the sites' ability to meet with their school site councils for budget planning purposes until well after the school year is under way.

A budget allocation form should be developed that provides the sites/department with the estimated revenue for each applicable funding source, reflects ongoing expenditures, such as staffing and indirect costs, and the funds available for the site/department to budget. These forms should be distributed to and completed by the sites/departments each spring during budget development. In addition to the budget allocation forms, the site/department managers should be provided a position control report that includes

a list of all employees charged to the site/department. The report should include each employee's name, position, hours per day

charged to the site and the funding source for the position. Site/department managers should review the report for accuracy and immediately report any inconsistencies to the district office. This process helps to verify the position control database that affects both the budget reports and the actual employee compensation process.

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**Accurately projecting employee salary and benefit costs is an essential element in budgeting for expenditures.**

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Accurately projecting employee salary and benefit costs is an essential element in budgeting for expenditures. To help ensure proper staffing levels and budget the proper amounts for salary and benefit costs at all reporting periods, the district should develop current staffing formulas for all classifications and use them to determine staffing allocations for each department and site. The

formulas should ensure that ratios are within applicable contract guidelines, meet students' needs, and agree with approved goals and objectives, including the goal of fiscal solvency. Staffing levels should be monitored throughout the year to prevent overstaffing.

Governmental Accounting Standards Board (GASB) Statement 45, released in June 2004, established standards for employers to measure and report their costs and obligations relating to other post-employment benefits (OPEB). OPEB includes any postemployment medical, dental, vision, or prescription benefits. The district funds its OPEB expenditures on a pay-as-you-go basis and may, per Procedure 785 of the California School Accounting Manual (CSAM), "allocate to all activities in proportion to total salaries or total full-time-equivalent positions (FTEs) in all activities" the current year benefit costs for retirees. The CSAM provides further guidance regarding the allocation of costs once the district has obtained an OPEB valuation based on an actuarial method recognized by generally accepted accounting principles (GAAP).

The district currently charges its entire OPEB expense to the unrestricted general fund although it could be charging a portion to the restricted resources and to the other funds in proportion to the salaries paid in the fiscal year. The district should review the CSAM and

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**In conjunction with the preparation of the district's multiyear projections, detailed assumptions should be included to provide readers with a clear understanding of the data used.**

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consult with its independent auditor and county office to set up procedures to properly account for their OPEB obligation. Additional information regarding

OPEB accounting standards can be found in CDE's letter of February 26, 2007, available on its Web site at: [www.cde.ca.gov/fg/ac/co](http://www.cde.ca.gov/fg/ac/co).

The board packet for the 2009-10 adopted budget contains two multiyear projection documents. The first is a district-generated spreadsheet (page 8) that lists unrestricted, restricted and total general fund calculations by object code. The second is the Standardized Account Code Structure (SACS) Form MYP for the unrestricted resources. The 2011-12 projection year totals for several of the object codes on these two documents do not agree, although the total ending fund balance is the same. In addition, the SACS Form MYP documents for the restricted resources and the combined general fund were missing from the board packet. The district should provide all of the SACS MYP forms in the board packet and consideration should be given to eliminating the separate manually prepared spreadsheet.

In conjunction with the preparation of the district's multiyear projections, detailed assumptions should be included to provide readers with a clear understanding of the data used to develop the budget and the projections for subsequent years. While some of the assumptions were included in a separate document in the board packet, more detailed assumptions should be provided for the projection years and included on the SACS MYP forms. In addition, the district should use the most current School Services of California Financial Projection

Dartboard's factors in its budget and MYP documents unless the county office has provided different direction.

The SACS documents include numerous supplementary forms. Each form has a particular purpose and helps explain budget information to interested parties. A review of the 2009-10 adopted budget found that the Current Expense Formula/Minimum Classroom Compensation, Schedule of Long-Term Liabilities, Special Education Revenue Allocations and Summary of Interfund Activities forms were not included in the budget documents.

Because the district received funding from the state's School Facility Program, Education Code Section 17070.75(b)(1) requires that it maintain an ongoing and major account (RMA – resource 8150) to provide maintenance of school facilities for a period of 20 years after receiving the funds. Previously, districts were required to contribute 3% of their total general fund adopted budget (expenditures and other uses) to their RMA. On July 28, 2009 the governor signed a package of bills that amended the 2008-09 and 2009-10 state budgets. The budget amendments included legislation that reduced the required contribution for RMA from 3% to zero for fiscal years 2008-09 through 2012-13. The district's first interim budget included a contribution of \$506,165 for the 2009-10 fiscal year. While it is commendable that the district has continued to fund the RMA, it should be aware of the flexibility provisions provided in the state budget act.

In addition, the district should change the manner in which it expends funds in the RMA. The current budget has only two line items for resource 8150: object 8980, contributions from unrestricted revenues, and object 5710, transfers of direct costs. Proper accounting procedures would be to track the actual maintenance costs by paying the salaries and benefits of the maintenance employees out of resource 8150 as well as the supplies, services and equipment used to maintain the district's sites, including indirect costs. The district currently pays all of these costs out of local resource 0618 and then offsets these expenses with a negative expense in object 5710. An offsetting transfer is then made from object 5710 in resource 8150.

Education Code Section 17070.77 defines major maintenance as "...all actions necessary to keep roofing, siding, painting, floor and window coverings, fixtures, cabinets, heating and cooling systems, landscaping, fences, and other items designated by the governing board of the school district in good repair." Major maintenance excludes activities related to keeping the facilities clean or maintaining the grounds because these duties are classified as operational (see CSAM Procedure 325-30 through 325-31). A review of the position control report dated January 27, 2010 indicated that several of the district's maintenance employees have the job title of maintenance/grounds worker. Some of these employees' salaries are split, with 50% charged to maintenance and 50% charged to operations. However, three maintenance/grounds employees are charged 100% to maintenance. The district should ensure the positions are coded to maintenance only for the portion of the time spent on maintenance duties as specified in the CSAM.

Interviews indicated that the district is working to further communications regarding the budget. Consideration should be given to conducting a budget workshop for all interested

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**Consideration should be given to conducting a budget workshop for all interested parties.**

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parties including site administrators, department managers, site and department clerical staff and bargaining unit representatives.

The workshop should cover all key components of the budget including

information about the types of expenses included in each major object group, a brief explanation of the revenue limit calculation and information about each revenue source.

The learning curve for a chief business official can be quite extensive. Because the district's CBO is new to her position, the district should continue to provide training to increase her knowledge of the district's finances and her proficiency in generating the required state reports.

## Recommendations

*The district should:*

1. Implement a more detailed budget development calendar that includes the staff member responsible for each task and the due date.
2. Develop and implement budget processes and procedures and include them in a desk manual.
3. Include sites and departments in budget development and assign the Business Services Department to conduct a workshop to provide the necessary tools and information needed to complete the task.
4. Develop and implement budget allocation forms for use by sites/departments.
5. Provide site administrators and department managers with position control reports that include all employees charged to their site/department.
6. Develop staffing formulas for each classification.
7. Review the CSAM and consult with the independent auditors and county office to set up the proper procedures to account for OPEB obligations.
8. Include all the SACS Form MYP documents in the budget documents for the board and consider eliminating the separately generated multiyear projection spreadsheet.
9. Include detailed budget and multiyear projection assumptions in the adopted budget and include them on SACS Form MYP.
10. Include all required SACS forms in the board packet.
11. Review its contribution to RMA in relationship to the flexibility provided in the state budget act.

12. Account for maintenance expenses in resource 8150 (RMA) instead of using a locally defined resource and offsetting the expense using object code 5710.
13. Review the account coding for the maintenance/grounds employees to ensure it complies with the California School Accounting Manual.
14. Consider providing a budget workshop for all interested parties.
15. Continue providing training for the chief business official.

## **Budget Monitoring**

The Education Code requires the amounts budgeted in each major object category to be the maximum that can be expended under each classification. Budgets should be monitored and adjustments made during the fiscal year to ensure that appropriations are not overspent and that revenues received and expenditures made are the same as projected. Per Education Code Section 42600, budget revisions are subject to board approval. The budget should be monitored and revised monthly to reduce the potential of overspending. The review should be at the resource and object levels to ensure the district knows its projected fund balance at any given time. Budget transfers, adjustments and journal entries should be completed monthly.

Interviews indicated that district staff regularly monitor the budget. A budget transfer request report detailing all budget transfers is on the consent calendar of every regular monthly board meeting. This report states the reason for the transfer and details the account number and the amount transferred from/to each account.

An encumbrance is a commitment to purchase goods and services, including employee salary and benefit obligations. Encumbrances are a major source of budgetary control and are important in preventing the overexpenditure of a budget appropriation. Encumbrances are essential to monitoring budgets and ensuring that committed monies are not spent in another manner. Encumbrances are crucial in providing a complete picture of district finances. Further, encumbering payroll (salaries and benefits) is important in ensuring any differences between position control and payroll are readily recognized. Encumbrances show up on financial reports in their own column, keeping them separate from expenses that have actually been paid. An encumbrance is relieved when the expense is paid and is then reflected in the year-to-date expenses.

The district's Escape software encumbers purchase orders as soon as they are entered into the system. The software further assists with budget monitoring by alerting the user when a purchase order is entered that exceeds the budget in the specific account line. Although the software has the capability to encumber employee salaries and benefits, the district does not use this feature. This complicates budget monitoring by overstating the available balance in salary and benefit accounts on the district's financial reports.

Categorical program revenues and expenditures should be reviewed and evaluated in the same manner as the unrestricted general fund. It is important to ensure that funds are

specifically allotted to cover expenditures that are consistent with categorical funding guidelines and restrictions. Categorical funding should be spent in the year it is earned whenever possible. In some cases, there is a plan for carryover to be used for a large future purchase. However, these types of exceptions should be approved by district administration, and sites should understand that carryover of large restricted balances is an exception. Deferred revenue and the fund balances of categorical programs should be monitored to avoid spending unrestricted dollars over restricted dollars and ensure compliance with time limitations for spending the funds. Some programs limit the amount

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**Categorical funding should be spent in the year it is earned whenever possible.**

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of carryover in each fiscal year; for example, Title I is limited to 15% of the current year allocation. While it is possible to apply for a waiver, these waivers can only be obtained once every three years.

Interviews indicated that the school sites do not receive the categorical carryover amounts from the prior year until well into the school year, sometimes as late as February. Oftentimes the carryover must be spent in the year after it is earned, and this late dissemination of information can be detrimental to the sites' goals and the services they can provide to students.

Revenues and expenditures for other funds should be reviewed and monitored throughout the year in the same manner as the general fund. State regulations require interim reports to be completed for the other funds only if they are projected to have a negative ending balance in the current fiscal year. The district has chosen to include several funds in the 2009-10 first interim report, which is a commendable business practice. A review of the first interim report for other funds indicated that several line item budgets have been updated since the budget was adopted. However, a few line items still need to be updated. For example, the capital facilities fund shows actual expenses of \$6,620 for supplies but does not include a budget for this line item. It also reflects actual expenses of \$3,733 for capital outlay, but the budget for this line item is \$1,000.

During the closing process, it is often necessary to set up due to/due from entries between funds reflecting interfund receivables and payables. These entries should be closed as early as possible in the next fiscal year. The district should amend its Year-End Closing Time-Line form, under the heading Interfund Receivables and Payables, to include the task of writing up the reversing entry for these transfers. These entries can be kept in a file and entered into the financial system in the new fiscal year.

**Recommendations**

*The district should:*

1. Utilize the existing capabilities of the Escape software to encumber employee salary and benefit amounts.

2. Develop a procedure to inform the sites of their carryover amounts as soon as possible after the prior fiscal year is closed, preferably by early October.
3. Ensure that each budget line item for every fund is reviewed and budgets are adjusted accordingly at each reporting period based on the most recent fiscal information, including the actual receipts and expenditures to date.
4. Establish a procedure to ensure that due to/due from entries are reversed as soon as possible in the next fiscal year.

## **Financial Reporting**

### **Interim Reports**

California Education Code Sections 42130 requires school districts to "...submit two reports to the governing board of the district during each fiscal year. The first report shall cover the financial and budgetary status of the district for the period ending October 31. The second report shall cover the period ending January 31. Both reports shall be approved by the district governing board no later than 45 days after the close of the period being reported."

The district's 2009-10 first interim report was approved at the regular board meeting on December 16, 2009. Education Code requires the report to be approved "no later than 45 days after the close of the period being reported." The district should review its annual board meeting calendar to ensure that interim reports are submitted to the board by the deadlines prescribed in the Education Code.

The majority of the district's funding comes from revenue limit sources, 53.2% as reflected on the 2009-10 first interim report. Because the district is experiencing declining enrollment, state law allows the use of the greater of current or prior average daily attendance (ADA) in the revenue limit calculations. A review of the 2009-10 first interim report reflects that the ADA used to calculate the revenue limit is inconsistent throughout the report. The ADA reflected on page 2 of the narrative is 2,631. Page 6 is a district-generated spreadsheet and reflects ADA of 2,612. This amount agrees with the district's 2008-09 P-2 attendance report. The SACS Revenue Limit Summary Form RL reflects a total of 2,652. It is important to ensure that consistent information is used throughout the interim reporting documents. Revenue limit calculations are an essential part of the revenue budget, and it is imperative that the accurate ADA numbers are used.

The 2009-10 first interim report included a PowerPoint presentation that had several slides depicting revenue, expense and ending fund balance information from the 2009-10 board approved budget and the first interim budget report as well as a summary of the multiyear financial projections. The district should consider including some charts and graphs that depict year-over-year trends in some other key areas, including:

- Net ending balances for the unrestricted and restricted general fund
- Net change in the ending balance and deficit spending for the unrestricted and restricted general fund

- Enrollment and ADA history and projections
- Special education encroachment
- Any other programs or funds that require a contribution from the general fund

These types of trend analyses help in evaluating the district’s budget direction. The district may want to consider use of a software tool such as the User Friendly Budget offered by School Services of California, Inc.

A review of the 2009-10 first interim PowerPoint presentation reflected some inconsistencies. For example, some of the information on Page 8 does not agree with SACS Form 01, including the restricted amount listed in the board approved column and the total undesignated

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**Documents that will be presented to the board and public should be proofread by at least two people to help ensure that errors are corrected prior to the presentation.**

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amounts listed on the last row. It appears that the total undesignated amounts are actually the ending balances and that another row needs to be added that reflects the undesignated/

unappropriated totals. Documents that will be presented to the board and public should be proofread by at least two people to help ensure that errors are corrected prior to the presentation. All calculations included on a PowerPoint presentation should be manually checked to ensure they are correct. In addition, it is important to ensure that the PowerPoint presentation agrees with the SACS documents.

In 2009 the federal government enacted the American Recovery and Reinvestment Act (ARRA). The intent of the ARRA funds was to save jobs, stimulate the economy, improve academic outcomes and support school reform. A portion of the ARRA funds were used for the Individuals with Disabilities Education Act (IDEA). The use of these one-time funds is subject to maintenance-of-effort requirements and they are to be used to supplement, not supplant, current funding sources. However, up to 50% of the funds may be used to reduce the district’s general fund contribution to special education if all program compliance requirements are met. More information regarding the ARRA funds for IDEA can be found on the following Web sites:

<http://www.cde.ca.gov/fg/fo/r18/arralocass09result.asp>

<http://www2.ed.gov/policy/gen/leg/recovery/programs.html>

Page 2 of the 2009-10 first interim report narrative states, “The ARRA funds received were used to adjust the Special Education encroachment for a total of \$200,000.” A review of the financial summary report dated February 12, 2010 reflects that \$200,000 is budgeted in resource 3313 object code 5710, transfer of direct costs. This amount is offset in resource 6500 where it is budgeted as negative expense in object code 5710. By transferring the funds directly to resource 6500 via object 5710, it appears that the district may be supplanting. The special education maintenance of effort calculation is reflected on Report SEMA included



in the first interim report. This calculation indicates that district may use up to \$106,577 to reduce its local expenditures if all compliance requirements have been met. The district should consult with its county office and independent auditors concerning the proper use of the ARRA funds and proper accounting procedures.

The components of the 2009-10 first interim ending fund balance are listed on page 3 of the report's narrative. The board designations include

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**The district should consult with its county office and independent auditors concerning the proper use of the ARRA funds and proper accounting procedures.**

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an \$80,000 set-aside for the "2004/2005 STRS Payment." This is an annual payment to the State Teachers' Retirement System (STRS) for a golden handshake incentive provided to retiring teachers in the 2004-05 fiscal year, and the reserved amount is part of a negotiated agreement between the district and the Gateway Professional Association dated March 12, 2007. These payments are for a period of eight years, with the final payment scheduled for 2012-13. The current year payment is included in object code 3901 of the unrestricted general fund and in the multiyear projections for 2010-11 and 2011-12. The amount reserved in the ending fund balance represents the final payment due in 2012-13. Following the 2009-10 fiscal year, the district should no longer reserve the final payment in the ending fund balance because the remaining annual payments should be reflected in the 2010-11 budget and the two projection years.

### **Other Funds**

A review of the other funds included in the district's 2009-10 first interim report found a negative \$9,410 amount posted for interest in Fund 09, the charter schools special revenue fund. Interviews indicated that a district-authorized charter school closed in 2002 and paid back all required funds to the state. The district closed the fund that had held the charter school's remaining balance and transferred it to the general fund in 2009-10. Because there was no current year revenue or expenses, the fund balance should have been transferred using object code 7619, other authorized interfund transfers out in Fund 09, and object code 8919, other authorized interfund transfers in for the receiving fund, Fund 01.

On November 4, 2008 the district was successful in passing a general obligation bond, Measure G, and obtained authorization from the voters to issue up to \$19 million under Proposition 39. In July 2009, the district issued the first series of bonds and \$5.3 million was deposited in Fund 21 to construct a multipurpose room at Buckeye School of the Arts. These funds were deposited in Fund 21, Building Fund, and a bond oversight committee was established as required by Proposition 39. In November 2009, the district issued a request for qualifications for architectural services for the design and construction of the new multipurpose room, and on December 29, 2009 a firm was selected by the governing board.

The 2009-10 first interim report included a budget for the revenues received from the bond proceeds and the anticipated interest earnings; however, no expenses had yet been incurred or budgeted. According to the March 2, 2010 bond oversight committee meeting minutes, the

district hopes to begin construction in July 2010 with site preparation work starting in June. Consideration should be given to the costs that will be incurred in the current fiscal year, and an expense budget should be established based on the estimated expenditures.

### **Unaudited Actuals**

Education Code Section 42100 requires the governing board of each district to approve a statement of all receipts and expenditures of the district for the preceding fiscal year by September 15. This statement and the budget for the current year are also known as the unaudited actuals report and are filed with the county superintendent's office. The district's independent auditors use this report as the basis for their review of the district's books to issue their audited financial statements.

The district's 2008-09 unaudited actuals were presented to the governing board on October 21, 2009. The late filing of the report was due, in part, to the turnover in the CBO position. However, the district's Budget Timelines 2009-2010 document also contains an error that may have contributed to the lateness of the report. The document states the following: "Finish the Close process of 2008/09; Complete by October 1<sup>st</sup> to County Office." The Budget Timelines document should be changed to reflect the state's required deadline of September 15, and the annual board calendar should be reviewed to ensure the unaudited actuals are approved on time.

Form CAT, which is used to summarize all categorical resources as well as calculate the deferred revenues and carryovers, is missing from the unaudited actuals board packet. District staff indicated that the Form CAT was not completed for 2008-09. This form is an important part of the year-end closing process in that it provides an overview of all the categorical programs and helps to ensure that restricted resources are being used to the fullest extent and within required timelines. Form CAT is also used by the auditors and the district to review the schedule of federal awards and to calculate a category of net assets in the government-wide financial statements, both of which are included in the district's annual audit report.

Form DAY of the unaudited actuals report is used to summarize the revenue and expenses of the district's Community Day School (CDS). A review of the 2008-09 form found that the expenses exceeded the revenues by approximately 24%, causing an encroachment into the unrestricted general fund. CDS programs are designed to serve students that have been expelled from traditional schools and other high-risk students. It is intended that they have low student to teacher ratios, and the supplemental apportionment of \$5,485 per ADA helps to offset the additional costs of the program. The district should review this program to determine if the student attendance is being reported correctly to ensure that the full supplemental apportionment is being received. The costs of the program should also be reviewed to determine if they can be reduced.

The Current Expense Formula/Minimum Classroom Compensation (Form CEA) is included in the unaudited actuals report and calculates the percentage of general fund expenses that are used for classroom compensation. Education Code Section 41372 states that for unified

school districts a minimum of 55% shall be spent on classroom compensation and outlines the ramifications if the required percentage is not maintained. A review of the 2008-09 Form CEA found that the district spent 59.07% for classroom compensation. If it becomes necessary for the district to make budget cuts, it should be mindful of this formula.

The Annual Report of Pupil Transportation (Form TRAN) is included in the unaudited actuals report and is used to calculate the costs of home-to-school and severely disabled/orthopedically impaired (SD/OI) student transportation. The form indicates that three buses are used to transport an average of 35 SD/OI students daily. While the 2008-09 unaudited actuals included a budget for resource 7240, special education transportation, there is no budget for this resource in the 2009-10 first interim report. District staff indicated that no state funding is received for SD/OI transportation because all of the district's costs are reimbursed by other agencies as reported on line I of Form TRAN. Staff further indicated that SD/OI expenses are recorded in resource 7230, home-to-school transportation. The district should review its method for calculating the reimbursement of transportation costs. If the district transports any of its own SD/OI students, the reimbursements from the other districts would not be equal to the total transportation expense. In addition, resource 7240 should be used to track all SD/OI transportation expenses.

On December 15, 2006, the CDE issued a letter to districts advising them of an account code change regarding the costs associated with a district's annual independent audit

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**The district should review its method for calculating the reimbursement of transportation costs.**

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conducted pursuant to Education Code Section 14503 and the Single Audit Act. The change relates to the separation of the single audit cost required by federal programs from the total audit cost so that the cost associated with the single audit can be included in the indirect cost pool. The portion of the cost of the audit attributable to the single audit conducted pursuant to the Office of Management and Budget (OMB) Circular A-133 should indicate a function code of 7190 and be reported on line A3 of the Indirect Cost Rate Worksheet (Form ICR). The remainder of the audit charge should indicate function code 7191 and be reported on line B8. A review of the 2008-09 Form ICR found that this separation had not been completed. The district should contact its independent auditors and ask them to separate these costs on their annual audit invoice.

The CDE's December 15, 2006 letter also included direction regarding the reporting of employment separation costs. These are costs paid by the district when an employee separates from service and can be categorized as either normal or abnormal/mass separation costs. Normal separation costs include accumulated unused leave or severance pay offered pursuant to district policy. Abnormal/mass separation costs are defined as early retirement incentives. The district has costs associated with the golden handshake and one-time retiree incentives and should consult with its independent auditors to determine if these costs qualify as abnormal/mass separation costs and if any of the costs should be included in the Indirect Cost Rate Worksheet to properly report and capture indirect costs. CDE's letter is available on its Web site at:

<http://www.cde.ca.gov/fg/ac/co/icr121506plan.asp>

### Developer Fee Annual Report

Education Code Section 17620 authorizes school districts "... to levy a fee, charge, dedication or other requirement against any construction within the boundaries of the district, for the purpose of funding the construction or reconstruction of school facilities ..." provided the district can show justification for levying the fees. The district has completed a Level I Developer Fee Study dated February 27, 2008 that shows justification for the collection of fees. The county office collects developer fees on behalf of the school district.

Government Code Section 66006 requires any district receiving fees to deposit them in a separate capital facilities fund (Fund 25) and to deposit any interest earned on the moneys collected in the same fund. Furthermore, the district must make available to the public, within 180 days after the last day of the fiscal year, a report on the fund detailing the following:

- The type and amount of the fee
- The beginning and ending balance of the fund
- The total fees collected during the fiscal year
- The amount of interest earned by the fund
- A description of each project on which the fees were expended, the total amount spent on each project, and the percentage of the project funded by the fees
- Identification of the approximate date that any project may start, pending collection of sufficient fees
- A description of any interfund transfer or loan made from the fund
- The amount of any refunds of fees made from the fund

The report must also be presented at the next regularly scheduled board meeting not less than 15 days after the report is made available to the public. Notice of the meeting must also be mailed to any interested party who files a written request.

The district presented its 2008-09 annual developer fee report at the December 16, 2009 regularly scheduled board meeting. However, the report did not include some of the requirements listed in Government Code Section 66006. The capital facilities fund beginning and ending balances were not included on the report even though there were lines on the report form for this information. The amount spent on projects was listed by site, but there were no descriptions of the individual projects. In addition, the report did not mention whether there are any pending projects or their approximate start dates. If there are no pending projects, a statement should be made to indicate this information on the report to ensure that the code requirement is met. Consideration should be given to including the wording directly from Government Code Section 66006(b)(1)(A-H) in a narrative format on the report, with a response provided for each requirement.

In addition to the annual report, Government Code Section 66001 requires that for the fifth fiscal year after money is first deposited into the capital facilities fund, and every five years

thereafter, a report be completed regarding the unexpended amounts in the fund. The information in this report must detail the following:

- Identify the purpose for which the fee is to be used
- Demonstrate a relationship between the fee and the purpose for which it is charged
- Identify all sources and amounts of funding anticipated to complete financing for incomplete improvements
- Designate the approximate dates that funding for these improvements is expected to be deposited in the capital facilities fund

When this report is due, it must be made in conjunction with the report required by Government Code Section 66006. Although this report is only due every five years, the district should consider reporting this information every year at the same time as the required annual report. This helps prevent confusion as to when the report is due and ensures the district meets the requirements of the Government Code.

According to the independent audit report dated June 30, 2009, the district issued \$6.925 million in certificates of participation (COPs) in April 2006 and \$4.117 million in March 2007. Annual payments ranging from \$473,000 to \$590,000 are to be made through 2037. The district has used developer fees and community redevelopment funds to make these payments. Because of the current economic crisis throughout the state and resulting downturn in new construction, annual developer fees have declined from approximately \$500,000 in fiscal year 2007-08 to a projected amount of \$265,000 at the 2009-10 first interim reporting period. The first interim report shows a projected ending fund balance of \$1.5 million. The district should continue to monitor the developer fees to ensure they can support the annual COP payments.

### **Assembly Bill 1200 Public Disclosure Forms**

Government Code Section 3547.5 requires the public to be informed of the costs of a tentative collective bargaining agreement before it becomes binding on the school district. Assembly Bill (AB) 1200, signed into law in 1992, and AB 2756, signed into law in 2004, provide additional standards and requirements for fiscal accountability. In response to these requirements, county offices of education have prepared and distributed templates to districts for disclosing collective bargaining information. The district provided FCMAT with copies of the disclosure documents for the certificated, classified and unrepresented employee groups, which were certified by the governing board on December 5, 2007. A review of these documents indicated that the ongoing increase in the health and welfare cap was not included in the projection year totals. In addition, the form does not provide for the recognition of step and/or column costs.

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**The district should continue to monitor the developer fees to ensure they can support the annual COP payments.**

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### Student Attendance

Student attendance accounting is the responsibility of the senior secretary. This includes compiling and transmitting the student attendance information to the CDE. This information provides the basis for most of the district's funding sources, including the revenue limit, which is the district's primary source of revenue and accounts for 53.2% of the district's total revenue as reported on the 2009-10 first interim report.

A great deal of work is performed to provide the CDE with the district's periodic attendance reports. The work involves reviewing and aggregating each school site's student attendance that has been captured by Aeries, the district's student information system, into an Excel spreadsheet. If the student attendance system can generate a report that includes this information, it would alleviate the need for a separate Excel spreadsheet, saving staff time and reducing the increased risk for error that occurs when entering data manually.

## Recommendations

*The district should:*

1. Review its annual board meeting calendar to ensure that interim reports are submitted to the board by the deadlines prescribed in the Education Code.
2. Verify the revenue limit calculations completed by the county office and ensure that the correct ADA is used consistently in all budget documents.
3. Consider including additional charts and graphs in board presentations that depict year-over-year trends in key areas, including net ending balances for the unrestricted and restricted general fund; net change in the ending balance and deficit spending for the unrestricted and restricted general fund; enrollment and ADA history and projections, and program encroachment information.
4. Ensure that all presentation documents in the board packet agree with the SACS forms.
5. Consult with its county office and independent auditors concerning the proper use and accounting procedures for the ARRA funds.
6. Ensure that the annual payment for the 2004-05 STRS obligation is not included twice in the multiyear projections, both as a payment and as a designation in the fund balance.
7. Use the correct interfund transfer objects when closing a fund or moving money between funds.
8. Establish an expenditure budget in Fund 21 to reflect the expenses the district expects to incur during the 2009-10 fiscal year.
9. Correct the error on the Budget Timelines document to reflect that the unaudited actuals must be approved by the governing board by September 15 of each year and make adjustments in procedures to ensure this deadline is met.

10. Complete the Form CAT in the SACS software as part of its year-end closing process.
11. Review the revenue and expenditures of its Community Day School to determine if the encroachment can be reduced.
12. Be mindful of the minimum classroom compensation formula when determining future budget cuts.
13. Review its accounting procedures regarding the transportation costs of Severely Disabled/Orthopedically Impaired students.
14. Contact its independent auditors to separate the costs related to the annual independent audit.
15. Consult with its independent auditors to determine if the golden handshake and early retirement incentive costs qualify as abnormal/mass separation costs.
16. Revise the annual developer fee report to ensure that all requirements of Government Code Section 66006 are met.
17. Consider reporting the information required by Government Code Section 66001 annually.
18. Continue to monitor the developer fees to ensure they can support the annual COP payments.
19. Ensure that all ongoing costs are included in the AB 1200 public disclosure documents.
20. Investigate the capabilities of its student information system to determine whether it can provide the district-wide student attendance information needed for the state reports.

## **Cash Flow Statement Assumptions**

The purpose of a cash flow statement is to project the timing of receipts and expenses so that an organization can understand its cash needs on a monthly or even daily basis. The cash flow statement reflects the district's liquidity and ability to meet its current payroll and other required financial obligations. As an analytical tool, the cash flow analysis should not be confused with the district's fund balance because it excludes transactions that do not directly affect cash receipts and payments.

Any forecast of financial data for cash flow purposes has inherent limitations, including issues such as unanticipated changes in enrollment trends and changing economic conditions at the state, federal and local levels. Therefore, the cash flow forecasting model should be evaluated as a trend based on certain criteria and assumptions rather than a prediction of exact numbers. Multiyear cash flow projections help provide for more informed decision-making and the ability to forecast the fiscal impact of current decisions. The cash flow projections should be updated each month to accurately account for all revenues, expenditures and other changes related to cash.

With the current budget crisis at the state and national levels, cash management is one of the main concerns in every local educational agency. The state has a history of deferring payments to school districts, starting with deferral of the 2002-03 June apportionment to the 2003-04 fiscal year, which has continued each fiscal year. The 2008-09 and 2009-10 state budget acts further complicated the situation by adding numerous one-time and ongoing

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**With the current budget crisis at the state and national levels, cash management is one of the main concerns in every local educational agency.**

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deferrals. In addition, the July 2009 state budget revisions included SBX4 16, which changed statutory apportionment schedules for local educational agencies and defers state funding to later in the fiscal year. To further address the state's

cash needs, the governor also signed ABX8 5 and ABX8 14 in March 2010 that make further deferrals of payments to local educational agencies in 2010-11.

These deferrals and changes in the apportionment schedule make managing cash flow an even larger challenge than in previous years and make it imperative for emphasis to be placed on cash flow analysis. Per the CDE, the district's apportionment schedule, excluding deferrals, is outlined in Education Code Section 14041(a)(7), which states in part:

For school districts that reported less than 5,000 units of average daily attendance in the 1979-80 fiscal year and that received 39 percent or more, but less than 75 percent, of their total revenue limits from local property taxes in that fiscal year, warrants for amounts apportioned to the districts shall be for amounts equal to 15 percent in July, August, September, and October; zero percent in November and December; and 6 percent in January of the amounts certified by the Superintendent as a part of the advance apportionment. Warrants for amounts apportioned to the districts for the months of February to May, inclusive, shall be in accordance with paragraph (3), and for the month of June, shall be in accordance with paragraph (4).

The district should review its cash assumptions to ensure it has captured the revised apportionment schedule and all deferrals in accordance with the revised budget act and the urgency legislation signed by the governor in March 2010. Given the additional deferrals by the state, the district should complete cash flow projections monthly for the current and next fiscal year.

District personnel utilize the Escape financial system to monitor the district's current cash balance and, as required by the state, the district prepares a cash flow spreadsheet as part of its first and second interim reports. However, the district prepares a separate Excel spreadsheet rather than completing the Cashflow Worksheet (Form CASH) that is included in the state's SACS software.

The district's Cash Flow Projections dated November 30, 2009 indicate that actual cash receipts and disbursements are reflected through the month of November, and the remaining



months of the fiscal year are projections. A review of the projections found that the district does not include the total balances from prior year transactions that affect cash, including accounts receivable and accounts payable balances, on its cash flow statement. These amounts are reflected on the district's prior year unaudited actuals report and should be included on the cash flow statement to ensure all items that affect cash are included in the cash analysis and to help monitor the timely receipt and disbursement of these prior year transactions. In addition, the spreadsheet does not include a line reflecting the monthly net increase/decrease to cash. Including this information on the cash flow statement helps the reader to quickly analyze the change that occurs to cash monthly.

Based on the local property tax collection schedule, school districts typically receive the bulk of their property tax payments in December and April of each fiscal year. A review of the district's cash flow statement indicated that no property taxes were expected in December. Now that the district has the actual cash information for the month of December, it should review the cash collections to determine if property taxes were received and ensure that estimates and/or collections are included in the correct months on future reports.

Due to the state's cash flow crisis, it has also slowed the payment of funding for numerous categorical programs. The district should review the information on the CDE Web site to ensure that it is projecting its cash receipts for other state revenues as accurately as possible:

<http://www.cde.ca.gov/fg/aa/ca/estcashflow.asp>

## **Recommendations**

*The district should:*

1. Review its assumptions regarding cash deferrals and the revised apportionment schedule to ensure the correct schedule is reflected.
2. Complete cash flow projections for the 2009-10 and 2010-11 fiscal years monthly.
3. Consider completing the SACS Form CASH at each reporting period in addition to its own Excel spreadsheet.
4. Include balances from all prior year transactions that affect cash on the cash flow statement.
5. Consider including a line that reflects the monthly net increase/decrease to cash on the cash flow statement.
6. Determine if property taxes were received in December and ensure that estimates and/or collections are included in the correct month on future projections.
7. Review the information from CDE regarding apportionments for other state revenues to ensure the payments are projected correctly on the cash flow statement.

## Charter School Oversight

California Education Code Section 47600, also known as the Charter Schools Act of 1992, was enacted “to provide opportunities for teachers, parents, pupils, and community members to establish and maintain schools that operate independently from the existing school district structure.” Charter schools are a part of the public school system but differ from traditional public schools because they are exempt from many state laws relating to specific educational programs. Specific goals and operating procedures for the charter school are detailed in an agreement, or charter, between the authorizing agency and the charter school organizers. Charter schools may elect to operate as corporations organized under the Nonprofit Public Benefit Corporation Law of the Internal Revenue Code [26 U.S.C. Sec. 501(c)(3)].

Charters offer a more flexible school governance model but are accountable for student achievement and fiscal management. The chartering agency is responsible for adequate and appropriate oversight, including determining if a charter is following prudent business practices and generally accepted accounting principles in accounting for revenues and expenditures and preparing financial reports. The chartering agency may be a school district, county office of education, or the California State Board of Education.

The agency that grants a school’s charter is responsible for oversight of the charter school. Chartering agencies have the responsibility of monitoring their charter schools to ensure that the school’s activities and goals are consistent with their charters and the law. Education Code Section 47604.32 outlines the oversight duties that include those listed below. In addition, the chartering agency may inspect or observe the charter school at any time:

- Identify at least one staff member as a contact person for the charter school
- Visit each charter school at least annually
- Ensure that each charter school under its authority complies with all reports required of charter schools by law
- Monitor the fiscal condition of each charter school under its authority
- Notify the CDE if a renewal of the charter is granted or denied, or if the charter is revoked, or if the school will cease operations for any reason

The cost of these duties is funded with the oversight fees collected by the chartering authority as provided in Education Code Section 47613 and is limited to reimbursement of actual expenses up to a fixed percentage of charter school general purpose entitlement and categorical block grant funding. The reimbursement is capped at 1% or at 3% if the charter school received essentially rent-free facilities from the chartering agency. While the statutes discuss reimbursement of actual expenses, it remains commonplace for charter schools and chartering agencies to agree to automatic reimbursements of the applicable cap.

As part of its oversight responsibilities, the chartering agency is to review the charter school reports and monitor the fiscal condition of the school. Education Code Section 47604.33 states that charter schools must prepare and submit the following reports to their chartering authority and the county superintendent of schools:

- On or before July 1, a preliminary budget
- On or before December 15, an interim financial report that reflects changes through October 31
- On or before March 15, a second interim financial report that reflects changes through January 31
- On or before September 15, a final unaudited report for the full prior year

Section 47604.33 also states “that the chartering authority shall use any financial information it obtains from the charter school, including, but not limited to, the reports required by this section, to assess the fiscal condition of the charter school.” Additionally, the charter school is to have an annual independent financial audit prepared and provided to the chartering agency, the State Controller, county superintendent of schools, and the CDE by December 15 of each year.

While a cash flow statement and multiyear financial projections are not specifically required by the Education Code, they are critical components of any local educational agency’s financial statements. As such, the authorizing agency should require these documents from the charter school and should review them throughout the year to help with providing the required fiscal oversight.

A memorandum of understanding (MOU) between the sponsoring agency and a charter school acts as a framework for the relationship and supplements the requirements outlined in statute. The MOU should define specific expectations and responsibilities of the two parties. It may address in detail issues such as student performance and expectations of educational programs, special education services, frequency of school site visits, financial reporting requirements, and any services that are provided by the authorizing agency. It is essential for the relationship between a charter school and its authorizing agency to be clearly defined and documented. The CDE offers a sample MOU form available that may be used as a starting point and then edited to meet the needs of each particular agency.

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**While a cash flow statement and multiyear financial projections are not specifically required by the Education Code, they are critical components of any local educational agency’s financial statements.**

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FCMAT offers several workshops throughout the year regarding charter school issues and many of the comprehensive materials presented in the workshops may be accessed at FCMAT’s Web site: [www.fcmat.org](http://www.fcmat.org).

Gateway Unified has authorized the following four charter schools:

- Academy of Personalized Learning – start date September 2009
- North Woods Discovery School – start date August 2001
- Redding School of the Arts – start date August 2007
- Rocky Point Charter – start date August 2007

Interviews indicated that the director of business services and an outside services consultant, hired by the district, review the budget, interim reports, unaudited actuals and the annual independent audits for each of the charter schools. Staff also indicated that they are reviewing the student attendance reports, multiyear projections and cash flow statements for each of the charter schools. Consideration should be given to including a list of the financial reports required by the district to complete its oversight duties in the MOU with each charter school. For example, in addition to the reports included in Education Code Section 47604.33, the MOU could include student attendance reports, multiyear projections and a cash flow statement. In addition, the district should consider requiring a monthly financial report from each charter school.

In addition to fiscal oversight, the district provides fiscal services support for two of the charter schools, North Woods Discovery and Rocky Point. The MOU with each agency indicates that the district provides payroll, purchasing, accounts payable, cash disbursements, accounts receivable, cash receipts, general ledger, budget preparation and reporting services, and assistance to office personnel for accounting and student records programs. The outside services consultant provides the budget preparation and reporting services. Interviews indicated that the charter schools are charged 7% of their total revenue budgets, excluding special education, for these services. However, the MOUs state the following:

North Woods – “The Charter School shall budget annually (3%) of its local, state and federal income for necessary ‘oversight’ and use of facilities.” The MOU goes on to state that the following regarding the cost of fiscal service support: “The Charter School shall be billed for these services up to 7% budgeted for related fiscal services.”

Rocky Point – “The Charter School shall budget annually (10%) of its local, state and federal income for necessary ‘oversight’ (3% includes administrative services and use of facilities; 7% includes business and technology services).” The MOU goes on to state the following regarding the cost of fiscal service support: “The Charter School shall be billed for these services up to 7% budgeted for related fiscal services.”

The MOUs should be clear regarding the funding sources that are used to calculate the oversight fees and the fees for fiscal and/or technology services. In addition, it should be noted that the required oversight fees must be based on the general purpose entitlement and the categorical block grant funding.

The charter petition for Rocky Point Charter School, dated August 30, 2006, and the Annual Operation Agreement (MOU) between Rocky Point and the district for the 2009-10 fiscal year indicate that the charter school will incorporate as a nonprofit public benefit corporation. The MOU states the following:

It is understood that the Charter School will incorporate in California and apply for state tax exemption and federal and tax exemption under 501(c)(3). Upon approval by approving agencies, a copy of these documents will be forwarded to the District. It is understood that the Charter School is responsible for preparing and submitting

all reports required by the State and Federal Government in order to maintain its incorporated and nonprofit status.

However, a review of the California Secretary of State's Web site indicated that the nonprofit status for Rocky Point Charter School has been suspended. The site defines suspended as:

The business entity's powers, rights and privileges were suspended or forfeited in California 1) by the Franchise Tax Board for failure to file a return and/or failure to pay taxes, penalties, or interest; and/or 2) by the Secretary of State for failure to file the required Statement of Information and, if applicable, the required Statement of Common Interest Development Association. Information regarding the type of suspension can be obtained by ordering a status report.

## **Recommendations**

*The district should:*

1. Continue to review all of the budget reports and the annual audit for each of the charter schools it has authorized as well as the student attendance, multiyear projections and cash flow statements.
2. Consider including a list of the financial reports required for fiscal oversight in the MOU with each charter.
3. Include specific language in the MOUs with North Woods Discovery and Rocky Point stating which funding sources are used to calculate the 7% charge for fiscal services support.
4. Ensure that the MOU with each charter school is clear regarding the charge for oversight fees being based on the general purpose entitlement and block grant funding.
5. Ensure that Rocky Point Charter School completes the necessary requirements to maintain active status as a nonprofit public benefit corporation.



## Appendices

**Appendix A – Hotel-Motel Transient Occupancy Tax Waiver**

**Appendix B – Study Agreement**





Appendix A

**HOTEL/MOTEL TRANSIENT OCCUPANCY TAX WAIVER  
EXEMPTION CLAIM FOR GOVERNMENT AGENCIES**

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Employed By: \_\_\_\_\_  
District Name/Federal ID Number

Hotel/Motel: \_\_\_\_\_

Location: \_\_\_\_\_

Arrival: \_\_\_\_\_

Departure: \_\_\_\_\_

This is to certify that I, the undersigned, am a representative or employee of the school district indicated above. The district is an agency of the State of California. The charges for the occupancy at the above establishment on the dates set forth have been, or will be, paid for by such governmental agency, and such charges are incurred in the performance of my official duties as a representative or employee of the above-noted governmental agency.

I hereby declare, under penalty of perjury, that the foregoing statements are true and correct.

\_\_\_\_\_  
Signature of Employee Date

**INSTRUCTIONS TO EMPLOYEE:** Please check with the hotel/motel when making your reservations to see if they allow Transient Occupancy Tax Exemptions. If they do, complete this form and fax it to the hotel/motel either ahead of your arrival or, if acceptable to them, at the time of registration.

**INSTRUCTIONS TO HOTEL/MOTEL:** Please retain this form for your files in order to substantiate your tax report.

## Appendix B

**FCMAT**FISCAL CRISIS & MANAGEMENT  
ASSISTANCE TEAM**CSIS** California School Information ServicesFISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM  
STUDY AGREEMENT  
November 6, 2009

The FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT), hereinafter referred to as the Team, and the Gateway Unified School District hereinafter referred to as the District, mutually agree as follows:

**1. BASIS OF AGREEMENT**

The Team provides a variety of services to school districts and county offices of education upon request. The District has requested that the Team provide for the assignment of professionals to study specific aspects of the Gateway Unified School District operations. These professionals may include staff of the Team, County Offices of Education, the California State Department of Education, school districts, or private contractors. All work shall be performed in accordance with the terms and conditions of this Agreement.

**2. SCOPE OF THE WORK****A. Scope and Objectives of the Study**

The scope and objectives of this study are to:

1. Conduct a review of the district's Business Department processes and procedures and provide recommendations for improvements, if necessary, to improve the efficiency and productivity of the Department in the following areas:
  - Budget Development – All Funds (including categorical programs)
  - Budget Monitoring – All Funds (including categorical programs)
  - Internal Controls
  - Payroll
  - Position Control
  - Accounts Payable
  - Accounts Receivable
  - Cash Flow Statement Assumptions
  - Financial Reporting
  - Charter School Oversight

**B. Services and Products to be Provided**

- 1) Orientation Meeting - The Team will conduct an orientation session at the District to brief District management and supervisory personnel on the procedures of the Team and on the purpose and schedule of the study.
- 2) On-site Review - The Team will conduct an on-site review at the District office and at school sites if necessary.
- 3) Exit Meeting - The Team will hold an exit meeting at the conclusion of the on-site review to inform the District of significant findings and recommendations to that point.
- 4) Exit Letter - The Team will issue an exit letter approximately 10 days after the exit meeting detailing significant findings and recommendations to date and memorializing the topics discussed in the exit meeting.
- 5) Draft Reports - Sufficient copies of a preliminary draft report will be delivered to the District administration for review and comment.
- 6) Final Report - Sufficient copies of the final study report will be delivered to the District administration following completion of the review.
- 7) Follow-Up Support – Six months after the completion of the study, FCMAT will return to the District, if requested, to confirm the District’s progress in implementing the recommendations included in the report, at no cost. Status of the recommendations will be documented to the District in a FCMAT Management Letter.

**3. PROJECT PERSONNEL**

The study team will be supervised by Anthony L. Bridges, Deputy Executive Officer, Fiscal Crisis and Management Assistance Team, Kern County Superintendent of Schools Office. The study team may also include:

- A. *Diane Branham, FCMAT Fiscal Intervention Specialist***
- B. *Julie Auvil, FCMAT Consultant***
- C. *Lynn Kamph, FCMAT Consultant***

Other equally qualified consultants will be substituted in the event one of the above noted individuals is unable to participate in the study.

#### 4. **PROJECT COSTS**

The cost for studies requested pursuant to E.C. 42127.8(d)(1) shall be:

- A. \$500.00 per day for each Team Member while on site, conducting fieldwork at other locations, preparing and presenting reports, or participating in meetings.
- B. All out-of-pocket expenses, including travel, meals, lodging, etc. The District will be billed for the daily rate and expenses of the independent consultant, only. Based on the elements noted in section 2 A, the total cost of the study is estimated at \$16,000.00. The District will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon acceptance of the final report by the District.
- C. Any change to the scope will affect the estimate of total cost.

Payments for FCMAT services are payable to Kern County Superintendent of Schools-Administrative Agent.

#### 5. **RESPONSIBILITIES OF THE DISTRICT**

- A. The District will provide office and conference room space while on-site reviews are in progress.
- B. The District will provide the following (if requested):
  - 1) A map of the local area
  - 2) Existing policies, regulations and prior reports addressing the study request
  - 3) Current organizational charts
  - 4) Current and four (4) prior year's audit reports
  - 5) Any documents requested on a supplemental listing
- C. The District Administration will review a preliminary draft copy of the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the Team prior to completion of the final report.

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with District pupils. The District shall take appropriate steps to comply with EC 45125.1(c).

6. **PROJECT SCHEDULE**

The following schedule outlines the planned completion dates for key study milestones:

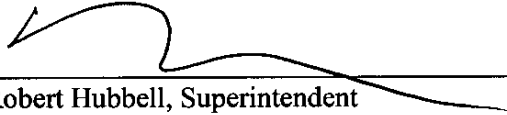
<b><i>Orientation:</i></b>	<b><i>to be determined</i></b>
<b><i>Staff Interviews:</i></b>	<b><i>to be determined</i></b>
<b><i>Exit Interviews:</i></b>	<b><i>to be determined</i></b>
<b><i>Preliminary Report Submitted:</i></b>	<b><i>to be determined</i></b>
<b><i>Final Report Submitted:</i></b>	<b><i>to be determined</i></b>
<b><i>Board Presentation:</i></b>	<b><i>to be determined</i></b>
<b><i>Follow-Up Support:</i></b>	<b><i>If requested</i></b>

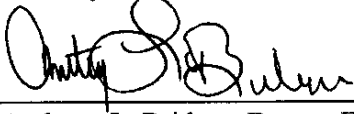
7. **CONTACT PERSON**

Please print name of contact person: Robert Hubbell, District Superintendent

Telephone 530-245-7900 FAX 530-245-7920

E-Mail rhubell@gwusd.org

  
 \_\_\_\_\_  
 Robert Hubbell, Superintendent  
 Gateway Unified School District  
 Date 11-18-09

  
 \_\_\_\_\_  
 Anthony L. Bridges, Deputy Executive Officer  
 Fiscal Crisis and Management Assistance Team  
 Date November 6, 2009

In keeping with the provisions of AB1200, the County Superintendent will be notified of this agreement between the District and FCMAT and will receive a copy of the final report.