

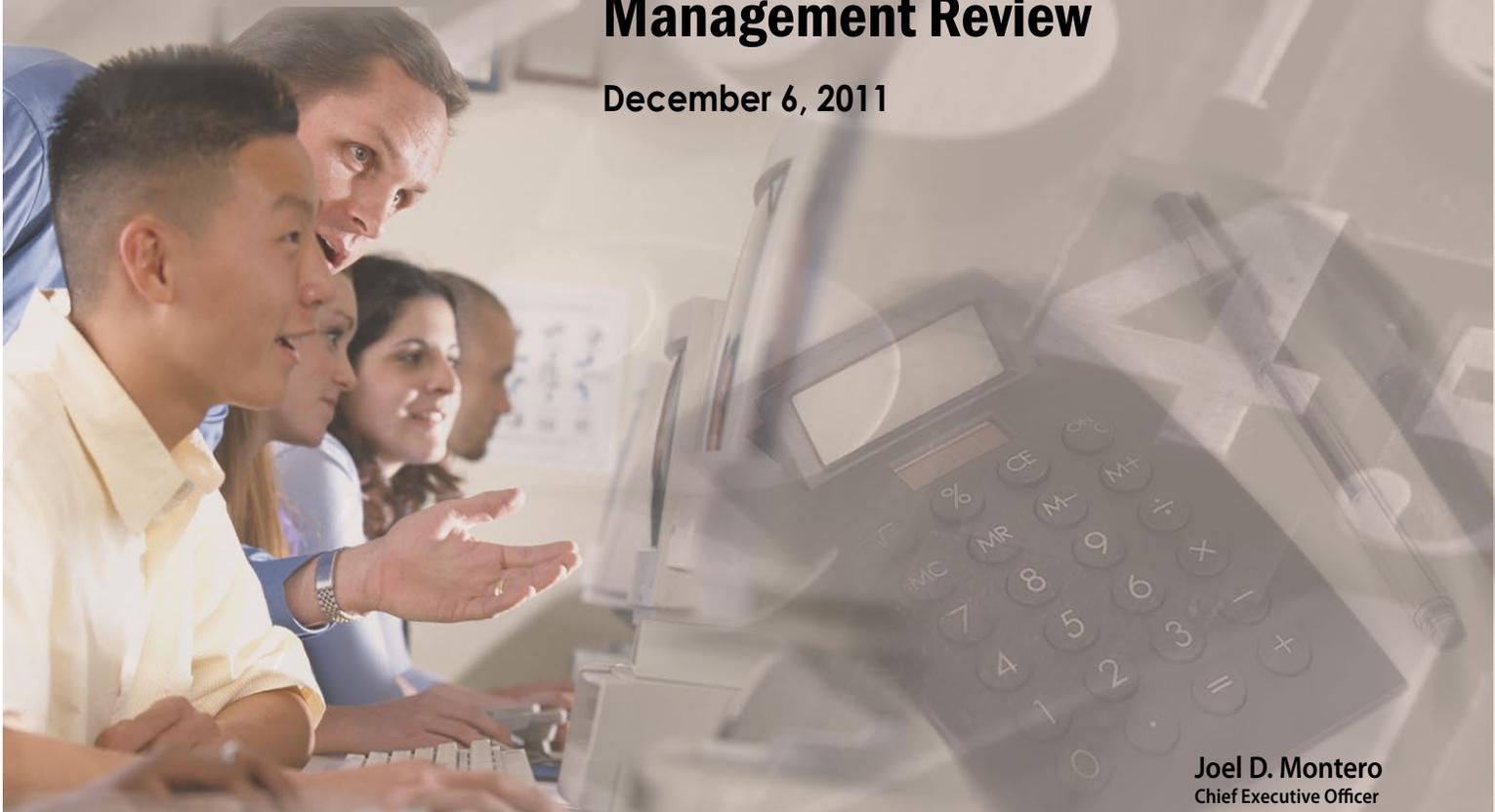


**CSIS** California School Information Services

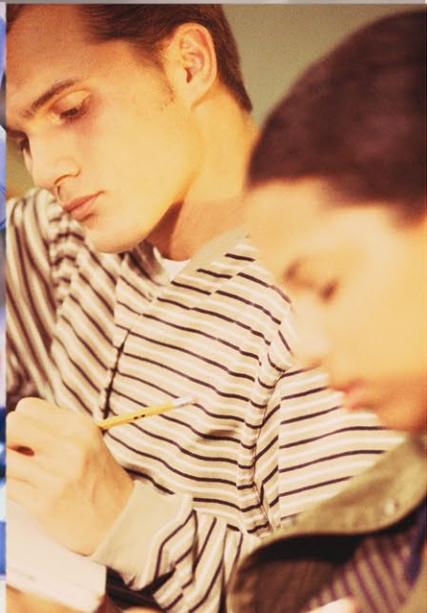
# Los Angeles County Office of Education

## Management Review

December 6, 2011



**Joel D. Montero**  
Chief Executive Officer





# Table of Contents

|   |     |
|---|-----|
| About FCMAT .....   | v   |
| Background .....  | 1   |
| Executive Summary .....   | 13  |
| Governance Overview .....   | 23  |
| Governance  |     |
| Findings and Recommendations.....   | 27  |
| Governance Structure .....  | 27  |
| Functions and Responsibilities of County Boards of Education...               | 29  |
| Functions and Responsibilities of a County Superintendent of<br>Schools ..... | 33  |
| Work of the Los Angeles County Board of Education .....                       | 43  |
| Core, Mandated and Value-Added Programs and Services .....                    | 47  |
| Staffing and Organization Overview .....                                      | 53  |
| Staffing and Organization   |     |
| Findings and Recommendations.....   | 61  |
| Personnel Commission.....   | 61  |
| Human Resource Services Division .....  | 67  |
| Technology Services Division .....  | 77  |
| Business Services Division.....   | 89  |
| Controller’s Office.....  | 99  |
| Accounting and Budget Development.....  | 102 |
| School Financial Services Department .....                                    | 107 |

|  |     |
|--|-----|
| Communications Department.....                         | 116 |
| Internal Audit and Analysis Division .....             | 118 |
| Office of the General Counsel.....                     | 120 |
| Educational Programs Division .....                    | 121 |
| Educational Services Division .....                    | 131 |
| Fiscal Management Overview .....                       | 157 |
| Fiscal Management<br>Findings and Recommendations..... | 165 |
| Board Fiscal Communications .....                      | 165 |
| Fiscal Management Procedures and Policies.....         | 171 |
| Internal Control.....                                  | 171 |
| Budget Development and Monitoring.....                 | 181 |
| Position Control .....                                 | 194 |
| Payroll.....   | 197 |
| Accounts Receivable .....                              | 200 |
| Accounts Payable .....                                 | 203 |
| Purchasing .....                                       | 213 |
| AB 1200 and Fiscal Oversight .....                     | 220 |
| Consultant and Personal Service Contracts .....        | 229 |
| Policies and Procedures .....                          | 229 |
| Use of Outside Consultants .....                       | 231 |
| Test Sample .....                                      | 234 |
| Leases.....  | 245 |
| Financial Analysis Overview .....                      | 249 |
| Financial Analysis Findings and Recommendations .....  | 253 |

|  |     |
|--|-----|
| Reconciliation of Position Control to Budget and Payroll .....                           | 253 |
| Current Procedures.....  | 253 |
| Budget-to-Payroll Reconciliation.....  | 258 |
| Multiyear Financial Projections .....  | 263 |
| Cash Flow Projections .....  | 297 |
| Juvenile Court, Community and Community Day Schools<br>Overview .....                    | 307 |
| Juvenile Court, Community and Community Day Schools<br>Findings and Recommendations..... | 315 |
| Juvenile Court Schools Attendance.....   | 315 |
| Facility Population to School Enrollment Rate .....                                      | 315 |
| Attendance Rate Based on School Enrollment .....   | 315 |
| Attendance Rate Based on Facility Population .....                                       | 316 |
| Probation/COE Responsibility.....  | 316 |
| Fiscal Implications.....   | 317 |
| Joint Responsibility for Education .....   | 317 |
| Attendance Monitoring .....  | 317 |
| Special Education.....   | 321 |
| Background .....   | 321 |
| Student-to-Staff Ratios and Overstaffing .....   | 321 |
| Student-to-Psychologist Ratios .....   | 324 |
| Special Day Class Student Enrollment<br>and Attendance .....                             | 326 |
| Unduplicated Pupil Count.....  | 327 |
| Administrative, Operational and Instructional Supervision.....                           | 328 |
| Special Education Funding Formula.....   | 330 |

|   |     |
|---|-----|
| Certificated Contract with the Los Angeles County Education Association ..... | 332 |
| Counselors.....   | 334 |
| Community Schools and Community Day Schools.....                              | 335 |
| Staffing Alternative Education Programs .....                                 | 336 |
| Counselors and Other Pupil Services Staff .....                               | 339 |
| Teachers.....   | 340 |
| Community School Independent Study .....                                      | 342 |
| Attendance Rate in Independent Study.....                                     | 344 |
| Working Relationship with County Probation Department .....                   | 345 |
| MAA and Medi-Cal Billing .....  | 347 |
| Budget Development .....  | 349 |
| Budget Development Training .....   | 351 |
| Budget Development Process .....  | 352 |
| Budget Monitoring .....   | 353 |
| Purchasing Procedures.....  | 354 |
| Purchases Outside of Approved Budget.....                                     | 357 |
| Title I Expenditures.....   | 358 |
| Reimbursements .....  | 359 |
| Contributions from the County School Service Fund.....                        | 360 |
| Juvenile Court School Funding .....   | 362 |
| Glossary of Terms and Acronyms.....   | 363 |
| LACOE Response.....   | 371 |

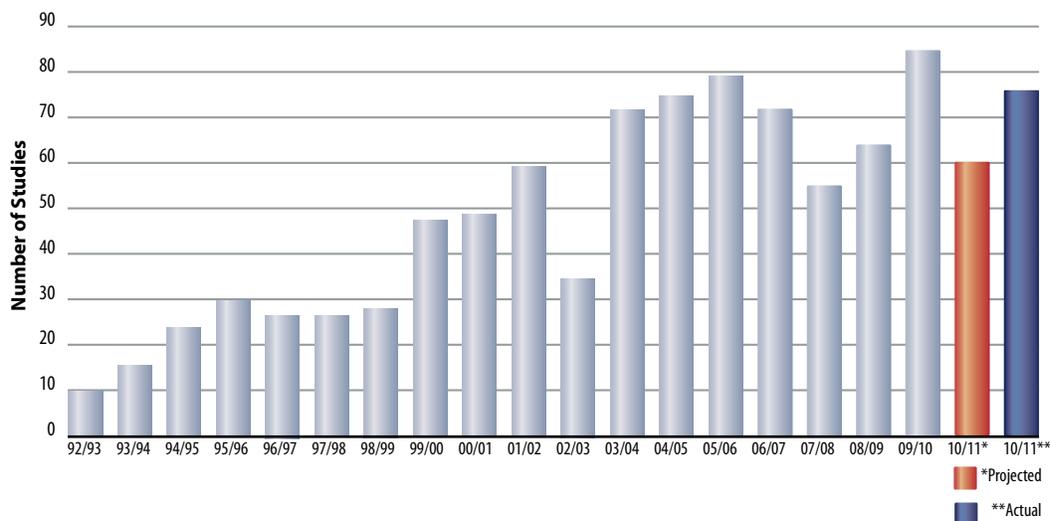
# About FCMAT

FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT's fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices and efficient operations. FCMAT's data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and share information.

FCMAT may be requested to provide fiscal crisis or management assistance by a school district, charter school, community college, county office of education, the state Superintendent of Public Instruction, or the Legislature.

When a request or assignment is received, FCMAT assembles a study team that works closely with the local education agency to define the scope of work, conduct on-site fieldwork and provide a written report with findings and recommendations to help resolve issues, overcome challenges and plan for the future.

## Studies by Fiscal Year



FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help local educational agencies operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) arm of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS) and also maintains DataGate, the FCMAT/CSIS software LEAs use for CSIS services. FCMAT was created by Assembly Bill 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. Assembly Bill 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. Assembly Bill 1115 in 1999 codified CSIS' mission.

AB 1200 is also a statewide plan for county office of education and school districts to work together locally to improve fiscal procedures and accountability standards. Assembly Bill 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

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 850 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by 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.

# Background

The Los Angeles County Office of Education (LACOE) was established in 1852 by the California Legislature. It encompasses 4,084 square miles containing 80 school districts that serve 1,532,539 students in grades K-12, which is 25.86% of California's students (Source: California County Superintendents Educational Services Association (CCSESA), Classification of Counties 2011). LACOE is the largest intermediate educational service agency in the country and the only Class I county office of education in the state. Class I county offices serve more than 750,000 students. California has 10 Class II county offices of education, each of which serves between 140,000 and 749,999 students. They are Alameda, Contra Costa, Fresno, Kern, Orange, Riverside, Sacramento, San Bernardino, San Diego, and Santa Clara. LACOE employs more than 3,400 management and nonmanagement staff in central office operations at three locations in Downey and several other locations across Los Angeles County.

Countywide student population is 63.5% Hispanic, 15.1% white, 8.9% African American, 7.9% Asian, 2.2% Filipino, 0.4% Pacific Islander and 0.3% American Indian. Twenty-six percent, or 409,777 of the students in the county are English learners. Countywide, the average pupil-to-teacher ratio is 21.0-to-1, which is slightly lower than the state average of 21.3-to-1.

LACOE provides instruction directly to students in juvenile halls, probation camps, the Los Angeles County High School for the Arts, International Polytechnic High School and other specialized educational settings. LACOE's special education programs serve more than 5,000 students with disabilities in 323 classes on 149 public school campuses. The special education program is organized into seven special education local plan areas (SELPAs) based primarily on geography. LACOE provides support to charter schools in the areas of fiscal accountability and reporting, educational services, and policy-related issues. There are approximately 217 charter schools in the county with a total enrollment of 98,276 students. Other programs operated by LACOE include Greater Avenues for Independence (GAIN) and General Relief and Opportunity for Work (GROW), Head Start and the Regional Occupational Program (ROP). The Los Angeles County ROP offers classes in 57 different occupational areas. In 2008, 99% of the approximately 26,000 students who completed ROP also graduated from high school. LACOE operates the largest Head Start program in the country, with more than 28 delegate agencies offering services to 21,164 children three to five years old, 1,192 children prenatal to three years old, and 1,841 additional children three to five years old in state preschool programs.

Pursuant to Assembly Bill (AB) 1200, LACOE provides fiscal oversight and financial reporting responsibilities to the State of California for the 80 school districts in its jurisdiction. In accordance with the Williams settlement agreement, LACOE annually inspects approximately 591 low-performing schools in 43 districts. LACOE also monitors and maintains approximately 373,000 California teaching credential registrations and provides or coordinates an array of support services to 80 school districts, including curriculum and instruction support, school and community services, and student support services such as student records, truancy reduction, services for homeless children, counseling, and health care.

## Genesis of the Report

In January 2011, the Fiscal Crisis and Management Assistance Team (FCMAT) received a request from the interim superintendent of the Los Angeles County Office of Education to conduct a management assistance review. Between January 2011 and March 2011, FCMAT met with the interim superintendent, a representative of the board of education, and representative cabinet

members, to discuss the request and refine the scope of the review. On April 4, 2011, FCMAT and the Los Angeles County Office of Education entered into an agreement to conduct a targeted performance review focused on validation and staffing of core programs; fiscal management practices including reporting of budget and financial information; management and administration of educational programs including attendance at juvenile court school (JCS); management at division and principal/site level; and management of grant and categorical programs. The specific scope and objectives of the study are as follows:

1. Identify mandated County Office of Education programs as required by Education Code and statute.
  - (a) Identify core County Office of Education programs.
2. Identify and differentiate between the functions of the County Office of Education and the functions and responsibilities of the County Board of Education.
3. Conduct a comprehensive analysis of the organizational structure of each division and staffing levels of each core and mandated program at the central office administrative level.
4. Analyze the process each division uses to determine staffing needs and the process each uses to communicate with human resources to fill positions.
5. Review the functions of each division and identify any duplication of service among divisions. Provide recommendations for restructuring, if any, to improve efficiency and effectiveness. FCMAT will use professional and legal standards to measure operations as a baseline for recommendations to improve effectiveness and efficiency.
6. Analyze the budget and financial reports that are presented to the governing board of education as to content, frequency and transparency and make recommendations, if necessary, to improve communication.
7. Review and provide recommendations on the procedures and policies related to internal and external fiscal management, including those related to:
  - Position control
  - Internal controls
  - Payroll
  - Purchasing
  - Accounts payable
  - Accounts receivable
  - Budget development and monitoring
  - AB 1200 oversight

The primary focus of this scope point is to provide LACOE with reasonable assurance based on the testing performed that adequate management controls are in place. Management controls include the processes for planning, orga-

- nizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance.
8. Review the county office policies and procedures related to consultant and personal service contracts and provide the LACOE with reasonable assurance based upon the testing performed that adequate management controls are in place with regard to bid and award of consultant and personal service contracts. FCMAT's review will be completed by examining a test sample of referenced documentation for consultant and personal service contracts, invoices, bid documents, and any other necessary documentation required.
    - a. Review whether contracts are entered into by properly authorized personnel and whether the bidding and award of contracts follow county office policy and Government Code and make recommendations for improvement, if needed, based upon best practices.
    - b. Evaluate the division of labor and segregation of duties between administration and staff with regard to bidding, award, and oversight of consultant and personal service contracts.
    - c. Identify any instances where consultant or personal service contracts may supplant the responsibilities of existing employee positions.
  9. Prepare an independent reconciliation of position control to budget and payroll.
  10. Conduct an external and independent review of the Los Angeles County Office of Education 2010-11 general fund budget.
    - a. Develop a multiyear financial projection (MYFP) for the current and two subsequent fiscal years utilizing the district's 2010-2011 2nd Interim Financial Report as the baseline for the projection. FCMAT's Budget Explorer software will be used to prepare the MYFP.
    - b. Prepare a cash flow analysis for 2010-11 and 2011-12 including the impact of other funds and alternative strategies for cash management from both internal and external sources.
  11. Review attendance records and processes for maintaining and reporting attendance in the Juvenile Court Schools.
    - a. Determine the percentage of ADA lost due to court mandated appointments, disciplinary and medical appointments that are scheduled during the school day.
  12. Review the effectiveness and efficiency of management at the JCS and CDS division level and at the principal/site level, including but not limited to:
    - a. Operational practices
    - b. Budget development/monitoring/updating
    - c. Purchasing procedures

- d. Personnel hiring/evaluations/staffing ratios
13. Conduct an analysis of the JCS and CDS budget to determine the level and cause of the encroachment and provide recommendations to reduce the encroachment.
14. Review JCS and CDS budgets and test invoices to verify that funds are used appropriately and comply with program guidelines as well as state and federal requirements.

The scope points were divided into three specific components, each of which was managed by a FCMAT administrative team leader. Mary Barlow directed Team 1 to address scope points 1-5, focusing on governance and the roles and responsibilities of the county board of education and the county superintendent of schools, county office organizational structure and staffing levels, and identification of potential duplication of service. Michelle Plumbtree directed Team 2 to address scope points 6-10, focusing on internal business fiscal practices and financial reporting, and performing an independent budget analysis and developing a multiyear financial projection and cash flow analysis. Bill Gillaspie directed Team 3 to address scope points 11-14, focusing on Juvenile Court and Community Day Schools and special education funding and operations.

## Study Team

FCMAT's approach to conducting the management assistance review is based on a commitment to an independent and external standards-based evaluation of the county office of education's operations. FCMAT selected consultants based on their expertise in specific areas of county office operation or legal expertise. Many of the consultants are currently serving as senior administrators in a county office of education or are recently retired from a county office of education. Professionals from throughout California contributed their knowledge and applied the legal and professional standards to the specific local conditions found in the Los Angeles County Office of Education.

Drafts of the report were reviewed by both FCMAT's legal counsel and outside legal counsel with regard to applicable state law and the California education code. Each draft was also reviewed independently by two groups of experts: first by a team of FCMAT management personnel and internal legal counsel, and second by FCMAT's Chief Executive Officer, senior representatives from the California County Superintendents Educational Services Association (CCSESA), and outside legal counsel with expertise in school law. Finally, a first draft report was presented to the LACOE cabinet and an individual board member for review and input, and a revised final draft report presented to a committee selected by the superintendent, and when finalized to the audit committee and full board.

The study team was supervised by Joel Montero, Chief Executive Officer of the Fiscal Crisis and Management Assistance Team. The study team was subdivided into three administrative teams as noted above and included the following members:

### Team 1

Mary Barlow, Team Leader  
FCMAT Deputy Administrative Officer

Diane Branham  
FCMAT Fiscal Intervention Specialist

Frank Fekete  
FCMAT Legal Counsel

Damon Smith  
FCMAT Consultant

Wendy Benkert  
FCMAT Consultant

Terry Bradley  
FCMAT Consultant

Sylvia Treanor  
FCMAT Consultant

Roberta Mayor  
FCMAT Consultant

John Lotze  
FCMAT Public Information Specialist

## **Team 2**

Michelle Plumbtree, Team Leader  
FCMAT Chief Management Analyst

Andrew Prestage  
FCMAT Management Analyst

Marisa Ploog, CPA  
FCMAT Fiscal Intervention Specialist

Julie Auvil, CPA  
FCMAT Fiscal Intervention Specialist

Frank Fekete  
FCMAT Legal Counsel

Margaret Rosales  
FCMAT Consultant

Bud Burrow  
FCMAT Consultant

Eric D. Smith  
FCMAT Consultant

Carlene Naylor  
FCMAT Consultant

Susan Grinsell  
FCMAT Consultant

Catrina Howatt  
FCMAT Consultant

Leigh Coop  
FCMAT Consultant

Terry Ruscoe  
FCMAT Consultant

Mary Simms  
FCMAT Consultant

Laura Haywood  
FCMAT Public Information Specialist

### **Team 3**

William Gillaspie, Ed.D., Team Leader  
FCMAT Chief Management Analyst

Debi Deal, CFE  
FCMAT Fiscal Intervention Specialist

John Von Flue  
FCMAT Fiscal Intervention Specialist

Frank Fekete  
FCMAT Legal Counsel

Claudette Inge  
FCMAT Consultant

Jeanne Dukes  
FCMAT Consultant

Ken Taylor, Ed.D.  
FCMAT Consultant

Lynn Kamph  
FCMAT Consultant

Terry McLaughlin  
FCMAT Consultant

Michael Brouse  
FCMAT Consultant

Leonel Martinez  
FCMAT Public Information Specialist

### **Fieldwork Schedule**

Fieldwork began in April 2011 and continued through August 2011. FCMAT staff and consultant team members met with LACOE staff, the county superintendent and county board of education members during the review period. Draft reports addressing each team's scope points were submitted to the superintendent and cabinet for review and comment in August, September, and October 2011. Reviews are designed for the client to provide feedback to the team regarding errors or omissions in the draft. A draft of the complete report was presented to the superintendent on November 8, 2011 for final review and comment. FCMAT's final report was produced after drafts were reviewed with LACOE for accuracy and responsiveness to the agreed-upon scope of work.

During FCMAT’s review and subsequent to fieldwork, LACOE has continued to propose and make operational changes in many of the areas that FCMAT studied and reported on. At the time of this report’s publication, the county office has already begun working on a number of the findings and recommendations addressed in this report and has thus made progress that is not reflected in this report. LACOE has had the opportunity to summarize these changes and they are included with FCMAT’s report under the heading “LACOE Response.”

FCMAT is not legal counsel and as such does not provide a legal opinion on these matters. To formulate findings and recommendations for this report, FCMAT interviewed various county office administrations, district office administrators, the LACOE administrative staff and some members of the Los Angeles County Board of Education, and reviewed and considered the California Education Code, accepted standard operational practices of California county offices of education, and the legal opinions of experts in school law. The findings and recommendations contained in this report were also reviewed by experts in school law.

FCMAT acknowledges and extends thanks to the superintendent, the board of education, and the county office staff for their assistance and cooperation during this review.

## Fieldwork Guidelines

The FCMAT study team used FCMAT’s professional and legal standards that align with industry best practices and with applicable state, local and federal law, including the California Education Code, as a basis to measure county office operations. The standards used are applicable to all California school districts and county offices of education.

Recommendations are designed and intended to affect functions directly at the unit, section, department, and division level. FCMAT’s management assistance review process is a deficit analysis model, thus commendations for high performance areas are not contained in this report. This report provides a systemic assessment of areas of county office governance and operations and provides recommendations for increasing the county office’s capacity and productivity. The management assistance review process also serves to engage board members, cabinet members, and LACOE staff in discussions to improve effectiveness and efficiency. FCMAT’s research and resulting documentation seeks balance among competing perspectives by treating them fairly, portraying them accurately, and weighting them according to merit.

Prior to working in the county office, FCMAT adopted four basic tenets to be incorporated in the findings and recommendations. These tenets were based on previous assessments conducted by FCMAT in school districts and county offices throughout California and a review of data from other states that have conducted external reviews. The four basic tenets are as follows:

### 1. Use of Professional and Legal Standards

FCMAT’s experience indicates that for local educational agencies (LEAs) to be successful in program improvement, the findings and recommendations must be based on accepted standards. FCMAT has noted positive differences between an objective standards-based review and a non-standards-based review. When standards are attainable and clearly communicated and defined, there is a greater likelihood they will be measured and met.

## 2. Conduct an External and Independent Assessment

FCMAT used an external and independent assessment process to develop the findings and recommendations for LACOE. This report presents findings and recommendations based on external and independent assessments conducted by FCMAT staff, separate professional agencies, and independent consultants. Collectively, these professionals and consultants constitute FCMAT's providers in the assessment process. Their external and independent assessments serve as the primary basis for the review's reliability, integrity and credibility.

## 3. Utilize Multiple Measures of Assessment

For a finding to be considered valid, the same or consistent information is needed from multiple sources. Testing, personal interviews, group meetings, observations, review and analysis of data all added value to the assessment process. The consultants were required to use multiple measurements to substantiate their findings. This process allowed for a variety of methods to verify the accuracy of a finding.

## 4. Report Writing Standards

These standards are based on those used by the RAND Corporation and FCMAT's nearly 20 years of assisting California's local education agencies (LEAs) through on-site fieldwork and written reports. RAND is a nonprofit institution that helps improve policy and decision-making through research and analysis in fields such as health, education, international affairs, and law and business.

Following is a summary of the standards:

- Data and information contained in reports should be the best available.
- Recommendations should be logical, warranted by the findings, and explained thoroughly, with appropriate caveats.
- Reports should be accurate, understandable, well structured, and temperate in tone.
- Reports should be compelling, useful, and relevant to decision-makers.
- Reports should be objective, independent, and balanced.

Data and other information are essential elements of the research and analysis required to produce a credible report. Research data, such as information gleaned from other counties, statistics gathered from sources such as the Educational Data or Educational Demographics websites, and number data extracted from county records and documents, is helpful in its ability to sustain findings and recommendations or to draw conclusions about the organization.

## Comparison Data

The California County Superintendents Educational Services Association (CCSESA) classifies county offices of education based on prior year K-12 average daily attendance (ADA). These calculations include districts, county-operated programs, and charter schools but not ROC/P, adult education or community colleges. There are eight classifications for county offices of education: Class I (more than 750,000 ADA); Class II (140,000 - 749,999 ADA); Class III (60,000 - 139,999 ADA); Class IV (30,000 - 59,999 ADA); Class V (15,000 - 29,999 ADA); Class VI (7,000 - 14,999 ADA); Class VII (1,000 - 6,999 ADA); and Class VIII (less than 1,000 ADA).

When addressing study scope points 3-5, FCMAT selected four Class II county offices of education for comparison: Orange, San Diego, Riverside and Kern.

The purpose of this comparison is to provide LACOE with a perspective on how other county offices organize their functions and services and provide a comparison of staffing ratio by division. Certain aspects of county office operations (e.g., AB 1200 reviews) are affected by the number of districts served, and others (e.g., educational programs and educational services) by the types of programs offered. For study scope points 11-14, FCMAT selected four Class II county offices of education: San Luis Obispo, Kern, San Diego, and San Bernardino, based on the availability of data, and the consultants were either recently retired from or still employed by the county offices selected. For scope point 6, when discussing the possibility of migrating to a new financial system, the San Diego County Office of Education's current business services modernization and transformation project that began in fall 2009 was used to outline a process that is in place at a different county office.

Although comparative information is useful, it should not be considered the only measure of appropriate staffing levels. County offices are complex and vary widely in demographics, operating programs, job descriptions and resources. Careful evaluation is recommended because generalizations can be misleading if significant circumstances are not taken into account when comparing job functions for specific staff positions.

## Changes in LACOE Leadership

During the course of the year-long management assistance review, significant changes to the LACOE cabinet team members occurred. Joel Montero, FCMAT CEO, was initially contacted in January 2011 by then interim superintendent Jon Gundry to discuss the potential for a review. Mr. Gundry served as interim superintendent from September 1, 2010 until July 15, 2011. In June 2011, the Los Angeles County Board of Supervisors appointed Dr. Arturo Delgado as Superintendent of Schools effective July 1, 2011. On September 1, 2011, Dr. Joseph Ybarra, Assistant Superintendent Human Resources, was selected as Deputy Superintendent. In August 2011, Gerry Riley, Assistant Superintendent of Educational Programs, retired, and on August 29, 2011, Dr. Henry Mothner was appointed Interim Assistant Superintendent Education Programs. In addition, the terms of county board of education members Leslie K. Gilbert-Lurie and Maria Elena Yepes ended during the review period, and new board members Katie Braude and Maria Reza were appointed on May 17 and June 28, 2011, respectively.

## Fieldwork Process

### Team 1

To conduct this review, FCMAT interviewed the interim superintendent, board members, senior cabinet members and more than 125 staff across all divisions, and examined organizational charts and detailed reports related to the primary functions of each division. FCMAT also reviewed collective bargaining agreements and hundreds of other documents containing information regarding individual staff position functions, unit, section, and department functions, staffing processes, human resources process and procedures, technology plans, and internal policies and procedures. This report reviews staffing levels at a given point in time, based on LACOE's 2010-11 organizational chart. LACOE divisions have been reducing staff and reorganizing subsequent to that point in time, so not all changes are captured in this report. FCMAT interviewed and conducted research in four other county offices of education regarding staffing and organi-

zational structure to provide comparison information. FCMAT conducted extensive research in Education Code and statute with regard to the functions and authority of the superintendent of schools and the county board of education. Internal and external legal counsel provided oversight and review of the findings and recommendations. In addition FCMAT conducted extensive research into Education Code and statute with regard to county office of education mandated services or programs.

## Team 2

To conduct this review, the FCMAT study team interviewed the interim superintendent, board members, senior cabinet, and approximately 90 staff members including those at the central office and warehouse operations. FCMAT also interviewed several district superintendents and chief business officials to obtain additional input. FCMAT also conducted an extensive review of close to 1,000 documents in order to satisfy the five scope items related to finance including policies, procedures, internal control assessments, contract and vendor files, financial statements, accounting records, invoices, personnel files, 2009 and 2010 independent audit reports, collective bargaining agreements, budget reports, position control reports, general ledger reports, purchase orders, inventory listings, lease documents, state and federal apportionment notices, grant and donation award letters, invoices, organizational charts, and payroll files. Budget and financial reports that were presented to the county board of education, as well as minutes of the board meetings where these documents were presented, were reviewed as to content, frequency and format. Various tests and analyses were performed on bid and award of consultant and personal services. In selecting the transactions for testing, FCMAT staff requested various financial reports to identify major vendors, consultants and personal service contracts.

Scope point 10 requested FCMAT to develop an independent multiyear projection and cash flow analysis. As is normally the case in management assistance reviews, these analyses are performed at a specific point in time and therefore it is expected that the numbers in the FCMAT analysis will vary from any current budget detail produced by the county office staff. This review was not an audit or an opinion regarding how LACOE presents its financial statements, and it should not be directly compared to any other reporting period or reports that LACOE has produced, such as year-end actuals. The budget and projection that FCMAT produced is a snapshot in time, is balanced by resource, and does not include activity or decisions made subsequent to FCMAT's fieldwork. A review of the scope point clearly indicates that FCMAT's budget analysis was to be performed at the end of the second interim financial reporting period. The most recent analysis that the county office has completed was a comprehensive annual financial report (CAFR) at the close of fiscal year 2010-11. The fund balances of the county office's CAFR and FCMAT's report are significantly different, but this is in no way indicative of an error in either report. Rather, these are two separate analyses being performed at different financial reporting periods and are not meant to be compared because the county office is using deferrals and other revenue recognition methods that are used at year-end closing but not during interim reporting periods.

## Team 3

To conduct this review, FCMAT interviewed the interim superintendent, board members, senior cabinet members and more than 115 staff including, but not limited to, central office administration and staff, on-site teachers, counselors and principals, camp staff, and Los Angeles probation office staff. The FCMAT study team conducted site visits to eight principal administrative units (PAUs) including Barry Nidorf, Angeles Forest, Renaissance, Santa Clarita, Central, Los

Padrinos, Eastern and Christa McAuliffe. In addition, the team visited six camp schools, three juvenile halls, and five community day schools and/or county community schools - independent study. FCMAT also reviewed electronic student attendance tracking information (EPIC), accounting records, staffing records, California Basic Educational Data System (CBEDS) information, LACOE external audit reports for 2009 and 2010, and collective bargaining agreements. FCMAT sampled and tested probation average daily population counts and daily movement reports to reconcile these with the EPIC monthly attendance register and the teachers' daily attendance reports. In addition, hundreds of documents were collected and reviewed.



# Executive Summary

The Los Angeles County Office of Education (LACOE) was established in 1852 by the California Legislature. It encompasses 4,084 square miles containing 80 school districts that serve 1,532,539 students in grades K-12, which is 25.86% of California's students (Source: California County Superintendents Educational Services Association (CCSESA), Classification of Counties 2011). LACOE is the largest intermediate educational service agency in the country and the only Class I county office of education in the state. LACOE employs more than 3,400 management and non-management staff in central office operations at three locations in Downey and several other locations across Los Angeles County.

In January 2011, the Fiscal Crisis and Management Assistance Team (FCMAT) received a request from the interim superintendent of the Los Angeles County Office of Education to conduct a management assistance review. On April 4, 2011, FCMAT and LACOE entered into an agreement for services. Fieldwork was conducted from April 2011 through August 2011 by more than 30 FCMAT staff and experienced consultants selected based on their expertise in specific areas of county office operation or legal expertise and who are either recently retired or currently serving as senior administrators in county offices of education across the state from April 2011 through August 2011. Sections of the report draft were reviewed by LACOE cabinet members in August, September and October 2011, with a final report issued in December 2011. The findings and recommendations in this report comprise consultant expertise in specific areas of county office operation.

This report contains findings and recommendations related to 14 scope points included in the study agreement. The report is divided into sections: the Governance section addresses scope points 1-2, focusing on the relationship between the county superintendent of schools and the county board of education, as well as their roles and responsibilities; the Staffing and Organization section addresses scope points 3-5, focusing on LACOE's organizational structure and staffing levels; the Fiscal Management section addresses scope points 6-9, focusing on fiscal management and procedures and policies; the Financial Analysis section addresses scope point 10 and is a budget review, multiyear financial projection and cash flow analysis; and the Juvenile Court, Community and Community Day Schools section addresses scope points 11-14, focusing on these types of schools and on special education.

## Governance Structure

LACOE's governance structure is unique among California county offices of education (COEs). The uniqueness derives from the Los Angeles County Charter. Most California counties are governed by general law, but Los Angeles is one of 14 counties in the state governed by a charter. The other 13 are Alameda, Butte, El Dorado, Fresno, Orange, Placer, Sacramento, San Bernardino, San Diego, San Francisco, San Mateo, Santa Clara, and Tehama.

In 44 of California's 58 counties, the county board members and the county superintendent are directly elected by and accountable to the voters. Almost all county offices of education, including LACOE, are fiscally independent, meaning that they do not function as county government departments and their budgets are separate. Los Angeles is unique in having its county board of supervisors engaged in selecting the county board of education members and the LACOE superintendent.

The Los Angeles County governance structure divides the focus of the superintendent among the needs of his office, the interests of the county board of education members, and the desires of

the county of board of supervisors. Reporting responsibilities are unclear and frequently redundant, which hampers the functions of the superintendent and administrative staff. This report acknowledges that the governance structure has affected the functions of the county office of education and the programs and services it delivers; however, it does not attempt to measure the extent of that impact. The Fiscal Crisis and Management Assistance Team's (FCMAT's) recommendations are provided to improve the operational relationship between the office of superintendent and the board of education within the context of the current governance structure.

## Functions of County Boards of Education

The responsibilities of the county board of education and county superintendent are specified in the California Education Code, though in some cases the code does not clearly define the entity responsible for specific mandates. This report lists the duties of the county board of education by major category, with references to the relevant Education Code section provided for each. Based on the allocation of responsibilities in the Education Code, all functions not identified as county board responsibilities are under the purview of the county superintendent.

The functions of the county board of education include some aspects of governance and policy adoption; fiscal accountability; curriculum and program accountability; and limited personnel and judicial appeals. The board is required to adopt the budget and review the first and second interim fiscal reports, but the superintendent must approve the reports. County boards of education are governing boards of the Head Start program and regional educational program (ROP) when it is maintained by the county superintendent, and the county board is the grantee under certain funded programs. The authority of the county board of education with regard to each program must be reviewed separately.

The Los Angeles County Board of Education has a desire to be more actively engaged in budget development. Board members interviewed agreed that budget development and administration are the responsibility of the superintendent. Some board members indicated that they have withheld budget revisions and approval because of their concern regarding the fiscal health of the office. Others acknowledge withholding approval in order to exert influence in areas of daily operations outside the board's purview. Board members stated that this was an outcome of long-held frustrations regarding the budget development process, the limited involvement of the board, and a genuine concern that budgets submitted were not sufficient to maintain the county office's solvency in the future.

However, this practice does not engender mutual trust and will not produce the long-term results sought by the board of education. Within the context of LACOE's unique governance structure, the superintendent and county board of education must continue to function and strive to develop mutual trust and open communication to ensure optimal operation of county office programs.

Because the role of a county board member is unique, and particularly in LACOE, it is imperative that new board members be provided with comprehensive training regarding the board's authority, roles and responsibilities, governance structure, policies and practices. The board meets three to four times per month to conduct business. The board also has four sitting committees: audit, curriculum, instruction and assessment, and finance and policy. Some of the functions of these committees overlap and duplicate the functions of the board meetings. Staff must prepare the materials and provide support for all meetings. Therefore the number of meetings is a significant investment of time not only for board members but also for the staff who prepare board and committee materials and support board meetings. The board and superintendent should review

the purpose and need for each committee and standing board meeting and attempt to reduce the number of committee and board meetings.

## Functions of a County Superintendent of Schools

The functions and responsibilities of a county superintendent of schools are too extensive to list in this report and are specified in hundreds of California Education Code references. In 1997 and again in 2006, the California County Superintendents Educational Services Association (CCSESA) asked legal counsel to review and identify the general duties and authority of superintendents of schools and county boards of education. The 2006 report was further revised in June 2010 to reflect the increasingly expanded statutory role of county superintendents.

The responsibilities of the county superintendent of schools include administration of the county office, fiscal oversight and assistance to districts and charter schools, operational review, distribution of legal and other information, recordkeeping, credential monitoring, and enforcement of curricula for school districts within the county. The superintendent is also responsible for administering the budget of the county office of education once it is approved by the county board of education and the state superintendent of public instruction (SPI), and for overseeing county office personnel, setting salaries, collective bargaining, special education, community day schools, juvenile court schools, local child care and development planning councils, charter school oversight, and other programs.

Although the Legislature has used the term “county office of education” with increasing frequency in recent years, it is undefined in the statutes. The term county office of education (COE) commonly refers to the organizational structure of the intermediate educational service agency in a given county. In this report, references to a COE are to the agency, not necessarily the role of the county superintendent or the county board of education. Statewide, it is generally understood that when the statutes refer to a county office of education, the legislature intends the responsibilities and authority to lie with the county superintendent unless the language or context clearly indicates otherwise.

## Mandated, Core and Value-Added Services

The Education Code imposes many duties and functions upon county superintendents and county boards of education. Core functions and services provided by the county superintendent, county office of education and county board of education are those that are central to their respective roles and that align with the mission of the agency. These include statutory services, mandated functions, and functions required for LACOE to operate.

Value-added functions and services are those services that are permitted in the Education Code or that improve educational services. In LACOE these include educational services, which are those determined by the superintendent to support school districts.

A 2007 CCSESA survey asked county offices statewide to rank 26 areas of service on a five-point scale indicating the degree to which they were considered core/critical. At the time of the survey, LACOE’s administration was not aligned with other county offices of education with regard to program priorities and identifying which programs should be considered core. Of the 26 areas of service, LACOE had 11 areas of reported discrepancy, including significant variances from the average in six of those areas.

Because many of LACOE’s value-added programs require a contribution from the unrestricted general fund, LACOE would benefit from considering specific factors when determining

program viability, including whether the program aligns with LACOE's mission, the value to students or clients, whether it is self-supporting, the amount and source of financial contribution required, and operational efficiencies. LACOE should use its mission as a guide to identify core programs, and establish a system for determining the relative priority of programs that are defined as value-added.

## Organizational Structure and Staffing

LACOE is organized into the office of the superintendent and six major divisions: Personnel Commission, Human Resource Services, Technology Services, Business Services, Educational Programs, and Educational Services. The divisions vary greatly in size and number of staff employed. They are generally organized by their core function to provide either external support to the 80 school districts the county office serves and to charter schools and community colleges, or internal support to the direct educational programs that LACOE provides to students.

Many departments within LACOE have excessive layers of management and multiple clerical support staff performing similar functions. FCMAT provides comparisons to other county offices of education in the total number of staff employed in each division. In many cases LACOE's staffing exceeds those of the comparison COEs based on the number of districts or number of students served. This report recommends that some departments, sections or units conduct a desk audit to determine the workload and the type of work on each desk to guide reallocation of workload and reductions in staff. Recommendations for reductions provided in the report are based on the total compensation (salary and benefits) of the least senior position to provide a conservative estimate. A conservative estimate of potential annual savings based on reducing the number of management and support staffing positions is \$3,978,000.

County offices of education selected for comparison were the nearest in size, demographics, number of districts served, and other related factors. Although comparative information is useful, it should not be considered the only measure of appropriate staffing levels. County offices are complex and vary widely in how they organize divisions and in demographics, operating programs, job descriptions and resources. Careful evaluation is recommended because generalizations can be misleading if significant circumstances are not taken into account when comparing staffing ratios for specific divisions.

FCMAT found that as programs expanded or new programs were developed, divisions and departments added staff rather than determining if the workload could be redistributed among existing staff. LACOE has not developed staffing plans or ratios to guide management in its hiring or restructuring decisions. In addition, as student enrollment has declined in direct service programs, LACOE has not consistently implemented commensurate staffing reductions in either management or nonmanagement positions. The imbalance of management to employees in LACOE has been problematic for several years as indicated by the 2003 Bridging Document and the 2010-11 organizational chart.

LACOE's support staffing ratio is driven by past practice rather than by workload. Common practice is to require that a position supervise two staff in order to be classified as management. There is little shared use of clerical support staff within each division. This is not cost effective or efficient, and practices should be revised.

Although individual managers are attempting to streamline the organizational structure in response to ongoing budget constraints, LACOE has no common written criteria to guide their reorganization or consolidation efforts. In addition, FCMAT identified items in the collective

bargaining agreements, and in particular the Bridging Document, that may impede the organization's ability to effectively and efficiently manage operations. LACOE collective bargaining agreements and past practices tend to restrict efforts to eliminate positions or reassign work. LACOE needs to negotiate changes in the collective bargaining agreements, and specifically the Bridging Document, to reduce impediments to management's ability to operate efficiently and effectively.

LACOE does not have criteria for determining the management level required for a specific work assignment or position, nor does it routinely compare workload and responsibilities among positions with similar titles to ensure an equitable distribution of workload and compensation. As a result, there is significant disparity in work responsibilities and in the number of positions supervised by management positions. LACOE should develop criteria to guide decisions to help determine the level of management required when creating new and filling vacant existing positions.

LACOE's workers' compensation rate is 6.20% of salaries, which is very high compared to other county offices of education (for example, the Kern COE has a rate of 1.41%). Based on an estimated cost of \$255,000,000 for 2011-12 general fund salaries, LACOE's total annual cost for workers' compensation is \$15.81 million at the current rate of 6.20%. Each 1% reduction in the workers' compensation rate would reduce costs by \$2.55 million per year.

In May 2003, LACOE and Los Angeles County Education Association (LACEA) entered into an agreement as a result of an impasse in negotiations. This agreement or "Bridging Document" details the negotiated agreements, sets forth the commitment to develop and practice a collaborative or interest-based approach to decision-making and negotiations; and sets forth the commitment of the parties to transform the culture of the organization. Collaboration and improved communication are essential to high-functioning organizations; however, the model prescribed in the Bridging Document became cumbersome, lengthened the disciplinary process, and increased training costs and the number of required staff meetings.

This report identifies several instances of duplication of services within divisions. For instance, many divisions operate small technology, human resources, and/or business services units rather than centralizing these services. In some cases this duplication can be inefficient and costly; in others it allows a department or division to better and more expeditiously serve its clients, but it also contributes to the continuing perception that divisions or departments operate independently, causing a lack of cohesiveness within the LACOE organization.

LACOE uses approximately 18 different data systems and employs a significant number of technology support staff both in its technology division and throughout other divisions to maintain these systems. The LACOE 2010 adopted master plan calls for standardizing equipment, centralizing some services, and supporting certain decentralized technology services, while recognizing that a hybrid of centralized and decentralized technology services is required to optimize operations in an organization of LACOE's size. Implementation of the plan has been incremental. There are many challenges to implementing a plan of this magnitude in an organization as large as LACOE. LACOE should consider commissioning a comprehensive external review of its technology needs and solutions to support both administrative operational functions and instructional applications. With regard to administrative functions, one alternative is for LACOE to research the feasibility of purchasing a fully integrated financial software system that can provide all aspects of accounting, position control, payroll, budgeting, and report generation for both LACOE and school districts that contract with LACOE for financial, budget and payroll services. Another alternative is to upgrade the current PeopleSoft application to perform many of these same functions.

## Fiscal Management

LACOE has a number of fiscal management practices that need to be evaluated in order to strengthen current operations in the areas of position control, internal controls, payroll, purchasing, accounts payable, accounts receivable, communications, budget development and monitoring, and AB 1200 oversight. Many business functions will require revising policy and procedures, while others will necessitate strengthening internal controls. FCMAT's report considers each of these areas in detail and provides many recommendations.

FCMAT found that the supplemental fiscal information that is brought to the county board of education does not contain all the components necessary to provide a complete analysis of the budget and interim financial reports. Staff presentations to the board need to have a consistent format and content, and board members should receive ongoing training and guidance on reviewing and assessing financial information to help them make informed decisions.

Upon examining a test sample of consultant and personal service contracts, FCMAT noted several concerns regarding adherence to county office policies, division procedures, and internal controls, including the following:

- Several contracts had no attachment detailing the scope of work, deliverables or milestones to indicate that payment was warranted, making it difficult to evaluate the need for a contract
- There were issues with contracts with a value of \$50,000 or more. Per the Contracts Section desk manual, contracts for more than \$50,000 are required to be reported to the board. The Report of Contracts does not appear to be included in policy and finance meetings, nor is it posted on the LACOE website in the Board Agendas and Minutes link. This inhibits public accountability with regard to the use and payment of contractors and is in conflict with the desk manual. In addition, this provision in the desk manual may conflict with Education Code Section 1281, which states that consultant agreements of \$25,000 or more that require budget revisions shall be incorporated into the agency's next interim report.
- Amendments to several of the contracts reviewed were approved only a few months after the original contract, often doubling or tripling the contract amount. Best practices would include a full cost estimate of the services in the original contract for proper budgeting and cost monitoring. In addition, multiple concurrent contracts are used for projects that appear similar in nature.
- Between July 1, 2008 and June 17, 2011, LACOE expended \$1.5 million on contracts with temporary agencies. Typically, permanent employees, substitute pools, retirees and other qualified candidates are less costly than temporary employment agency personnel. The temporary clerical support pool administered by the Personnel Commission, which began in 2009-10 and expanded in 2010-11, has resulted in efficiencies and should continue into 2011-12, requiring divisions to access this pool before filling a temporary office worker position.

## Financial Analysis

FCMAT performed a detailed reconciliation comparing the financial data from three databases: position control, budget and payroll. A comparison of the second interim report to position control data indicated a total variance of \$4,041,525. In addition, the position control to payroll

variance was determined to be \$1,798,340. These discrepancies need to be researched and adjusted so future data will be more accurate.

FCMAT found examples of discrepancies when comparing the databases, such as the following:

- Thirty-five employees were categorized in limited-term positions, which calculates to a potential annual cost of more than \$3 million in salaries and benefits that is neither included in the position control database nor encumbered in the payroll processing system.
- Costs for active vacant positions were not adjusted at interim reporting periods; rather, they were allowed to show the full annual budgeted cost of salaries and benefits, calculated in the general fund to be \$6.2 million for unrestricted resources, and an additional \$17.7 million for restricted resources, for a total cost of more than \$24 million in salaries/benefits in vacant positions with active status. A fully automated financial system would allow position control data to generate budget amounts year round, eliminating the need for manual adjustments.

FCMAT used LACOE's 2010-11 second interim financial report and the corresponding SACS data file, as submitted to the state Superintendent of Public Instruction, as the starting point to conduct an external and independent review of the LACOE general fund budget and to prepare a multiyear financial projection and cash flow analysis. This review was not an audit or an opinion on how LACOE presents its financial statements, and should not be directly compared to any other reporting period or reports that LACOE has produced, such as year-end actuals. The budget was reviewed at a given point in time; it does not include activity or decisions made subsequent to FCMAT's fieldwork.

The multiyear projection and cash flow analysis specified in scope point 10 of the study agreement are normally performed at a specific point in time; therefore it is expected that the actual numbers of FCMAT's analysis will vary from any current budget detail that has been produced by the county office staff. The scope point clearly indicates that FCMAT's budget analysis was to be done at the end of the second interim reporting period. The most recent analysis that the county office completed was the comprehensive annual financial report (CAFR) the end of fiscal year 2010-11. The two reports have significantly different fund balance amounts, due in large part to two separate and different analyses being performed at different times. This is in no way indicative of an error in either report. Rather, these are two separate analyses being performed at different times and are not meant to be compared. This is because deferrals and other revenue recognition methods are used at year end closing but not during interim reporting periods.

FCMAT reviewed LACOE's financial information and prepared an independent financial analysis of LACOE's fiscal health by producing an independent multiyear financial projection. The following factors have been identified as contributing to LACOE's fiscal issues:

- Program dependency on general fund unrestricted resources
- Prior year program deficit balances
- Declining enrollment
- State education funding deficits
- State education funding payment deferrals

FCMAT's analysis, based on current financial information, indicates that the LACOE *will* be able to meet its current obligations in the current and first subsequent fiscal year (2010-11

and 2011-12) and will not require an emergency state appropriation for these two fiscal years. However, this is based on the 2011-12 state budget as enacted and does not take into consideration any mid-year reductions or additional cash deferrals that may occur.

FCMAT's projection indicates that the LACOE's reserve balance, including balances in fund 17, Special Reserve for Non Capital Outlay, will decrease to 3.65% at the end of fiscal year 2011-12 and will be completely depleted by 2012-13. Further, the analysis indicates that in the absence of significant revenue increases or significant expenditure reductions, LACOE will have a negative general fund balance, will be unable to meet its financial commitments, and will be unable to meet its reserve requirements during fiscal year 2012-13. FCMAT's analysis of LACOE's unrestricted budget reveals an ongoing deficit spending cycle in both restricted and unrestricted resources that erodes the county office's fiscal health each year.

To retain its status as a going concern and avoid the need for outside assistance or intervention in future years, LACOE will need to make significant budget adjustments (e.g., expenditure decreases and/or revenue enhancements). More specifically, to offset deficit spending, declining enrollment and reduced state funding, LACOE should address the ongoing structural deficits in programs for which expenditures significantly exceed the provided funding. Further, reliance on one-time revenue sources from the American Recovery and Reinvestment Act (ARRA) and Federal Education Jobs funding will require LACOE to revisit staffing levels to ensure that operational levels are in line with revenue projections. In the absence of significant budget adjustments, LACOE will be in severe financial distress and require outside assistance during fiscal year 2012-13.

## **Juvenile Court Schools, Community Schools, Community Day Schools, and Special Education**

LACOE operates alternative education programs through its juvenile court school, county community school and community day school. These programs serve approximately 20% of the total court school pupils in the state, making its programs at least twice the size of those of any other county office of education in California.

Over the past decade, there has been a shift of California's most serious juvenile offenders from state-operated California Youth Authority/Department of Juvenile Justice programs to county-operated juvenile court schools. The magnitude of the shift, its programmatic and fiscal implications, and the absence of a related funding increase have placed enormous pressures on juvenile court school programs.

Effective program operation requires extensive interagency cooperation and communication. FCMAT identified issues with ineffective communication between the LACOE Division of Student Programs and the Los Angeles County Probation Department in developing policy and procedures. Minimal attention was given to the specific ways in which the two partner agencies function and how their roles are interdependent. The juvenile court school and community day school program delivery system is less than optimal and needs clear, careful attention to collective planning, organizational and personal relationship building, and information sharing.

Juvenile court schools are funded by a complex model unlike typical K-12 school districts. However, student enrollment and average daily attendance (ADA) are the primary factors in the funding model. A decline in enrollment is exacerbated by considerably low attendance rates. Enrollment and attendance figures indicate that only 81.48% of the juveniles in LACOE facilities attended school, compared to 95.86% in the four county offices that were used for

comparison in this report. Increasing the juvenile court school program attendance rate to the average of the four selected comparison counties would generate approximately \$4.6 million in new revenue annually, with no increase in expenditures necessary to accommodate the increased attendance rate.

Using the 1997-98 staff ratios and/or Los Angeles County Education Association (LACEA) collective bargaining agreement ratios as guidelines, LACOE's current staffing ratios are significantly higher than those necessary to deliver special education services and ensure compliance with state and federal law. LACOE's juvenile court, community and community day schools had a combined average ratio of 11.4 pupils to one teacher; Class II county offices of education used for comparison had an average ratio of 17.8-to-1.

Increasing the pupil-to-teacher ratio in LACOE's juvenile court school program (11.5-to-1) to the level of comparable counties (12.7-to-1) would result in a reduction of 23 teachers (from 239 to 216) and produce a net budget savings of approximately \$1.8 million.

The student-to-staff caseload for school psychologists is not included in the LACEA collective bargaining agreement, primarily because psychologists are classified as management. Consequently, the student-to-psychologist caseload of 35-to-1 was established by LACOE and the SELPAs. At that level, the number of psychologists needed for the current or combined student population in these alternative programs would be 11.11 instead of the current 24.

If LACOE's juvenile court school program used the same pupil-to-site administrator ratio as the average of the four comparison county offices of education, the number of principals/assistant principals would decrease from 25 to fewer than nine. Pupil-to-site-administrator ratios in the comparison counties, which have larger geographic areas than Los Angeles, have increased in recent years because of budget pressures. A reduction in staffing to the level of comparable counties has the potential to save approximately \$1.9 million annually.

LACOE may also be able to reduce the number of juvenile court schools and community day school/county community school site level and central office administrators to achieve a ratio closer to that of comparable county offices. The potential reduction in operational cost is \$382,000.

Significant improvement has been made in staffing ratios in the alternative education program for the current year, but based on the identified overstaffing in 2009-10, additional reductions in teacher staffing will likely be justified to realize a savings of \$3 million annually.

The recommendations contained in this report can reduce the LACOE juvenile court school, county community school, and community day school expenditures by a total of approximately \$20 million, improving the integrity of these budgets. These recommendations and potential savings are based on the expectation that these programs operate at a level of efficiency equal to that of comparable county offices of education offering the same programs.

Approximately \$8.5 million of the \$20 million in savings would result from the additional revenue generated primarily from increasing enrollment/attendance rates to the levels of comparable counties and focusing on reimbursement requests for Medi-Cal administrative activities (MAA) and Medi-Cal-eligible activities. Most of the remaining \$11.5 million in savings would be the result of reducing staffing for teachers, administration, counselors, and special education services to that of comparable counties.

It may not be possible to implement some recommendations immediately because of contracts with certificated bargaining units or settlements resulting from lawsuits. Some recommendations and related savings could be realized immediately or within two years if fully implemented.

# Governance Overview

The Governance section of this report focuses on the relationship between the county superintendent of schools and the county board of education, as well as their roles and responsibilities.

## Governance Structure

Fourteen of California's 58 counties are governed by a charter. The Los Angeles County Charter is unique in providing that the county board of supervisors appoints both the county superintendent and the county board of education. In other charter counties, the county board of education appoints the superintendent. In general law counties, the superintendent and the board members are all elected.

The responsibilities of the county board of education and county superintendent are specified in the California Education Code, although in some cases the code does not clearly define the entity responsible for specific mandates. In the past, the relationship between the Los Angeles County Board of Education and the office of the County Superintendent has been made more complex by a governance structure that has the superintendent responding to both the county supervisors and the county board of education. This report acknowledges that the governance structure has affected the functions of the county office of education and the programs and services it delivers; however, it does not attempt to measure the extent of that impact. The Fiscal Crisis and Management Assistance Team's (FCMAT's) recommendations are provided to improve the operational relationship between the office of superintendent and the board of education within the context of the current governance structure.

The Los Angeles County governance structure divides the focus of the superintendent among the needs of his office, the interests of the county board of education members, and the desires of the county of board of supervisors. Reporting responsibilities are unclear and frequently redundant, which hampers the functions of the superintendent and administrative staff. Within LACOE's unique governance structure, the superintendent and county board of education must continue to function and strive to develop mutual trust and open communication.

## Responsibilities of a County Board of Education

The functions of the county board of education are specified in Education Code and include some aspects of governance and policy adoption; fiscal accountability; curriculum and program accountability; and personnel and judicial appeals. In the area of fiscal accountability, the board is required to adopt the budget and review the first and second interim fiscal reports, but the superintendent must approve the reports. Any budget revisions, including revisions required by consultant agreements in excess of \$25,000, should be included in the next interim financial report or other board report for the board's discussion and approval.

County boards of education are governing boards of the regional educational program (ROP) when it is maintained by the county superintendent and is the grantee under certain funded programs and Head Start. The authority of the county board of education with regard to each program must be reviewed separately.

## Responsibilities of the Superintendent

The responsibilities of the county superintendent of schools are extensive and include administration of the county office, fiscal oversight and assistance to districts and charter schools, operational review, distribution of legal and other information, record keeping, credential monitoring, and enforcement of curricula for school districts within the county. The superintendent is also responsible for administering the budget of the county office of education once it is approved by the county board of education and the state superintendent of public instruction (SPI), and for overseeing county office personnel, setting salaries, collective bargaining, special education, community day schools, juvenile court schools, local child care and development planning councils, and charter school oversight, and other programs.

## Definition of a County Office of Education

Although the Legislature has used the term county office of education with increasing frequency in recent years, it is undefined in the statutes. Prior to the 1960s, county education functions were performed by a department of county government. Since then, in most counties, including Los Angeles, the board of education and superintendent have been granted fiscal independence and their operations are funded through the County School Service Fund. The term county office of education (COE) commonly refers to the organizational structure of the intermediate educational service agency in a given county. LACOE is the largest intermediate educational service agency in the country and the only Class I county office of education in the state.

In this report, references to a COE are to the agency, not necessarily the role of the county superintendent or the county board of education. For the underlying authority behind the term COE one must look at the context of its usage. For example, when referring to a COE's facilities the role of the board may be primary, whereas when referring to a COE's personnel or direct service to students or districts the role of the superintendent is primary. Statewide, it is generally understood that when the statutes refer to a county office of education, the legislature intends the responsibilities and authority to lie with the county superintendent unless the language or context clearly indicates otherwise.

For example, Education Code (EC) section 41302.5 defines "school districts" for the purposes of Proposition 98 funding as "county boards of education, county superintendents of schools, and direct elementary and secondary level instructional services..." It does not mention county offices of education. As illustrated in the above example, the education code can generally be relied upon to delegate duties and functions to either the county superintendent of schools or the county board of education. This section of the report identifies these duties and functions.

Education Code section 41023 serves as a good illustration of the complicated interaction among the COE, county superintendent, and county board of education. This section requires joint powers authorities (JPAs) formed under Government Code 6500 and consisting solely of school districts and COEs to adhere to the Education Code's budget and financial standards. However, Government Code 6500 does not refer to COEs; rather, it lists county superintendents and county boards of education as eligible to create JPAs.

### Education Code 41023

Any agency organized pursuant to Article 1 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code, the parties of which consist solely of school districts and county offices of education, shall be subject to the

same restrictions as are applicable to school districts and county offices of education, under that chapter...

### **Government Code 6500**

As used in this article, “public agency” includes, but is not limited to, the federal government or any federal department or agency, this state, another state or any state department or agency, a county, county board of education, county superintendent of schools, city, public corporation, public district, regional transportation commission of this state or another state, or any joint powers authority formed pursuant to this article by any of these agencies.

## **The Work of the Los Angeles County Board of Education**

The Los Angeles County Board of Education has a desire to be more actively engaged in budget development. Board members expressed a desire to be involved in ensuring the fiscal health of the agency but do not feel that they have sufficient authority to do so. Although board members agreed that budget development and administration is the responsibility of the superintendent, some board members have withheld budget approval to exert influence in areas of daily operations outside the board’s purview. This practice does not engender mutual trust and will not produce the long-term results sought by the board of education.

Members of the board felt they should have a greater role in contract approval. Legal opinion concludes that the board’s authority is limited to approval of the interim budget revisions and total appropriation. Interim reports should include budget revisions, including consultant contracts that exceed \$25,000 and require budget revisions.

Board members expressed dissatisfaction with the quality of training provided to new board members. Staff indicated that board member training is provided but acknowledge the lack of a comprehensive plan for such training. Boardmanship training for all members could strengthen governance.

The board meets three to four times per month to conduct county school business and also has four sitting committees. This is a significant investment of time for all involved, including county office staff who must prepare materials and provide support.

## **LACOE-Identified Mandated and Core Programs**

Education Code Section 75 states that “shall” indicates something is mandatory and “may” indicates something is permitted. The Education Code imposes many duties and functions upon county superintendents and county boards of education. Core functions and services provided by the county superintendent, county office of education and county board of education are those that are central to their respective roles and that align with the mission of the agency. These include statutory services, mandated functions, and functions required for LACOE to operate.

Value-added functions and services are those services that are permitted in the Education Code or that improve educational services. In LACOE these include educational services, which are those determined by the superintendent to support school districts; and programs and services of choice, which are those that a county superintendent chooses to provide, some of which are requested by districts, departments or the community.

These definitions of core and value-added programs are not commonly understood throughout LACOE, and LACOE has not developed criteria to help staff and administrators determine if a program is core or value-added.

## **Statewide Survey of Core Programs and Services**

A 2007 California County Superintendents Educational Services Association (CCSESA) survey asked county offices statewide to rank 26 areas of service on a five-point scale indicating the degree to which they were core/critical. At the time of the survey, LACOE's administration was not aligned with other county offices of education with regard to program priorities and identifying which programs should be considered core. Although LACOE's definitions of core and value-added are sufficient, the process for designating programs as either core or value-added lacked input from senior staff and sufficient cabinet review to ensure that a program is aligned with the agency's mission.

Because many of LACOE's value-added programs require a general fund contribution, LACOE would benefit from considering specific factors, including whether the program aligns with LACOE's mission, the value to students or clients, whether it is self-supporting, the amount and source of financial contribution it needs, and operational efficiencies. LACOE should use its mission as a guide to identify core programs, and establish a system for determining the relative priority of programs that are defined as value-added.

# Governance Findings and Recommendations

## Governance Structure

LACOE's governance structure is unique among California county offices of education (COEs). The uniqueness derives from the Los Angeles County Charter. Although most California counties are governed by general law, Los Angeles is one of 14 counties in the state governed by a charter. The other 13 are Alameda, Butte, El Dorado, Fresno, Orange, Placer, Sacramento, San Bernardino, San Diego, San Francisco, San Mateo, Santa Clara, and Tehama.

In 44 of California's 58 counties, the county board members and the county superintendent are directly elected and accountable to the voters. Almost all county offices of education, including LACOE, are fiscally independent, meaning that they do not function as county government departments and their budgets are separate. Los Angeles is unique in having its county board of supervisors engaged in selecting the county board of education members and the LACOE superintendent. Each Los Angeles County supervisor appoints one county board of education member for a four-year term, and two board of education members are appointed for a two-year term. The authority to appoint the members with two-year terms rotates among supervisors. Each county supervisor has an education deputy who acts as a liaison with the county superintendent. Therefore, the superintendent reports to the five members of the board of supervisors, and communicates with the seven-member board of education, and the five education deputies. This governance structure has an impact on the operations of the county office. The superintendent has something of the status of a county employee, even though his is a constitutional office with duties assigned to it by the Legislature.

Except in a few specific instances, the county board of education is not designed or empowered to function like a local school district board. In the counties governed by general law, working relationships have developed between the superintendent and the board to meet students' needs and to provide services to districts in accord with local expectations.

The Los Angeles county model divides the focus of the superintendent among the needs of his office, the interests of the county board of education members in being informed and engaged, and the desire of the county board of supervisors to exercise some degree of authority over an office that is not part of the regular county government structure. Reporting responsibilities are not clear and are often redundant. The superintendent's and administrative staff members' functions are hampered by these unclear lines of accountability. Within this unique environment, the superintendent, the senior staff, and the county board of education need to ensure that their focus is on performing the roles assigned to them by the Legislature.

In June 2011 the county board of supervisors hired a new LACOE superintendent and established criteria to be used to evaluate the effectiveness of the superintendent. The criteria include measuring the performance of county-operated educational programs. However, the board of education's past practice has been to evaluate the effectiveness of county office-operated programs under its purview. Board of education members and the superintendent have noted the duplication, and a resolution will be needed to foster open communication between the new superintendent and the board of education.



# Functions and Responsibilities of County Boards of Education

Extensive research and opinion exists regarding the roles and responsibilities of county boards of education and county superintendents of schools. Education Code sections interchangeably refer to the superintendent of schools, county office of education and county board of education when designating authority and responsibility. Where the Education Code states “may” in reference to the authority of the superintendent, county board of education or county office of education, it is considered permissive but not required; where the code states “shall,” it is required.

The Education Code sets forth five main categories of functions and responsibilities of the county board of education. These categories include governance and policy adoption; budget/fiscal accountability; curriculum and program accountability; personnel; and judicial and appeals. Listed below are the duties of the county board of education by major category, with references to the relevant Education Code section provided for each. Based on the allocation of responsibilities in the Education Code, all functions not identified as county board responsibilities are under the purview of the county superintendent.

Mandatory duties of the county board of education are set forth in Education Code (EC) Section 1040, and permissive authority is enumerated in EC 1041-1047 and 1080-1082. Some of these are summarized by category below.

## **Governance and Policy Adoption**

- Shall adopt rules and regulations for the board’s own governance and keep records of proceedings (EC 1040)
- May secure copyrights in the name of the board (EC 1044)
- May use, sell, give or exchange published materials or license the use of copyrights (EC 1045)
- May adopt and use an official seal and have printing done as needed (EC 1041)
- May adopt rules and regulations governing the administration of the office of the county superintendent (EC 1042(a)). This does not prohibit the superintendent from adopting his or her own regulations and policies to direct the staff in the discharge of their duties.

## **Budget/Fiscal Accountability**

- Shall hold public hearings and approve the annual budget of county superintendent (EC 1620)
  - If the county board neglects or refuses to approve the county budget or file an interim report, the state superintendent of public instruction (SPI) shall not apportion state or federal money and will notify the county official not to approve warrants. (EC 42120)
- Shall review interim financial reports (EC 1240(l))
  - Approve budget revisions including consultant agreements in excess of \$25,000 when those agreements constitute budget revisions (EC 1280, 1281)
- Shall review annual audit report (EC 1040)

- Shall discuss and approve the disposal of personal property valued at more than \$25,000 (EC 1279)
- Shall approve any increase of an employee's retirement benefits in excess of \$10,000 (EC 1302(b))
- Shall adopt a Gann limit resolution (EC 1629)
- May review the county superintendent's estimate of revenues and expenditures (EC 1042(b))
- May acquire, lease, lease-purchase, hold and convey real property (EC 1042(c))
  - With approval of the board, the county superintendent may acquire by gift and maintain real or personal property needed for outdoor science. (EC 8766)
  - With approval of the board, the county superintendent may lease real or personal property for special education. (EC 8769)
  - With approval of the board, the county superintendent may sell, lease, exchange or dispose of real or personal property. (EC 8771)
- May exercise eminent domain to acquire property. (EC 1047)
- May construct and maintain dormitories for the handicapped. (EC 1046)
- May contract with and employ people for special services. (EC 1042(d))
- With approval of the board, the county superintendent may establish a revolving cash fund. (EC 42806)
- With approval of the board, the county superintendent may conduct studies related to the future management, conditions, needs and financial support of schools within the county. (EC 1260)

The county board of education is required to review the first and second interim financial reports submitted by the superintendent; however, the superintendent must approve the reports. EC 1240(1) states:

Both reports shall be reviewed by the county board of education and approved by the county superintendent no later than 45 days after the close of the period being reported.

The county board of education is permitted but not required to review the annual itemized estimate of anticipated revenue and expenditure before it is filed with the county auditor and make any revisions it deems advisable or proper (EC 1042(b)). Legal opinion is that the authority to approve the estimate is limited to fiscal accountability (e.g., whether the estimates are accurate) and not program authority.

The county board of education is required to review, but not to approve, the report of the annual audit.

Following enactment of Assembly Bill (AB) 857 in 1999, any proposed revisions in excess of \$25,000 to the annual adopted budget should be incorporated into the next interim financial report or other board report when the report is submitted to the county board of education for discussion and approval at a regularly scheduled public meeting.

County boards of education are governing boards of the regional educational program (ROP) when it is maintained by the county superintendent (EC 52310.5). In addition, the county board of education is the grantee under certain funded programs and Head Start. The authority of the county board of education with regard to each program must be reviewed separately; the terms of the grant or program funding may delineate the roles and responsibilities of the superintendent, the county office and the board.

Following is a summary of the county board of education's permitted and required responsibilities in three additional categories.

### **Curriculum and Program Accountability**

- Adoption of a course of study for county community schools and juvenile court schools. Thereafter, operation of these schools is the responsibility of the county superintendent.
  - May establish and maintain one or more community schools (EC 1980)
  - May enroll specified students in a community school (EC 1981)
  - May award diplomas or certificates to prisoners enrolled in classes or school in any county jail (EC 1901)
  - May provide for maintenance of Saturday classes for prisoners in county jail (EC 1902)
  - With the approval of the board, the county superintendent may enter into agreement with the director of corrections to maintain classes for adult inmates. (EC 1259)
  - With the approval of board, the county superintendent has the power to establish and maintain classes or school for prisoners in any county jail or camp. (EC 1900)
  - With the approval of board, the county superintendent may establish and maintain child development programs, subject to state regulations. (EC 8320)
- Approval of charter schools (EC 47607(g)(l))
  - May grant, renew or revoke a charter and has supervisory and oversight responsibilities.
- Review and approval of charter school appeals (EC 47605(j)(l))
  - If a school district board denies a charter petition, the petition may be appealed to the county board.

### **Personnel**

- Shall approve any increase in the salary of the county superintendent. (EC 1209)
- If an employee's salary will increase by more than \$10,000, it must be brought to the attention of the county board. (EC 1302(a))
- With the approval of the board, the county superintendent may grant classified employees leaves of absence, with or without pay (EC 1295). This authority must be harmonized with the superintendent's exclusive authority to enter into collective bargaining agreements that usually address leaves of absence. Nothing prevents the board from delegating all leave authority to the superintendent.

Note: the following personnel actions are related to credentials and certificates for all certificated employees in the county, whether employed by the county superintendent or by school districts

- Shall obtain a criminal records check prior to issuing a temporary certificate and may not issue a certificate to an applicant who has been convicted of a violent or serious felony. (EC 44332.6)
- Shall revoke a temporary certificate upon the final conviction of certain felonies. (EC 44435)
- Shall not issue a temporary certificate to an applicant whose teaching credential is revoked or suspended. (EC 44332(d))
- Shall cancel the temporary certificate or permit upon receipt of commission notification that applicant does not possess adequate academic qualifications or has a disqualifying criminal record. (EC 44332(b))
- May revoke or suspend a certificate. (EC 44428)
- May suspend a teaching certificate after receiving notice from a district of unauthorized departure from service. (EC 44433)
- May provide for the registration and renewal of any valid certification. (EC 44330, 44331)
- May issue temporary certificates to authorize salary payments to certificated employees whose credential applications for the preschool program are being processed. (EC 44332 (a))
- Shall suspend the certificate issued by the county board whenever its holder is convicted of any sex offense or controlled substance abuse as defined in the Education Code. (EC 44436)
- Shall suspend a certificate issued by the county board whenever its holder is determined to be a sexual psychopath under certain provisions of law. (EC 44437)

### **Judicial and Appeals Role**

- Shall serve as the appeals body for student expulsions (EC 48919, 48919.5 and 48920-48924)
- Shall serve as the appeals body for interdistrict student transfers (EC 46601)
- The county board of education and governing board of each district shall adopt a plan developed by the county superintendent and the district superintendents to provide educational services for expelled pupils. (EC 48926)

# Functions and Responsibilities of a County Superintendent of Schools

The functions and responsibilities of a county superintendent of schools are too extensive to list in this document and are specified in hundreds of California Education Code references. In 1997 and again in 2006, the California County Superintendents Educational Services Association (CCSESA) asked legal counsel to review and identify the general duties and authority of superintendents of schools and county boards of education. The 2006 report was further revised in June 2010 to reflect the increasingly expanded statutory role of county superintendents. The full June 2010 report is attached for reference in Appendix A. The following list of the general functions and duties of the county superintendent of schools is compiled from excerpts of that report:

Education Code (EC) Section 12402 describes the general statutory duties of the county superintendent. This section was amended by settlements of *Williams, et al v. State of California, et al.*, and *Valenzuela v. O'Connell, et al.* lawsuits. Section 1240 states that county superintendents *shall*:

- (a) Superintend the schools of his or her county.
- (b) Maintain responsibility for the fiscal oversight of each school district in his or her county.
- (c)
  - (1) Visit and examine each school in his or her county at reasonable intervals to observe its operation and to learn of its problems.
  - (2) If funds are appropriated to do so, annually submit a report to the governing board of each school district, county board of education, and county board of supervisors regarding:
    - The sufficiency of textbooks;
    - The condition of facilities that poses an emergency or urgent threat to the health or safety of pupils or staff;
    - The accuracy of data reported on the school accountability report card
    - The intensive instruction and services received by students who did not pass the CAHSEE
    - Teacher misassignments and teacher vacancies.
- (d) Distribute all laws, reports, circulars, instructions, and blanks that he or she may receive for the use of the school officers.
- (e) Annually, on or before August 15, present a report to the governing board of the school district and the SPI regarding the fiscal solvency of any school district with a disapproved budget, qualified interim certification, or a negative interim certification, or that is determined at any time to be in a position of fiscal uncertainty.
- (f) Keep in his or her office the reports of the SPI.
- (g) Keep a record of his or her official acts, and of all the proceedings of the county board of education.

- (h) Enforce the course of study.
  - (i) Enforce the use of state textbooks and instructional materials and of high school textbooks and instructional materials (EC 51050)
    - (1) Specifically review schools ranked in deciles 1 to 3 by the fourth week of the school year.
  - (j) Preserve carefully all reports of school officers and teachers.
  - (k) Deliver to his or her successor, at the close of his or her official term, all records, books, documents, and papers belonging to the office, taking a receipt for them, which shall be filed with the State Department of Education.
  - (l) Submit two interim reports on COE fiscal and budget status during the fiscal year to the county board of education.
 

Send copies of each positive, qualified, or negative certification to the SPI and the State Controller.
  - (m) When so requested, act as agent for the purchase of supplies for the city and high school districts of his or her county.
  - (n) Report to the Commission on Teacher Credentialing the identity of any certified person who knowingly and willingly reports false fiscal expenditure.
- A. Monitoring Implementation of Quality Education Investment Act (QEIA)
- For every “funded school” located in the county, the county superintendent is required to:
1. Review the school and its data to determine if the school has met the program requirements by the end of the third full year of funding and report to the SPI.
- B. Miscellaneous Reporting Duties
- The county superintendent is required to:
1. Make reports, when directed by the SPI, showing matters relating to the public schools in his or her county (EC 1243);
  2. Annually submit to the SPI a complete report of the attendance credited to the public schools of the county for the school year ending June 30 (EC 1244);
  3. Submit additional reports as may from time to time be required by the SPI (EC 1245).

Source: *Statutory Functions of County Boards of Education & County Superintendents of Schools*, March 1997. Revised June 2010. Approved for publication by the California County Superintendents Educational Services Association (CCSESA) board of directors, August 9, 2010 and by the CCSESA membership on October 25, 2010, pp. 7-12.

## Budget Administration

Once the county budget has been approved by the county board of education and the SPI, the administration of the budget is the responsibility of the county superintendent. Education Code Section 1604 and the CCSESA legal counsel's report referenced above states the following:

No funds may be expended in excess of the total expenditures approved by the Superintendent of Public Instruction without his or her approval (Education Code Section 1604). In many counties, major changes in expenditures, such as for budget augmentation, major shifts in spending priorities, and new programs, are first presented to the county board by the superintendent. The superintendent, however, can spend within major budget categories without further approval. The necessary transfers among budget categories (e.g. object codes) may be made by the superintendent to meet necessary expenses. Budget funds cannot, however, be transferred from the unappropriated fund balance without approval of the county board. In addition, a budget revision by the county superintendent in excess of \$25,000 or a consultant contract for \$25,000 or more [if that constitutes a budget revision, as indicated in Education Code Section 1281(b)] is required to be incorporated in the next interim financial report or other board report when the report is submitted to the county board of education for discussion and approval at a regularly scheduled public meeting (Education Code §§ 1280, 1281).

As noted above, the county superintendent submits to the board for review two interim reports - period ending October 31 and period ending January 31. At the time of these interim reports, the board and public are informed of routine budget transfers and approval is sought from the board for budget revisions (e.g. adjustments to revenue and to total appropriation level).

Ibid, pp. 14-15.

## Property

County boards of education have the power to lease, lease-purchase, hold and convey real property for the purpose of housing the offices and services of the county superintendent of schools (EC 1042(c)). Authority for purchases and contracts for personal property (e.g., equipment and supplies) resides with the county superintendent.

The CCSESA legal counsel's report referenced above states the following:

Education Code Section 1605 provides that title to all property purchased by the county superintendent using the county school service fund is in the office of the county superintendent. The standard practice is for real property to be held jointly in the name of the county superintendent and county board of education, and for personal property (including equipment) to be held in the name of the superintendent.

Ibid, p. 15.

## Fiscal Oversight

AB 1200 and AB 2756 require county superintendents to review and approve school district budgets and ongoing expenditure patterns before they are sent to the California Department of Education (CDE) (EC 42127). Specifically, county superintendents are required to do the following:

1. Examine the district's adopted budget to determine whether it complies with the state board of education (SBE) standards and criteria. (EC 42127(c)(1))
2. Determine whether the district can meet its financial obligations during the fiscal year and satisfy its multiyear financial commitments. (EC 42127(c)(2))
3. Review and consider studies, reports, evaluations, or audits of the school district that contain evidence of fiscal distress. (EC 42127(c)(2))
4. On or before August 15, determine if the district may not be able to meet the financial obligations of the current or two subsequent fiscal years and approve, conditionally approve, or disapprove the adopted budget for each school district. (EC 42127(d))
5. On or before August 15, for those districts where the budget was approved conditionally or disapproved, send written budget recommendations to the governing board of the school district. (EC 42127(d))
  - a. Note: The county superintendent *may* assign a fiscal adviser to assist a school district to develop a budget in compliance with the recommended revisions. (EC 42127(d))
6. By September 8, review any disapproved budget and the recommendations at a public hearing of the school district's governing board. (EC 42127(e))
7. By September 15, develop a budget for any district that does not submit one to the county superintendent as required by August 15 and transmit that budget to the district's governing board. (EC 42127(d))
8. By September 22, provide a list to the SPI identifying all school districts for which a budget may be tentatively disapproved. (EC 42127(f))
9. By October 8, examine the revised budget to determine whether it (1) complies with the standards and criteria adopted by the state board of education, (2) allows the district to meet its financial obligations during the school year, (3) satisfies all conditions established by the county superintendent, in the case of a tentatively approved budget, and (4) is consistent with a financial plan that will enable the district to satisfy its multiyear financial commitments.
10. By October 8, approve or disapprove the revised budget.
11. County superintendents shall also review and comment on any proposed collective bargaining agreement of a qualified or negative certified district to determine if the agreement would endanger the fiscal well-being of the district and notify the district, the county board of education, the district superintendent and governing board, and each parent and teacher organization of the district within 10 days. (Government Code (GC) Sections 3540.2(a), (c))

12. Issue a qualified or negative certification for the district on the next interim report if the district does not adopt all of the revisions needed to meet the costs of a collective bargaining agreement. (GC 3547.5(c))
13. Report to the SPI on the financial condition of any school district that is certified as qualified or negative including his or her proposed remedial actions, which may include:
  - a. Assign a fiscal expert, paid for by the county superintendent, to advise the district on its financial problems.
  - b. Conduct a study of the financial and budgetary conditions of the district including a review of internal controls.
  - c. Direct the school district to submit a financial projection of all fund and cash balances of the district as of June 30 of the current year and subsequent fiscal years as he or she requires.
  - d. Require the district to encumber all contracts and other obligations, to prepare appropriate cash flow analyses and monthly or quarterly budget revisions, and to appropriately record all receivable and payables.
  - e. Direct the district to submit a proposal for addressing the fiscal conditions that resulted in the determination that the district may not be able to meet its financial obligations.
  - f. Withhold compensation from members of the governing board and the district superintendent for failure to provide requested financial information.
  - g. Note: The county superintendent may assign a fiscal adviser to assist a school district to develop a budget in compliance with the recommended revisions. (EC 42127(d))
  - h. Assign the Fiscal Crisis and Management Assistance Team (FCMAT) to review issues and provide the district with recommendations. (EC 42127.6(a)(1))

In addition, at any time during the fiscal year, county superintendents may audit, in a timely and efficient manner, the expenditures and internal controls of school districts he or she determines to be fiscally accountable (Education Code Section 1241.5(a)(11)). Furthermore, at any time during the fiscal year, county superintendents may review or audit the expenditures and internal controls of school districts in his or her county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination (*Id.* at 1241(b)).

Ibid.

## Emergency Loan Districts

County superintendents are also required to provide specific fiscal oversight for districts that receive emergency state loans. The appointment of a State Administrator to an emergency loan district does not remove any statutory rights, duties, or obligations from the county superintendent (Education Code § 41327.2(a)). County superintendents are required to submit reports to the Superintendent of Public Instruction, appropriate fiscal and policy committees of the legislature, the Director of Finance, and the Secretary of Education after reviewing the district's budget and interim reports that:

1. Document the fiscal and administrative status of an emergency loan district, particularly in regard to the implementation of the fiscal and management recovery plans.
2. Determine whether the revenue streams to the district appear to be consistent with its expenditure plan, according to the most recent data available at the time of the report.

(Education Code Section 41327.2(b))

Ibid.

## Personnel

### Certificated Staff Hiring

Numerous statutory references confirm the authority of the superintendent as the employer of certificated staff. Education Code §§ 1293 and 1294 grant to the superintendent the right to employ certificated employees. Once the board grants general approval for program areas, the superintendent retains sole authority to hire staff within budgetary constraints.

### Classified Staff Hiring

Education Code Section 1311 states that classified employees that are employed by the county superintendent of schools are to be employed consistent with specified code sections applicable to K-12 and community college classified employees. Again Education Code Section 1311 identifies the superintendent as the employer. The superintendent sets the salaries and benefits of all categories of employees subject to collective bargaining agreements. The county superintendent may not increase the salary or bonus of any employee of the county office of education by \$10,000 or more or increase the retirement benefits of any employee unless the matter is brought to the attention of the county board of education for its discussion at a regularly scheduled meeting (EC 1302(a)), but county board approval is not required.

Certificated and classified discipline, dismissal, layoffs, evaluations, and most leaves are within the purview of the county superintendent of schools, again subject to bargaining obligation, the rules of the personnel commission and state law.

### Credential Monitoring

County superintendents are required to monitor and review school district certificated employee assignment practices as defined in Education Code Section 44258.9(b) and submit annual reports to the Commission on Teacher Credentialing.

## Collective Bargaining

The county superintendent is the sole employer and has the authority to bargain with collective bargaining units. (PERB order No. 323, June 30, 1983)

## Regional Occupational Centers and Programs (ROC/Ps)

In some county-operated programs the board has oversight authority in specific areas. For instance, regional occupational centers or programs (ROC/Ps) are established to provide students with vocational education. Under EC 52301 the county superintendent has the authority to establish an ROC/P. They may also be established by school districts under a joint powers agreement. When an ROC/P is established by the county superintendent, the county board is the governing board (EC 52310.5) and as such it shall review the program every two years for compliance with statutory requirements (EC 52302.3)

## County School Service Fund Programs and Services

California Education Code Section 1700 states that the county superintendent is authorized, with approval of the county board, to coordinate the educational programs among school districts and to provide professional and financial assistance to school districts. Once established, the county superintendent is empowered to employ various staff to provide for coordination of services, including:

1. Preparation of courses of study for students and development of curriculum and instructional materials for K-12 schools (EC 1720).
2. Supervision of instruction (EC 1730), supervision of attendance (EC 1740), supervision of health (EC 1750), and counseling and guidance services (EC 1760).
3. Establishment and maintenance of a county school library service (EC 1770), youth conservation and training program (EC 1780), technical, agricultural, and natural resource school (EC 179), audio and visual services facilities (EC 1830), classes or schools for prisoners in the county jail (EC 1900), and emergency schools (EC 1920).

The county superintendent has the authority to determine the necessity of providing such services and programs, and to design a program that will meet the needs of the school districts and their students.

## County Community Schools

County community schools usually serve students who have been removed from school districts by expulsion or referral. The county board of education has the discretionary authority to establish these community schools (EC 1980). Once established, the county superintendent administers the schools and the county board of education adopts the curriculum (EC 1982, 1983, 1984).

## Community Day Schools

Community day schools are operated by school districts and county offices of education. Community day schools serve expelled students, students referred by a school attendance review board or probation department, and other high-risk youth. Education Code Section 48667(a) provides that for purposes of community day schools, a county office of education is deemed to be a school district. Thus the county board of education has discretionary authority to establish these community day schools (EC 48660).

## Juvenile Court Schools

Education Code Section 48645.2 states, the “county board shall provide for the administration and operation of juvenile court schools” either “by the county superintendent” or “by contract with the respective governing boards of the school districts in which the juvenile court school is located.” Court schools are to be conducted in a manner prescribed by the county board of education to best accomplish the statutory purpose. The board adopts the curriculum and evaluates the educational program (EC 48645.3).

The administration and staffing of community schools, community day schools and juvenile court schools are the responsibility of the county superintendent.

## Special Education

The county superintendent may operate special education classes under the special education local plan area’s (SELPA’s) local plan and participate in the individualized education program (IEP) process to develop programs suited to students’ individual needs. Curriculum decisions and proficiency standards are the responsibility of local school districts (EC 56000 and following).

## Local Child Care and Development Planning Councils

County superintendents of schools, in conjunction with the county board of supervisors, are required to establish local child care and development planning councils that provide a forum for the identification of local priorities for child care and the development of policies to meet the needs identified within those priorities (EC 8499.3).

## Oversight of Charter Schools

A county superintendent has authority to monitor and investigate the operations of any charter school located within his or her county based upon written complaints by parents or other information that justifies the investigation (EC 47604.425). In addition, beginning January 1, 2006, a county superintendent has authority to review or audit the expenditures and internal controls of any charter school in his or her county, in a timely manner, if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination (EC 1241.5(c)).

## School District Reorganization

County superintendents have authority to provide assistance in connection with school district reorganizations through the services of the county committee on school district organization (EC 4000, EC 35709, 35710).

Source for the above section's content: *Statutory Functions of County Boards of Education & County Superintendents of Schools*, by Frank Fekete, Special Counsel to Kern County Superintendent of Schools, March 1997, revised 2006 and further revised June 2010 by Heather Edwards of Girard, Edwards & Hance. Approved for publication by the California County Superintendents Educational Services Association (CCSESA) board of directors, August 9, 2010.

## Other Services Provided by County Superintendents of Schools, or County Offices of Education Where Indicated

### Professional Development

- Conduct teacher institutes (EC 1278, and California Attorney General's Opinion No. 95-903, June 20, 1996, 79 Ops. Cal. Atty. Gen. 109).
- Provide Beginning Teacher Support and Assessment (BTSA) program (EC 44259(c) and 44279.2(c)).
- Establish administrator training and evaluation programs designed to improve clinical supervision skills (EC 44682).

### Business Services

- Provide fiscal, budgetary and data processing services for school districts (EC 42650).
- Process payroll for designated school districts within the county (EC 42646).

### Child Development Programs and Centers

- Establish and maintain child development centers and programs, with county board approval. (EC 8321).

### Technology Leadership

- Serve as lead agencies to provide a range of technology services to all school districts and county offices of education within each region (EC 51871, referring to county offices of education).

### Regional System of District and School Support

- To help ensure compliance with the federal No Child Left Behind Act of 2001 (20 U.S.C. Section 6301 and following), county offices of education help identify school districts and schools that need improvement or that may be subject to corrective action by reviewing and analyzing all facets of a school's operation, including the design and operation of the instructional program and making recommendations for improving student performance and school operations (EC 52059).

### **Participation in Federal Programs**

- County superintendents are authorized to: (1) perform acts necessary to receive the benefits and spend funds provided by an act of Congress, and (2) cooperate with, or enter into agreements with, the federal government or any agency thereof, the State Board of Education, school districts, and private or public nonprofit organizations in order to receive the benefits and spend funds provided by the act of Congress (Education Code § 12400).

### **Outdoor Science Education Programs**

- Provide outdoor science and conservation education programs to students. (EC 8764-8765).

### **Services to Migrant Children**

- The SPI is authorized to contract with county superintendents of schools (or other local educational agencies) to provide services to migrant children residing in specified geographical regions (EC 54444).

### **Medi-Cal Administrative Activities (MAA) Program**

- The Medi-Cal Administrative Activities (MAA) Program, authorized under Welfare and Institution Code Section 14132.4728, provides a way for school districts to obtain federal reimbursement for the cost of certain administrative activities needed to properly and efficiently administer the Medi-Cal program. A local educational consortium (LEC) is defined in law as a local agency that is one of the service regions of the California County Superintendent Educational Services Association (Welfare and Institution Code Section 14132.47(q)(1)). County superintendents serve as lead agencies for the LECs by contracting with the Department of Health Services to operate the program and providing services for school districts within their respective LEC.

Source : Ibid.

## Work of the Los Angeles County Board of Education

The Los Angeles County Board of Education has obtained legal opinion regarding the authority of the board and the superintendent in the areas of budget development and administration. The board members interviewed expressed a desire to be more actively engaged in budget development. Board members felt that the amount of financial information shared with the board has diminished over a number of years and expressed frustration about the ability to influence and shape the county office of education's policies and programs. Board members interviewed want to be engaged in ensuring the fiscal health of the agency and do not feel they have sufficient authority to do so. Some expressed concern about the financial viability of specific programs that the county office is not required to offer under the Education Code.

Board members and administration interviewed agreed that budget development and administration is the responsibility and purview of the superintendent. There is agreement that budget approval is a function of the county board of education. However, some staff voiced concerns that withholding of budget approval was being used to gain authority in other areas outside the purview of the board, such as LACOE's day-to-day operations. Several board members acknowledged that they used their authority over the interim budget approval process to exert influence on the superintendent regarding other business matters that are clearly within the superintendent's scope of authority.

Board members stated that this was an outcome of long-held frustrations with the budget development process and the limited authority of the board. This practice does not engender mutual trust and will not produce the long-term results sought by the board of education.

Board members raised concerns regarding the financial viability of the community day school and Head Start programs. Concern about the Head Start program is based on past federal findings which resulted in the deauthorization of a delegate agency. The board is concerned about LACOE's liability with regard to oversight of the independent delegate agencies.

Members of the board who were interviewed felt that they should have a more active role in contract approval. In the past a list of all contracts was presented to the board for review during a regularly scheduled board meeting. As stated earlier in this section, EC 1281 states that contracts exceeding \$25,000 that constitute a budget revision should be included in the interim budget report to the board. Another section of this report reviews the contract approval process to ensure that adequate management controls are in place with regard to bidding and award of consultant and personal service contracts. Extensive legal opinion in this area concludes that the board's authority with regard to contracts is limited to approval of the interim budget revisions to revenue and total appropriation level. The county board may enter into contracts for specific services such as contracts to acquire and lease real property; contracts for special services such as advice to the board in financial, economic, accounting, engineering, legal or administrative matters; and contracts to sell published materials.

Board members interviewed expressed dissatisfaction with the quality of training provided to new board members. Training was reported to consist of a brief meeting with the superintendent and the provision of a set of audio tapes regarding the board's role and responsibilities. It is rare for a new county board member to have previous experience as a board member at a county office. Some have experience serving on a district board where the board's authority is much greater, including the hiring of the superintendent. Staff indicated that board member training

is provided but acknowledged that a comprehensive plan to determine elements that should be included in new board member training has not been developed. Because the role of a county board member is unique, particularly so in LACOE, it is imperative that new board members be provided with comprehensive training regarding the board's authority, roles and responsibilities, governance structure, policies and practices.

It is also conducive to strong governance to provide boardsmanship training to all members, providing opportunities to reflect upon their governance structure, principles, and policies. During the past calendar year the board has been engaged in a comprehensive project to review all board policies. This undertaking was a large commitment of time, and through this process the board has gained a deeper understanding of county office operations and the role and authority of the board.

The board meets three to four times per month to conduct county school business. Interdistrict transfer appeals and charter school appeals are a significant part of the agenda. The board hears every interdistrict appeal unless there are more than 20 appeals on any one meeting agenda, at which point the board provides a proxy committee to hear the appeals. The board also has four sitting committees: audit, curriculum, instruction and assessment, and finance and policy. Staff must prepare the materials for all meetings and provide support to the committee meetings. Therefore the number of meetings is a significant investment of time not only for board members but also for the staff who prepare board and committee materials and support board meetings. The board attempts to schedule committee meetings on the same days as regularly scheduled board meetings whenever possible.

The authority of and relationship between the LACOE board of education and the superintendent is more complex than in the state's other 57 county offices of education because of LACOE's unique governance structure, under which both the superintendent and members of the board of education are appointed by the county board of supervisors. In four of the state's charter counties the board appoints the superintendent and there is clear hiring authority, similar to a K-12 school district. In other county offices where both the board and the superintendent are elected, both entities must work cooperatively to meet the expectations of their mutual constituents. Within the context of LACOE's unique governance structure, the superintendent and county board of education must continue to function and strive to develop mutual trust and open communication to ensure optimal operation of county office programs.

## Recommendations

*The superintendent and the county board of education should:*

1. Continue to develop open communication between the superintendent and the board of education and mutual sharing of information to help each accomplish their respective functions.
2. Consider developing mutual goals to demonstrate and measure open communication.
3. Consider implementing an administrative panel process to hear interdistrict appeals. If implemented, consider whether the board can reduce the number of board meetings to two each month.

4. Continue to schedule committee meetings on the same days as board meetings to effectively manage staff and board members' time.
5. Refrain from using the budget approval process to exert influence on the superintendent regarding other business matters that are clearly within the superintendent's scope of authority. Continue to develop open communication and a relationship of mutual trust to achieve the long-term goals of the board of education.
6. Continue to assign a board member to the Head Start policy council.

*The Superintendent should:*

7. Establish a plan for LACOE's organizational mission and review it with the county board of education.
8. Develop a process to provide new board members with board training that includes cabinet members and orients the new board members to the various divisions and programs provided through LACOE. Provide new members with governance training that distinguishes between the role and responsibilities of the board and the role and responsibilities of the superintendent.
9. Provide ongoing training to board members to ensure that they stay abreast of changing statutes. Training is available through CCSESA and the California County Boards of Education (CCBE).
10. Provide opportunities for the board to attend statewide trainings and conferences.



# Core, Mandated and Value-Added Programs and Services

## Definition of the Term “Program”

The term “program” is not defined in the Education Code. In the field of education the term commonly refers to a set of services oriented toward a common goal. For example, math, English, special education, Advancement via Individual Determination (AVID) and early child education are types of programs. Subsets of larger programs are also sometimes referred to as programs. For example, special education may have a program for severely disabled students and one for non-severely disabled students.

Thus the term “program” is common and widely understood but is most accurately defined in the context of a local educational agency by that agency’s policies and/or practices. LACOE’s programs are defined in the context of the organization’s uniqueness.

The California School Accounting Manual (CSAM) offers the following illustrative but not comprehensive list of common programs operated by county offices of education from a cost accounting perspective:

## Common Direct Instructional Programs

- Core subject matter areas (English, math, science and others)
- Special education
- Court schools
- Community schools
- Community day schools
- ROC/P
- Migrant education
- Teen pregnancy prevention (California School Age Families Education -- CalSAFE)
- Homeless

## Student Support Service Programs

- Counseling, guidance, and health
- Pupil transportation
- Food service

## Support Services

- SELPA administrative unit
- Business services
- Human resources
- Information and instructional technology

### Board and superintendent

Programs can blend together and/or overlap; for example, math and special education programs are both operated within court schools.

## Mandated Programs

Education Code Section 75 states that “shall” indicates something is mandatory and “may” indicates something is permitted. The Education Code imposes many duties and functions upon county superintendents and county boards of education. This section identifies the mandatory duties and functions of the county superintendent and county board of education.

The only program operated with restricted funds by the county office of education, as defined by CSAM and mandated by the education code, is the juvenile court school program operated pursuant to EC 48645.2, which states that the county board of education shall provide for the administration and operation of juvenile court schools by either the county superintendent of schools or by contract with the governing board of the school district in which the juvenile or court school is located.

## LACOE-Identified Mandated and Core Programs

Past practice is that the cabinet identifies programs and services as either core (mandated or necessary) or value-added (educational services or programs and services of choice) during the budget process. LACOE defines these categories as follows:

### Core

Core describes functions and services provided by the county superintendent/county office of education and county board of education that are central to their respective roles, responsibilities and authority. Core functions include statutory services, mandated functions, and functions that are necessary and required for LACOE to operate. Core programs are programs the purpose of which aligns with the mission of the local educational agency. A local educational agency’s core programs are usually given priority in budget discussions, but this does not mean that core programs are given unrestricted funding. Some core programs by their nature will be funded by grants or entitlements, and some programs may be entrepreneurial in nature.

#### *Mandated in Code*

These are functions that are specified in California law (e.g., Education Code, Government Code, Revenue and Taxation Code and others) and that are not optional but are required. Mandated functions are part of the core functions and services of the county superintendent of schools or, in selected areas, functions of the county board of education.

#### *Necessary to Function as a Public Agency to Support Mandated Functions*

These are functions that are required and/or necessary for any public agency to operate in California. Required functions are part of core services.

#### *Necessary as a Result of LACOE’s Settlement Agreements*

These are functions that are agreed upon as a result of a settlement agreement between LACOE and another agency or individual, or as a result of a lawsuit.

## Value-Added Programs and Services

Value-added describes functions and services provided by the county superintendent/county office of education that are permitted in the Education Code or that are determined to improve educational services to communities, students, parents, and school districts in Los Angeles County. These include a number of direct services and education leadership initiatives deemed important by the superintendent, the county board of education, Los Angeles County school districts, the State of California and/or the federal government.

### *Educational Services*

These are services determined by the superintendent to support school districts and meet critical educational needs of students, teachers, and administrators. Included are functions identified and articulated in California law that the superintendent deems to be central services or programs of the county office.

### *Programs and Services of Choice*

These are programs or services that a county superintendent or county board of education chooses to provide. These include but are not limited to programs and services requested by a district, the community or another division or department.

There is not a common use or understanding of these definitions throughout LACOE. Only senior administrators and those most involved in budget development have a clear understanding of the process or purpose of designating a program as core or value-added, and even the administrators who are responsible for determining the designation of each program do not all agree on the definitions of core and value-added. LACOE has not developed criteria to help staff and administrators determine if a program is core or value-added.

## Statewide Survey of Core Programs and Services

In fall 2007 CCSESA conducted a survey that asked county offices of education to identify and prioritize the core services and programs they provided with their unrestricted funds. Forty-seven of the state's 58 county offices of education responded to the survey. The purpose of the study was to determine critical areas of county office operations and seek funding to maintain operations in those areas. Twenty-six common areas of service and responsibility were identified. Each COE was asked to rate the service area according to the following scale:

- 1 – Critical to the core mission of all county offices. Funding should be provided by the state to perform this mission.
- 2 – A primary service of a county office. Funding should be predominantly provided by the state to perform this mission.
- 3 – A standard service of a county office. Funding should be a mix of state-provided and locally generated resources, such as contracts with school districts.
- 4 – An optional service of a county office. Funding should be provided primarily from locally generated resources with minor costs, such as in-kind facilities, supported by discretionary state-provided resources.
- 5 – A supplemental service of a county office. This service is driven by purely local needs and conditions and should be supported wholly with locally generated resources.

Education Code Section 1205 places counties into various classes depending on their student population. Because Los Angeles is uniquely large, it is the only Class 1 county in the state; there

are ten Class II counties that are the nearest comparable entities to Los Angeles. Los Angeles' unique size and governance structure are of primary importance when making any comparison. The table below summarizes the county offices' answers regarding their rankings of the 26 areas of service and responsibility in the survey. A more detailed description of the services is provided in Appendix B.

***County Office Core Unrestricted Programs  
CCSESA Survey Results, October 2007***

| Reference # | Brief Description of Service Area                                       | Ratings by LACOE | Average Rating by Class 2 COEs | Average Rating by all COEs | Percentage of COEs Providing Service |
|-------------|---|------------------|--------------------------------|----------------------------|--------------------------------------|
| 1           | Superintend the schools and other Education Code 1240 requirements      | 1                | 1.00                           | 1.00                       | 100%                                 |
| 2           | Other legal requirements (board meetings, charters, SDO, appeals, etc.) | 1                | 1.00                           | 1.00                       | 100%                                 |
| 3           | Direct services to school districts                                     | 3                | 2.25                           | 1.98                       | 85%                                  |
| 4           | Other services to small districts (not covered under Direct Service)    | 3                | 2.25                           | 2.55                       | 55%                                  |
| 5           | Coordination of psychological services for school districts             | 5                | 4.00                           | 3.02                       | 64%                                  |
| 6           | Coordination of physical education services for school districts        | 5                | 3.13                           | 4.00                       | 13%                                  |
| 7           | Commercial warrant auditing   | 1                | 1.25                           | 1.29                       | 94%                                  |
| 8           | Operation of countywide financial systems other than payroll            | 1                | 1.63                           | 1.32                       | 96%                                  |
| 9           | Operation of countywide payroll system                                  | 1                | 1.63                           | 1.29                       | 96%                                  |
| 10          | Garnishment support to districts  | 4                | 2.50                           | 2.51                       | 77%                                  |
| 11          | CalSTRS and CalPERS retirement reporting                                | 1                | 1.00                           | 1.17                       | 98%                                  |
| 12          | Fiscal/administrative support to countywide consortia / JPAs            | 5                | 3.75                           | 3.34                       | 83%                                  |
| 13          | Credential monitoring   | 2                | 1.00                           | 1.02                       | 98%                                  |
| 14          | Facility construction or related debt service payments                  | 3                | 1.25                           | 1.61                       | 72%                                  |
| 15          | Business resources to districts (beyond ABI200)                         | 1                | 1.13                           | 1.35                       | 87%                                  |
| 16          | Human resources support to districts                                    | 1                | 1.75                           | 2.05                       | 91%                                  |
| 17          | Risk management support to districts                                    | 1                | 3.00                           | 2.95                       | 55%                                  |
| 18          | Facility support to districts   | 3                | 3.38                           | 3.27                       | 45%                                  |
| 19          | Technology support to districts (general infrastructure support)        | 3                | 1.88                           | 2.00                       | 94%                                  |
| 20          | Technology support to districts (classroom uses and support)            | 3                | 2.25                           | 2.49                       | 85%                                  |
| 21          | Instructional support to districts                                      | 1                | 1.50                           | 1.44                       | 94%                                  |
| 22          | Professional development for district teachers                          | 1                | 1.63                           | 1.83                       | 89%                                  |
| 23          | Professional development for district administrators                    | 1                | 1.63                           | 1.98                       | 83%                                  |
| 24          | Joint initiatives with higher education                                 | 3                | 3.38                           | 3.10                       | 74%                                  |
| 25          | Support to county run restricted funding programs                       | 4                | 2.50                           | 2.05                       | 79%                                  |
| 26          | Legal services  | 3                | 3.13                           | 3.41                       | 38%                                  |

Key:

No shading indicates LACOE's response was similar to those of other Class 2 COEs and all COEs in general.

Light shading indicates that LACOE's response varies by between 1 and 1.5 from the average of either Class 2 COEs or all COEs on the survey's scale of 1-5.

Heavy shading indicates a variance of between 1.5 and 2.

At the time of the CCSESA survey, LACOE's administration was not in alignment with other county offices of education with regard to program priorities and identifying which programs

should be considered core to county office operations. As the table indicates, there were 11 areas of discrepancy, including significant variances from the average in six of those areas.

LACOE administrators describe the process that was used to designate programs as either core or value-added: at regularly scheduled meetings of the LACOE superintendent's cabinet, cabinet members typically reviewed each division and the designation recommended by the cabinet level administrator. Little change of designation occurred. The cabinet did not review the mission statement to ensure that programs aligned with the mission statement before approving a designation. The process also did not include input from senior program staff, which would have been beneficial. LACOE's existing definitions of core and value-added are sufficient to the task; however, a formal process for making the distinction needs to be identified. Mandated and core programs typically have priority with regard to funding. Core programs are by definition limited; many programs that are important and central to the organization will fall under the value-added definition. Best and common practice is for core programs to access available restricted funds first and then unrestricted funding. It is also best practice for programs that are capable of generating their own revenues to do so.

Partly in response to the state budget crisis, LACOE has required value-added programs to seek grants or entrepreneurial funding. As is the case with core programs, it is best practice for value-added programs to access restricted funds first and then unrestricted funding, and for programs that are capable of generating their own revenues to do so. Some programs designated as value-added do not lend themselves to either grant funding or the ability to bill districts for some costs.

Because it has numerous value-added programs that require a general fund contribution, LACOE would benefit from considering specific factors before committing to implementing or continuing programs. Discussion of these issues typically occurs at the cabinet level, and although criteria may not be necessary, the cabinet discussion could consider the following:

- Whether the program aligns with LACOE's mission
- Whether the program is self-supporting
- The amount and source of the financial contribution needed to ensure program operation
- The value the program adds to students, districts or internal clients
- Operational efficiencies the program will provide
- Operational cost reductions

## Grants

LACOE operates a grants development office that reviews all grant applications to ensure that each application is approved by the controller's office and has designated the correct indirect costs. It is not clear whether the review determines if the grant proposal is aligned with LACOE's mission. A later section of this report discusses in detail the way LACOE separates the functions and duties of its divisions. It appears that in many cases the office is organized by program rather than area of service, and that staff are allocated by program area. LACOE's practice has been to add staff each time a new grant is awarded rather than review existing staffing to determine if new staff are required.

## Recommendations

*The superintendent should:*

1. Review and establish the LACOE organizational mission and review with the County Board of Education.

*The county office should:*

2. Using LACOE's mission as a guide, identify the organization's core programs. This process should be transparent, led by the superintendent, and should include cabinet level administrators and input from their senior division staff.
  - Develop criteria to help determine each program's designation. The superintendent should establish a proposed budget that gives funding priority to mandated and core programs.
3. Establish a system for determining the relative priority of programs that are defined as value-added. The needs of the districts and students LACOE serves should continue to drive the annual review of funding allocations.
4. Discuss value-added programs at the cabinet level annually, determine if funding should continue at the same level, and make necessary adjustments to avoid deficit spending.
5. When developing grants, determine if new staffing is required or if existing staff can be redirected to accomplish the grant's goals.

# Staffing and Organization Overview

This section will detail the management structure of each division and provide a broad overview of operational practices and functions within each division. It is not intended to provide specific details of all the functions of each unit or position within a division. This section reviews staffing and staffing ratios at a given point in time, based on LACOE's 2010-11 organizational chart.

LACOE divisions have been reducing staff and reorganizing subsequent to that point in time, so not all changes are captured in this report. FCMAT identifies potential opportunities for staffing reductions or reorganization of divisions, departments or units. Potential savings associated with the recommendations for staff reductions are based on the least senior employee in the position to present a conservative estimate. When calculating total compensation for potential savings, FCMAT includes salary, statutory and medical benefits. FCMAT does not estimate or recommend the total number of staff in the same position that can be reduced within each unit.

Each division's administration will need to examine the specific functions on each desk before implementing staffing reductions or reorganization to ensure that reductions are sustainable and that all duties and responsibilities are identified and assigned.

FCMAT selected four class II county offices of education for comparison: Orange, San Diego, Riverside and Kern. The purpose of this comparison is to provide LACOE with a perspective on how other county offices organize their functions and services and to provide a comparison of staffing ratio by division. Certain aspects of county office operations (e.g., AB 1200 reviews) are affected by the number of districts served, and others (e.g., educational programs and educational services) by the types of programs offered. Although comparative information is useful, it should not be considered the only measure of appropriate staffing levels. County offices are complex and vary widely in demographics, operating programs, job descriptions and resources. Careful evaluation is recommended because generalizations can be misleading if significant circumstances are not taken into account when comparing job functions for specific staff positions.

## Organizational Structure

One of the purposes of a county office of education's organizational structure is to establish the framework for leadership and the delegation of specific duties and responsibilities. As enrollment, support services, and oversight duties increase or decline, the organizational structure needs to adapt and be scalable. Best practice is to staff the organization according to generally accepted theories of organizational structure. The most common theories are span of control, chain of command, and line and staff authority.

### Span of Control

Span of control refers to the number of subordinate employees reporting directly to a supervisor. Although there is no commonly agreed upon or ideal number of subordinates for span of control, it is generally agreed that the span can be larger at lower levels of an organization than at higher levels because the employees typically perform more routine duties and therefore can be more effectively supervised.

## Chain of Command

Chain of command refers to the flow of authority in an organization and is characterized by two significant principles: unity of command suggests that a subordinate employee is accountable to only one supervisor; and the scalar principle suggests that authority and responsibility should flow in a direct vertical line from top management to the lowest level, resulting in a hierarchical division of labor. Most important, chain of command needs to clearly define who is responsible for what and delineate who will be held accountable for specific functions.

## Line and Staff Authority

Line authority is the relationship between supervisors and subordinates. It refers to the direct line in the chain of command. Conversely, staff authority is advisory in nature. Staff personnel do not have the authority to make and implement decisions, but act in support roles to line personnel. The organizational structure of local educational agencies includes both line and staff authority. It is important that staff understand this relationship and where they are located in the structure to maintain clear roles and responsibilities.

## Staffing Ratios

The imbalance of management to nonmanagement employees in LACOE has been problematic for several years. This is depicted in the 2010-11 organizational chart and further discussed in the May 2003 Bridging Document, which was first introduced in the settlement of negotiations resolving a bargaining impasse between the Los Angeles County Education Association (LACEA), which is the certificated employee bargaining unit, and the county superintendent. For further information, see the discussion of the Bridging Document and collective bargaining on page 67. Any imbalance of the nonmanagement-to-management ratio can reduce the effectiveness of the department, decrease the efficiency of the approval process for routine business, create confusion in the chain of command and reduce the span of control, job satisfaction and cost effectiveness. As the number of employees declines as a result of a reduction in workload or budget constraints, there should be a commensurate reduction in management. Conversely, if the number of employees increases as a result of an increase in workload there should be a commensurate increase in management. It is critical to regularly review nonmanagement-to-management employee ratios to optimize efficiency and effectiveness. LACOE has not developed staffing ratios or criteria to guide management in its hiring or restructuring decisions. In addition, as student enrollment has declined in direct service programs, LACOE has not made commensurate staffing reductions in either management or nonmanagement positions.

Organizations often flatten the organizational chart and expand the span of control as a result of budget constraints. Organizations with a broader span of control require fewer management positions and have a higher nonmanagement-to-management ratio. The span of control can be greater if the environment is stable and experienced employees are performing routine tasks with a flexible response time. The span of control can also be broader when the employees are at high-level, independently-functioning positions.

FCMAT's analysis demonstrates that the majority of the managers in LACOE's divisions have a narrow span of control. Characteristics of a narrow span of control include close supervision and directed control; many levels of management and thus high costs; less independence and decision authority for subordinates; and significant distance between senior cabinet and staff, resulting in poor communication. Many of these characteristics are present in LACOE. By contrast, an excessively broad span of control can result in overloaded managers and/or supervisors and a loss of

control, leading to inefficient and ineffective management of employees and an inability to keep pace with written evaluations, schedules and other employee-related tasks.

An appropriate span of control can result in fewer management-level employees, reduce operational cost, encourage empowerment through delegation of authority, and improve communication between employees and senior management.

## LACOE Organizational Structure

LACOE is organized into the Office of the Superintendent and the following six major divisions:

- Personnel Commission
- Human Resource Services
- Technology Services
- Business Services
- Educational Programs
- Educational Services

The Office of the Superintendent includes the departments of communications, general counsel, governmental relations, grants development and internal audit and analysis. Each of the major divisions is led by an assistant superintendent, personnel commission director or chief officer.

The divisions vary greatly in size and number of staff employed. They are generally organized by their core function to provide either external support to the 80 districts served by the county office or internal support to the direct educational services that LACOE provides to students. Usually, each department is led by a director III, director or project director, and often also has one to several assistant directors. Depending on the size of the department, responsibilities are further divided into sections and finally into units. Each section and unit is led by a management employee. Under this organizational structure, LACOE in some cases has five layers of management between the superintendent and staff engaged in direct duties and responsibilities.

Many federal and state grant programs are managed separately by project directors, coordinators or consultants. Organizations must periodically review their departments that are supported by grant and restricted funding, measure for operational efficiency and effectiveness, and adjust the number of employees and managers accordingly. In many county offices, state and federal categorical and grant programs that serve a similar population or deliver a related type of service are often unified under one department to maximize service and funding.

## Duplication of Services

A number of LACOE's divisions employ their own human resources, technology, and/or financial services staff rather than relying on LACOE's departments that provides these same services. This practice may be a result of a perceived lack of responsiveness from LACOE's departments that provide these services, and it increases costs. In some cases this duplication allows a department or division to better and more expeditiously serve its clients, but it also contributes to the continuing perception that divisions or departments operate independently, causing a lack of cohesiveness within the LACOE organization. The duplication also impedes interdivision communication and the uniform application of LACOE policies and procedures. When such

duplication occurs, LACOE will need to weigh the cost and benefit of current practice before determining if reorganization is warranted.

## Personnel Management Issues

The employee reduction in force (RIF) process has caused concern across the LACOE organization because some position titles and job classes are overly broad and individuals are moving into positions without the skills needed to do the required work. Managers reported that the Human Resource Services Division is not communicating regularly with them about positions that may be affected by the RIF, and they require sufficient time to accommodate changes in staffing.

FCMAT found that LACOE does not invest sufficiently in employee training and professional development. For example, many staff lack skills in technology and software such as Microsoft Excel and Word.

It is a common practice in some divisions to use limited-term employees as substitutes and to help ease work overloads. The spreadsheets used to track this work do not differentiate between substitute work and long-term substitutes used to ease work overload. This practice creates a cadre of limited-term staff who provide services that permanent staff might be able to provide. It is best practice for the Personnel Commission to regularly review limited-term provisional appointments and other temporary assignments to identify any individuals who are being continued in long-term assignments. The Personnel Commission has created a temporary clerical support pool, and policy has been developed to require divisions to access this pool prior to filling a temporary office worker position. The pilot program was successful in fiscal year 2010-11 and LACOE plans to expand the program in 2011-12.

Many divisions are using professional experts or independent contractors to work on a limited basis or on a specific project. These positions are generally needed for a short time, so using short term help is the most efficient way to complete that work or service. There may be cases where the work could be completed by existing staff. The Personnel Commission director reviews all requests for professional experts and independent contracts for services to ensure that they are not performing the work of an existing classification. If the work proposed for a contractor or professional expert is consistent with a classification then it is routed back to the division for review. However, the record shows that few requests are disapproved on the basis that the work is already being done by existing staff members.

Managers perceive a lack of administrative support when they attempt to discipline employees or make staffing decisions. Managers do not handle employee disciplinary actions consistently, and some employees may be made part of the reduction in force (RIF) rather than being appropriately evaluated and disciplined using the evaluation process outlined in the collective bargaining agreement. The result is that these employees may return to work due to rehire rights without the proper evaluation and intervention needed to help them become successful in any position they might hold if they do return to work.

## Workers Compensation

The workers' compensation insurance rate at LACOE is higher than average for county offices of education, and claims are not monitored sufficiently. Several employees are absent for long periods of time on extended workers' compensation leave. The return-to-work program is not fully implemented and monitored. The workers' compensation program needs to develop a more aggressive return-to-work policy and procedures and better accommodations for injured workers

to return to work. LACOE's workers' compensation rate is 6.20% of salaries, which is very high compared to other county offices of education. Based on an estimated cost of \$255,000,000 for 2011-12 general fund salaries, LACOE's total annual cost for workers' compensation is \$15.81 million at the current rate of 6.20%. Each 1% reduction in the workers' compensation rate would reduce costs by \$2.55 million per year.

## **Collective Bargaining and Bridging Document**

Managers believe they are restricted by elements in the collective bargaining agreements, specifically the Bridging Document introduced during the 2003 negotiations between the county superintendent and LACEA. Managers perceive that sections of the collective bargaining agreement hamper operational efficiencies, impede management actions and could deter program improvement. For example, pre-grievance procedures lengthen the time needed to seek solutions to personnel matters. Managers indicated that other collective bargaining units view the Bridging Document with LACEA as a "me too" agreement. Managers reported that all staff have received five days of training in interest-based bargaining and that this training is repeated annually. The Bridging Document establishes additional committees intended to improve communication between staff and administration. It also establishes protocols to provide employees with the opportunity to participate in decisions.

The Bridging Document (see Appendix J of this report) is included as Appendix I to a comprehensive bargaining agreement with LACEA that had a June 30, 2008 expiration date, with the proviso that the agreement would continue thereafter from year to year unless either party gave written notice of termination. A tentative agreement between the parties signed on January 14, 2011 incorporates tentative agreements from 2009 and 2010 and provides that the "current collective bargaining agreement is in full force and effect until June 30, 2011." Assuming the June 30, 2008 agreement is the current agreement this language refers to, it can be argued that the agreement containing the Bridging Document as an appendix remains in effect until terminated.

FCMAT offers no legal opinion on the question of the continuing enforceability of the Bridging Document, or whether management can terminate the Bridging Document on written notice without terminating the entire bargaining agreement. In any event, the efficacy of the agreement and its relevance to the need for LACOE to make substantial operational and managerial changes need to be addressed. Matters such as interest-based bargaining, Relation Management Teams (RMTs) and shared decision making, all of which are addressed in the Bridging Document, may not suit LACOE's current needs for reform, especially given the time consumed by each of these processes.

## **Determining Staffing Needs**

Many departments within LACOE have excessive layers of management and multiple clerical support staff performing similar functions. FCMAT provides comparisons to other county offices of education; however, the specific workload of each position within each department cannot be determined in a review of this nature. To determine whether workload reorganization, reallocation or reduction of services is feasible, a different type of study is needed. A desk audit is one process that can provide the detail needed for these types of determinations. This report recommends that some departments, sections and units conduct a desk audit to determine the workload and the type of work on each desk.

A desk audit is typically completed by the individual employee and reviewed by the first line supervisor. The purpose is to determine the actual employee hours required to complete the responsibilities at any one desk and the type of work completed. When an entire section or unit completes a desk audit, the supervisor can review the workload to rebalance tasks and help determine if the number of staff should be increased or reduced. A desk audit is an intensive process and should not be undertaken simultaneously in each unit. In divisions where desk audits are recommended, division administrators should prioritize the units and conduct the desk audits systematically over a period of time.

Each division within LACOE is uniquely structured to perform its core functions and meet its clients' needs. As programs expanded or new programs were developed, divisions and departments added staff rather than determining if the workload could be redistributed among existing staff. Conversely, as programs and services ended, LACOE did not reduce staff commensurately. LACOE does not use staffing plans or ratios, with the exception of specific references in the collective bargaining agreements that deal primarily with certificated staffing ratios. Staffing decisions are driven by varying educational program needs, the LACEA, and past practice. Some divisions have recognized the need to develop staffing ratios or formulas, but there is no standardized guidance for doing so.

LACOE does not have criteria for determining the management level required for a specific work assignment or position, nor does it routinely compare workload and responsibilities among positions with similar titles to ensure an equitable distribution of workload and compensation. As a result, there is significant disparity in work responsibilities and the number of subordinate positions supervised. Some employees in management positions have no supervisory responsibility. Through investigation that included interviews with key staff and observations, FCMAT determined that LACOE has deemed some positions to be management in order to retain specific employees, attract a certain level of experience and education, or ensure that the position is exempt from overtime pay requirements.

Some managers expressed dissatisfaction with the clear inequality of workload and assignments among management employees at the same level. Uniform criteria are valuable tools that help determine the level of management required to operate effectively, particularly when adding new positions or restructuring a department or division. A best practice that could be implemented is to develop a rubric or metric to help determine the management level required to supervise specific departments, sections and units. Criteria can include number of staff directly supervised, the level and purpose of communication with outside agencies, and the level of education required. The broader the scope of responsibility and span of control, the higher the level of management required. Several outside consultants provide this type of service and can assist with the development of objective criteria.

### **Support Staff**

In addition to numerous managers, LACOE has a large number of clerical and support staff attached to each management position. Staff reported that each coordinator must supervise two employees to meet the qualifications of the management title. LACOE's support staffing ratio is being driven by this requirement rather than by the workload or level of responsibility. There is little shared use of clerical support staff within each division. This is not cost effective or efficient.

Although individual managers are attempting to streamline the organizational structure in response to ongoing budget constraints, LACOE has no common management-level written criteria to guide their reorganization or consolidation efforts. In addition, collective bargaining

agreements and past practices tend to restrict efforts to eliminate positions or reassign work. LACOE's organizational chart and FCMAT's interviews with staff and administrators revealed that there are numerous vacant positions throughout LACOE, which presents the organization with some opportunities to restructure through attrition rather than through layoffs.

### **Creating New Positions**

Staff in all divisions reported that the same process is used to request new positions. Requests for new positions start at the director and assistant director level, then move to the division assistant superintendent and finally to the cabinet for review and approval. Funds must be identified and/or budget transfers approved before a position is created in the Human Resource Services Division. Because there is no staffing ratio or criteria, positions are requested based on perceived program need; therefore, overstaffing can occur. Justification is provided for new positions, but without specific agreed-upon criteria there is limited objective review of the staffing needs of the program prior to filling or creating a new position. When reviewing requests to fill existing positions or to create and fill new positions, it is best practice for senior cabinet to consider the criteria prior to filling positions, and to consider deleting positions that are no longer in use.

### **Filling Vacant Positions and Use of Independent Contractors**

Staff indicated that, due to budget constraints, requests to fill vacant positions and the use of independent contractors must be approved by the superintendent. If these types of requests were also reviewed at the cabinet level, it would help LACOE restructure staffing through attrition where possible and determine if current employees can perform necessary tasks before hiring independent contractors. Another section of this report addresses the instances in which consultants or temporary employees are overused or may supplant the responsibilities of existing employee positions.

### **Indirect Charges**

Many LACOE managers interviewed did not understand the services covered by the indirect charge and have difficulty differentiating between indirect and direct charges to their program. The increase in the percentage of the CDE-approved indirect costs is becoming more problematic for grant and contract programs because it reduces the funding available and makes it challenging to provide the same level of services after budget reductions result in a loss of staff.



# Staffing and Organization Findings and Recommendations

## Personnel Commission

LACOE is one of the county offices in California that has a personnel commission. A personnel commission is established by a vote of the classified bargaining membership and is to be operated as prescribed in Education Code Sections 45240 through 45320.

The core responsibilities of the Personnel Commission are to recruit and classify classified staff. The commission creates eligibility lists for vacant positions and reviews requests for professional experts and independent contractors (noncertificated).

The Personnel Commission staff is divided into units that serve administration and business services, technology and educational services, and educational programs (school-based and broad-based). The commission also oversees a mobile clerical support unit that provides clerical services on an as-needed basis to all LACOE divisions. Many of the positions in the commission are classified as management because of the perceived professional nature of the position, but they do not supervise other employees.

The Personnel Commission's 17 employees (excluding the typist clerk positions) operate under 11 different positions/job descriptions. Eight employees are classified nonmanagement, one is confidential, and eight are management. Seven employees also serve as first-line substitutes and extra clerical help for the various departments as needed. Although commission staff believe that the workload has increased with no increase in staff, FCMAT found that the office is adequately staffed. Over the past three years, because of budget constraints, fewer positions have been filled and LACOE has been reducing staff. To help evaluate the commission's staffing levels and determine workloads, LACOE will need to review statistics for the past several years, including the number of eligibility lists established, the number of reclassification/reallocation requests processed and other functions performed. FCMAT was unable to complete this longitudinal analysis because the commission-level reports do not include data at the level of detail required for this analysis; therefore, the required information was not readily available. However, the Personnel Commission can produce the data and conduct an analysis.

### *Personnel Commission Staffing*

| Title        | Director Classified Personnel | Senior Human Resources Analyst | Human Resources Analyst | Asst. Human Resources Analyst | Senior Human Resource Specialist | Human Resource Specialist | Senior Human Resource Assistant | Human Resource Assistant | Human Resource Aide | Admin. Assist. | Interim Typist Clerk |
|--------------|-------------------------------|--------------------------------|-------------------------|-------------------------------|----------------------------------|---------------------------|---------------------------------|--------------------------|---------------------|----------------|----------------------|
| No. of staff | 1 *                           | 2 *                            | 5 *                     | 1 **                          | 1                                | 3                         | 2                               | 1                        | 1 Vacant            | 1              | 7 (15 planned)       |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

A major classification study for LACOE was started in 2003-04 but never completed. If a study of this nature is considered in the future, it would be prudent to develop a multiphase plan and prioritize the review of positions based on survey results. Management and staff can provide feedback regarding which position titles are most dated, are not descriptive of the actual duties performed, or are overly broad or overly narrow in scope. The Personnel Commission is reviewing classifications as part of any department reorganization effort.

In fiscal year 2009-10, in response to rising temporary worker costs, the Personnel Commission established the mobile clerical support unit, a pool of roving employees in permanent positions to fill in when regular employees are absent. In the last year, this program was successful in quickly filling positions temporarily. Departments are charged for the use of the mobile clerical support unit staff (e.g., interim typist clerks), so the positions are not an additional cost to the Personnel Commission. Because of its success, the unit will be expanded to 15 permanent roving employees in 2011-12.

## Duplication of Services

The relationship between the Human Resource Services Division and the Personnel Commission is fairly well defined. The Personnel Commission conducts the recruitment and testing of prospective classified employees. When an individual is hired, human resources completes all the paperwork. Disciplinary issues are handled by human resource services, but appeals are handled by the Personnel Commission. The hearing officer's decision is forwarded to the Personnel Commission for approval, rejection or modification. The Personnel Commission also conducts reclassification studies and reallocations. Position designations are determined by management, with the job duties reviewed by the Personnel Commission.

There is some duplication of services between the Personnel Commission and the Human Resource Services Division: both departments work on salary schedule comparisons with other county offices of education and school districts, which duplicates work. Further, there is a lack of clear ownership of certain personnel functions. The personnel requisition process, for example, is cumbersome and duplicative. However, the Human Resource Services Division has identified areas for improvement and coordination of services in the March 2011 strategic plan. The Personnel Commission will need to coordinate with human resources and develop strategies to streamline processes where their work coincides.

The Personnel Commission office is reviewing its practices to determine ways to increase efficiency, and it recently eliminated its internal technology section, reducing the duplication of services. Its technology needs are now supported by the Technology Services Division, reportedly at approximately one-fifth of the former cost.

## Personnel System Issues

California Education Code Section 45256 delineates the following types of classified employment:

### **Permanent/Probationary**

Employment in an open position from an established eligibility list. These employees serve a probationary period.

### **Provisional**

California Education Code Section 45277.5 (c), 45287- 45289

Employment in an "open position" when no employment list exists. These appointments should be as short as possible, normally around 90 days.

### **Limited Term**

Employment as extra duty for a limited time (no more than six months). These employees are generally used for short-term projects or to provide extra help for a limited time.

**Substitute**

Employment to cover the absence of a permanent (or probationary) employee. May be day-to-day or long-term.

**Extra Duty**

Additional hours or days for permanent (or probationary) employees for a specific need or event.

**Professional Experts/Special Projects (EC 45256(b)(5))**

- Full-time students working part-time
- Apprentices
- Professional Experts or consultants hired on a temporary basis for a specific project
- Part-time playground aides
- Full-time or part-time students in a work study program

Professional expert agreements are processed by the Personnel Commission and are placed on the payroll with appropriate employee deductions. The Personnel Commission reviews independent contracts for services and maintains a separate database for monitoring all independent contracts and professional expert agreements. The IRS regulations concerning contractors are reviewed to determine if the contractor meets the requirements to be an independent contractor. The contracts unit, located in the business operations department within the Business Services Division, initially reviews the IRS checklist, and the Personnel Commission reviews the work description and checklist submitted to determine if the contractor will be performing work normally performed by employees.

Limited-term employees, who are limited to six months for work overload, are used in two ways: as substitutes for absent employees and as extra staff for work overload. The spreadsheets used to track this work do not differentiate between these assignments, so it is not clear if limited-term employees are exceeding the statutory six-month maximum allowed for work overload. Staff acknowledged that many departments and divisions use limited-term employees as unauthorized substitutes in open positions. Some may be performing routine clerical duties.

The use of professional experts to perform short-term or specially funded work is a common practice at LACOE.

Many divisions are using professional experts or independent contractors to work on a limited basis or on a specific project. These positions are generally needed for a short time, so using short term help is the most efficient way to complete that work or service. There may be cases in which the work could be completed by existing staff. The Personnel Commission director reviews all requests for professional experts and independent contracts for services to ensure that they are not performing the work of an existing job classification.

LACOE's Rules of the Personnel Commission Section 4230.16 states the following:

. . . in no case may any person be appointed or paid from funds from the office, when that person's contribution consists solely of individual professional services, which are normally performed or could be reasonably expected to be performed by the classified employees.

Because LACOE's rules of the Personnel Commission state that professional experts can work as much as 87.5% of a work year, they are sometimes perceived as doing the work of a permanent employee.

Many departments use independent contractors to staff a special project or work function. Some staff members reported that the use of these special non-employee designations creates the impression of an alternative workforce. Some perceive the use of independent contractors and professional experts as a way to reduce operational costs and to complete work in areas where reductions in force (RIFs) have occurred.

Open positions in several departments are currently filled with provisional appointments or employees working outside of their classification. This is a common practice used to fill vacancies while the department determines if the position needs to be continued or while an eligibility list is being created. In some cases these assignments may last several months to a year or more; however, because employees in these positions are temporary, managers are not sure how far to proceed with organizational changes and decisions. In addition, in many cases in which an employee is working outside their classification, their regular position is not filled with a temporary employee, which increases the department's workload. Although this practice allows LACOE to reassess the need for the open position and reduce expenses while the position remains vacant, it has also created a loss of productivity in some cases, and in others has resulted in morale problems.

Staff and administrators reported that the reduction in force (RIF) process is problematic for the organization because job classifications may be overly broad. Employees who move into a position in another department that has the same job title as their previous position may not have the skills needed to perform the required work. For example, the skills required for a business services consultant in the Head Start program, which is a nonprofit, compliance-oriented program, are different than those needed in the LACOE Business Advisory Services Department. Similarly, an accountant position in the payroll unit of the Accounting and Budget Development Department does not perform the same work as an accountant in the general accounting unit.

## Recommendations

*The Personnel Commission should:*

1. Review the workload over the past three years, including the number of eligibility lists established, the number of reclassification/reallocation requests processed and other functions performed, and determine if trends warrant a change in the number of staff.
2. Conduct desk audits of the workload and type of work at each desk to determine if assignments can be redistributed to increase efficiency.
3. Closely monitor the use of temporary or limited-term employees and independent contractors to ensure compliance with employment regulations.
  - Review procedures for the use of professional experts to determine if work could be assigned to permanent staff.
  - Identify whether limited-term employees are hired to perform overload work or as a substitute so that it can more clearly define these employees' roles and more easily monitor the six-month limit applicable to these employees.
4. Determine in a timely manner if open positions should be continued in the organization, and, if so, establish an eligibility list as quickly as possible.

5. Review the job titles and classifications of classified positions such as accountant, business services consultant, financial operations consultant, and specialist to determine if specific job titles need to be modified to more closely reflect the skills required in certain departments.
6. Review classified clerical support personnel's job descriptions and determine if job descriptions can be combined into like families, but at the same time consider the impact of like titles being assigned to positions with different responsibilities when a RIF must be implemented.
7. Continue to discuss processes with other divisions within LACOE to clearly define the role of the Personnel Commission to improve its efficiency and reduce any duplication of services.
8. Review requests for independent contractors at the cabinet level to determine if current employees can perform the necessary tasks.
9. Ensure that it regularly reviews limited-term provisional appointments and other temporary assignments to identify any individuals who are being continued in long-term assignments.
10. If a major classification study is considered in the future, develop a multi-phase plan and prioritize the review of positions based on management survey results. The management survey should determine which position titles are most dated, are not descriptive of the actual duties performed, or are overly broad or overly narrow in scope.
11. Review classified management designations to determine if they meet the designated exemption under Education Code Section 45130, Labor Code sections 204c and 510, the Fair Labor Standards Act (FLSA) 13(a)(1).



## Human Resource Services Division

Some recommendations in this section of the report are related to the entire organization and some are specific to the Human Resource Services Division.

The Human Resource Services Division provides day-to-day personnel services to the employees of LACOE. The division is led by an assistant superintendent who is responsible for a total of 62 staff and directly supervises three directors and two support staff. The division has 28 different job titles filled by 62 staff, including 28 management staff, four confidential staff and 31 classified staff, with a management-to-nonmanagement ratio of 4-to-5. The division is organized into three departments: labor relations; the Employee Assistance Service for Education (EASE) program; and personnel services. The human resource services office is sufficiently staffed; it does not use professional experts or temporary employees, its staff do not claim overtime, and vacant positions are being held open.

### *Human Resource Services Management Staff*

| Title           | Asst. Supt. HRS | Director II | Director | Coordinator III | Coordinator II | Coordinator | Project Director III |
|-----------------|-----------------|-------------|----------|-----------------|----------------|-------------|----------------------|
| Number of staff | 1 *             | 1 *         | 2*       | 1 *             | 8 *            | 4*          | 1 *                  |

| Title           | EAP Marriage Family Specialist | Labor Relations Advocate | HR Operations Manager | Employee Benefits Supervisor | Employee Benefits Specialist | Executive Assistant | Staff Development Specialist | Comp Analyst |
|-----------------|--------------------------------|--------------------------|-----------------------|------------------------------|------------------------------|---------------------|------------------------------|--------------|
| Number of Staff | 1 *                            | 1 *                      | 1 *                   | 1 *                          | 1 *                          | 1*                  | 2 *                          | 2 *          |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

### *Human Resource Services Classified Nonmanagement Staff*

| Title        | DP Specialist | EAP Marriage Family Intern | Senior Human Resources Assistant | Senior Division Secretary | Secre- tary | Admin. Aide | Senior Typist Clerk | Intermediate Typist Clerk | Recep- tionist | Senior HR Specialist | HR Specialist | HR Assistant | Asst. HR Analyst | Exec. Asst |
|--------------|---------------|----------------------------|----------------------------------|---------------------------|-------------|-------------|---------------------|---------------------------|----------------|----------------------|---------------|--------------|------------------|------------|
| No. of Staff | 2             | 1                          | 6                                | 2                         | 2           | 1           | 1                   | 1                         | 1              | 2                    | 9             | 3            | 1**              | 1**        |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

## Staffing Comparison

FCMAT compared LACOE's human resources services staffing with those of four other county offices of education. As indicated earlier in this report, a direct staffing and organizational comparison is not possible because of LACOE's size and because every county office is unique. However, the below comparison takes into account these known differences to the extent possible.

| County Office   | LACOE     | San Diego | Orange  | Riverside | Kern    |
|---|-----------|-----------|---------|-----------|---------|
| Total Staff   | 62        | 30        | 37      | 29        | 25.5    |
| Number of students served   | 1,532,539 | 473,133   | 484,328 | 400,834   | 164,998 |
| Percentage of students compared to LACOE                          |           | 31%       | 32%     | 26%       | 11%     |
| Number of Districts Served  | 80        | 41        | 17      | 19        | 47      |
| Percentage of districts as compared to LACOE                      |           | 51%       | 21%     | 24%       | 59%     |
| Percentage of Human Resources Services staffing compared to LACOE |           | 48%       | 60%     | 47%       | 41%     |

### Staffing Comparison Notes

- LACOE's Human Resource Services Division did not include the risk management unit at the time of fieldwork.
- Only LACOE has a distinct employee assistance program (EASE) and labor relations staff.
- LACOE and the Riverside County Office of Education operate State Teachers Retirement System (STRS) counseling outside of their human resources divisions.
- The San Diego County Office of Education and LACOE are the only offices with beginning teacher support and assistance (BTSA) staff in the human resources division.
- The Orange and Riverside county offices of education do not have personnel commissions.
- San Diego and Kern county offices of education have personnel commissions but do not have separate departments for this function.

The functions of each division differ among county offices, which makes drawing comparisons in staffing difficult. For instance, in most county offices credential monitoring is a function of the human resources division, but in LACOE this function is performed in the school financial services department of the Business Services Division. If this function were performed in human resources, the number of LACOE human resources staff reported in the table above would be greater.

LACOE's Human Resource Services Division has reported significant staffing changes since the 2010-2011 organizational chart was approved and published. Although these changes were not included in the chart above, they are listed below:

#### HRS Management Staff

- One coordinator III – changed to coordinator II
- One coordinator II – changed to coordinator
- Two coordinator positions – closed
- One coordinator position – added

- Employee benefits supervisor – changed to employee benefits specialist
- Workers’ compensation specialist – added
- Risk management unit – transferred to the Human Resource Services Division

### **Classified Nonmanagement**

- Workers’ compensation assistant – added

## **Employee Assistance Service for Education (EASE)**

The EASE unit provides consulting and assessment services to 49,000 employees of all joint powers authority (JPA) member districts and to employees’ family members. The program is also offered to all LACOE employees. EASE has four employees, including a Director II and an intern, and uses independent contractors in six different locations across the county. EASE is a value-added service that operates without a financial contribution from LACOE; operating costs are fully covered by the \$10.20 per employee, per year fee charged to participating districts. Participants are limited to three counseling sessions per year. There is some evening and weekend work for the EASE program.

## **Labor Relations**

The Human Resource Services Division’s labor relations unit consists of six employees, including a Director II, and is responsible for collective bargaining, employee grievances and employee disciplinary issues; ensuring compliance with county office policies, procedures and collective bargaining agreements; and ensuring compliance with state and federal employment laws and employee relations matters.

Collective bargaining and the grievance procedure are mandated functions of the Human Resource Services Division. Negotiating contracts with LACOE’s three collective bargaining units (Service Employees International Union – SEIU; California School Employees Association – CSEA; and Los Angeles County Education Association – LACEA) is a lengthy process. The 2003 Bridging Document in the LACEA contract refers to the long-perceived overabundance of managers in LACOE. Section 2, under “Aspirations, Where we are now” states, “Management to staff ratios that are perceived with suspicion and with skepticism.” The agreement is for “Flexible and appropriate staffing and management ratios reflecting open, horizontal, and more organizational model.”

The Bridging Document is an agreement between LACOE and LACEA developed in May 2003 as a result of an impasse in negotiations. The agreement contains three principal sections. The first section details the negotiated agreements regarding compensation and conditions of employment. The second section sets forth the commitment to develop and practice a collaborative or interest-based approach to decision-making and negotiations. The third section of the agreement sets forth the commitment of the parties to “transform the culture of the organization from its historical, authoritarian character to a more participatory, interactive, and democratic one.” The Bridging Document found that LACOE was “overly hierarchical, vertically stratified in ‘silos,’ and lacks a collaborative decision making culture.” This Bridging Document seeks to address these observations. Although the Bridging Document sets forth practices to improve communication and reduce the number of ‘silos’, the hierarchical management, and the number of management staff, the results have been mixed and continued training is costly. Collaboration and improved communication are essential to high-functioning divisions; however, this model

for decision making became cumbersome, lengthened the disciplinary process, and increased the number of meetings staff were required to attend including annual training. Since 2003 LACOE has invested significant funds to train all employees in interest-based bargaining and to provide annual refresher courses.

### **Designation of Positions**

Through investigation that included interviews with key staff and observations, FCMAT determined that LACOE has deemed some positions to be management in order to retain specific employees, attract a certain level of experience and education, or ensure that the position is exempt from overtime pay requirements.

Under federal law, the Fair Labor Standards Act, and/or California Education Code Sections 45127 and 45128, classified employees generally must be compensated at the overtime rate for time worked beyond eight hours per day or 40 hours per week. However, some exemptions exist for certain employees in executive, managerial and professional positions. The United States Department of Labor explains on its website how these exemptions may be applied (<http://www.dol.gov/compliance/topics/wages-overtime-pay.htm>). The designation of a position as management or supervisory does not automatically qualify the position for exemption from overtime; the position must qualify for exemption as outlined in federal and state law. (EC 45130, Fair Labor Standards Act (FLSA) 13(a)(1), and Labor Code sections 204c and 510)

FCMAT's review, which included interviews with key staff and observations, indicates that some classified employees may be designated as "confidential" even though they may not perform duties integrally related to collective bargaining.

### **Personnel Services**

The personnel services department has a director II, a project director III and more than 40 staff. The department also uses 60-70 contractors annually to provide beginning teacher support and assistance program (BTSA) training and support. The department provides services in the areas of certificated recruitment, BTSA, employee benefits, fingerprinting, substitute teachers and paraeducators, professional development, recordkeeping and other areas. The workforce and organizational development units in the department are value-added services. The department also serves LACOE educational programs and fingerprints all LACOE employees and the substitutes on the countywide substitute list.

### **Workers' Compensation**

Several managers reported that staff in their departments are out on extended workers' compensation leaves. Managers are not always informed regarding the duration of an employee's leave, when the employee's leave time is exhausted, or if the employee is placed on a 39-month rehire list, which would allow the manager to fill the position. Many managers are unaware that there is a return-to-work/light duty program. Establishing an aggressive return-to-work program has allowed many local educational agencies (LEAs) to reduce their workers' compensation rate. Training department managers to understand the light duty accommodations that may be needed to return an injured worker to their position can help workers return to work. Another option that many LEAs have used is to establish light duty work that is temporary to help workers return to the workplace. LACOE's workers' compensation program was moved from the Business Services Division to the Human Resource Services Division beginning on April 1, 2011.

LACOE's workers' compensation rate is 6.20% of salaries, which is very high compared to other county offices of education (for example, the Kern COE has a rate of 1.41%). Self-Insured Schools of California (SISC) provides workers' compensation for four county offices of education with a base rate of 1.08; modification factors vary by county from 1.61 to 0.88, resulting in per-member costs of \$1.49 to \$0.82 per \$100 of salaries. However, because SISC accessed reserves during the budget crisis, actual rates were between \$1.04 and \$0.57 per \$100 of salary per member.

Based on an estimated cost of \$255,000,000 for 2011-12 general fund salaries, LACOE's total annual cost for workers' compensation is \$15.81 million at the current rate of 6.20%. Each 1% reduction in the workers' compensation rate would reduce costs by \$2.55 million per year. Therefore, in addition to return-to-work measures, LACOE would benefit from investigating the validity of claims, requiring fitness for duty examinations, and reviewing claims regularly for any needed follow-up, including settlement when warranted, and using knowledge gained from past experiences to help ensure workplace safety. LACOE would also benefit from improved communication between the claims administrator and management to reduce the workers' compensation rate. Reviewing caseloads to ensure they are manageable would also be beneficial. If the current claims administrator does not have sufficient claims staff and caseloads are excessive, staff will only be able to address immediate needs. Having sufficient staff provides the unit with time to analyze and develop quality plans of action and adjust claims appropriately to resolve cases in a timely manner. Contracting with a consulting firm to fully review the workers' compensation program for potential cost containment could also benefit LACOE.

Because LACOE is self-insured for workers' compensation claims up to \$500,000, monitoring the variables used in its actuarial report to ensure that they reflect the most current information is valuable.

## Reduction in Force

The employee reduction in force (RIF) process has caused concern across the LACOE organization because some position titles and job classes are overly broad and individuals are moving into positions without the skills needed to do the required work. Although the person who has moved into the position may hold the same job title, the specialized knowledge needed to perform the work often requires the manager to provide the new employee with extensive training and can hamper productivity. This process is repeated annually in some departments that have staff members with the least seniority. Managers reported that the Human Resource Services Division is not communicating regularly with them about positions that may be affected by the RIF, and there is no system in place for this communication. The affected employees are notified by human resources, but management is not always included in the communication. Managers need adequate time to prepare and plan for a change in support staff. The March 2011 adopted Human Resource Services Division's strategic plan addresses many of the communication issues FCMAT identified and should improve the division's effectiveness if fully implemented.

## Duplication of Services

Although there appears to be some duplication of services between the Human Resource Services Division and other LACOE divisions, this is not true in the area of credential monitoring. External credential monitoring is conducted by the school financial services (SFS) unit that monitors all schools that fall under the Quality Education Investment Act (QEIA) and schools that are in deciles 1, 2 and 3 as mandated by the Williams Act. In addition, SFS monitors a

random sample of approximately 25-33 additional districts per year. Human resources does not monitor the credentials of the county's 80 school districts; it processes the credentialing needs for internal LACOE certificated employees, with the exception of the regional occupational program (ROP) and BTSA employees. The ROP also has a credential analyst that serves their staff's credential needs. Although the credentialing needs of ROP are unique, there may be opportunities to better coordinate these efforts and consolidate the function under the Human Resource Services Division.

The Human Resource Services Division has primary responsibility for employee issues, but the Internal Audit and Analysis Department also handles some of the employee complaints that come in through the district hotline. LACOE operates this hotline for the community and employees to call in anonymously to register complaints or concerns about office issues. Another purpose of the hotline is to report potential fraud and abuse, though it appears that this is no longer widely known or accepted. The Internal Audit and Analysis Department is responsible for monitoring the hotline and coordinating an investigation if needed, or forwarding the complaint to the appropriate department for follow-up. Staff reported that calls regarding employees are often investigated before involving human resources. This has sometimes resulted in duplication of effort because some of these complaints were already known to human resources and employment action was already in progress. Earlier coordination with human resources when forwarding a complaint to another division for investigation should resolve this issue.

The Human Resource Services Division's workforce and organizational development unit provides professional development, as does the curriculum and instruction unit in the Educational Services Division.

As mentioned in the Personnel Commission section of this report, both the Personnel Commission and the Human Resource Services Division conduct salary surveys. In addition, in the past the labor relations department contracted with outside legal counsel as needed rather than using in-house legal counsel. This practice can be costly and LACOE recently expanded in-house legal counsel related to employment issues and plans to provide future support in this area. Subsequent to FCMAT's review, the division sought legal counsel from the Office of General Counsel.

The Human Resource Services Division has five technology staff in an information services unit, including a coordinator. This unit prints reports, manages paperless document storage, prints routine employee letters, creates and modifies access to the human resources software system (HRS), and handles its own software licensing. The unit also maintains its own servers for employee security and confidentiality. The document imaging program used is different from those used in other departments and divisions. Most personnel files are on this system as the Human Resource Services Division is moving toward a paperless system. A significant portion of the work reportedly completed by this unit is clerical in nature.

LACOE reportedly requires organizational charts from each division annually by June 30. Because many divisions and departments add and move staff during the summer, a September 1 deadline was suggested by more than one manager and is being considered by the county superintendent. This would better reflect the actual organization and allow for more accurate and efficient position control, budgets and HRS processing.

The Human Resource Services Division and the Personnel Commission will need to provide leadership as LACOE addresses some of the organizational and staffing challenges detailed in this report. The Human Resource Services Division has adopted a strategic plan that identifies

systemic organizational issues throughout the division. It should consider replicating this effort across LACOE divisions by conferring with leadership in all divisions. Some of these issues are as follows:

- Lack of staffing formulas or ratios to provide managers with guidance for staffing decisions.
- Lack of criteria to determine the level of manager needed to perform the work in the divisions or units.
- Managers with the same title across divisions, with great disparity in the scope of the work assigned and the number of employees supervised.
- Lack of return-to-work or light duty policies to reduce workers' compensation rates and ensure that they are more comparable to those of other local educational agencies.
- Job categories that are too broad or too specific.

## Recommendations

*The Human Resource Services Division should:*

1. Identify items in the collective bargaining agreements, and in particular the Bridging Document, that may impede the organization's ability to effectively and efficiently manage operations. Make recommendations to the superintendent to help establish management's position for the bargaining process. Give priority to items in the contract that are problematic, and revisit these each time negotiations occur. Consult legal counsel when taking these steps.
2. Conduct a desk audit of the workload and responsibility level of each position in the Human Resource Services Division. Adjust workloads and eliminate positions as appropriate.
3. Review job descriptions and determine if they accurately reflect the work being completed. Reduce the number of different job classifications whenever possible.
4. Review management-level designations to determine if they meet the designated exemption under Education Code Section 45130, Labor Code sections 204c and 510, and the Fair Labor Standards Act (FLSA) 13(a)(1).
5. Review the overtime exemptions outlined by the United States Department of Labor and consult with its legal counsel to determine if each position has been appropriately designated.
6. Reconsider the need to maintain a separate technology unit within the Human Resource Services Division. Review its technology needs in conjunction with LACOE's Technology Services Division to determine if its needs can be met through that division without a reduction in technology-related services but at a reduced cost to LACOE.

7. Review the need for credentialing staff in the ROP and BTSA departments rather than using the Human Resource Services Division, and determine if consolidating these services would result in a more efficient use of the staff.
8. Establish a return-to-work policy and procedures to return injured workers to work sooner under an accommodated setting such as light duty and thus reduce the number of employees on extended workers' compensation leave.
9. Immediately take steps to more closely manage and control workers' compensation costs, including the following:
  - Investigate the validity of workers' compensation claims.
  - Require fitness for duty examinations, and review claims regularly for any needed follow-up including settlement of claims where warranted.
  - Use knowledge from past experiences to help ensure workplace safety.
10. Consider contracting with a consulting firm to fully review the workers' compensation program for potential cost containment.
11. Review workers' compensation caseloads to ensure that they are manageable. Hire sufficient staff to provide the unit with time to analyze and develop a quality plan of action and adjust claims appropriately to resolve cases in a timely manner.
12. Carefully monitor the variables that are used in its actuarial report with regard to workers' compensation to ensure that they reflect the most current information available.
13. Monitor employees' extended leaves and ensure that employees' leave balances are current.
14. Work with the Internal Audit and Analysis Department to review hotline procedures and ensure that the Human Resource Services Division is notified when a complaint concerning an employee is referred to another division for investigation.
15. Continue to discuss processes with other divisions within LACOE to clearly define the roles of the Human Resource Services Division and the Personnel Commission to improve efficiency and reduce any duplication of services.
16. Consider implementing a September 1 deadline for submission of organizational charts from all divisions to better reflect the actual organization.
17. Continue to implement its strategic plan and necessary changes. Use this model to help other divisions conduct staffing reviews.
18. Consider developing staffing ratios or formulas for some positions to help guide decisions regarding staffing.
19. In conjunction with division administrators, review the clerical support needs of each division and unit, and reduce and share clerical positions where appropriate.

20. Work collaboratively with the Personnel Commission to establish common objective criteria to determine the different management level positions needed. Criteria can include number of staff directly supervised, level and purpose of communication (inform, represent, facilitate, coordinate, persuade, negotiate) with outside agencies (county, regional, state, federal), and level of education required. Ensure that the broader the scope of responsibility and span of control, the higher level of management required.
21. Assist each division as it reviews management needs in each of its departments and units, and assist the division to align and reduce management positions where appropriate.
22. Work collaboratively with the Personnel Commission to create a nonmanagement staff classification with a lower compensation level to reduce the hiring of management personnel who have no employees to supervise.
23. Investigate and implement new integrated financial and human resources systems.
24. Create a plan to ensure that management is notified of any RIF action that affects their division or department.
25. Develop policies that support professional development, particularly in regard to technology and software programs necessary to complete assigned tasks.
26. Continue to provide all administrators and managers with annual training regarding employee disciplinary actions.
27. Using the Educational Employment Relations Act (EERA) definition of the “confidential employee” Government Code section 3540.1 (c), LACOE should review the actual role in collective bargaining of all classified employees who are designated as confidential.



## Technology Services Division

LACOE's technology solutions require a more extensive and separate review than the scope of this report provides. LACOE uses approximately 18 different data systems and employs a significant number of technology support staff both in its Technology Services Division and throughout other divisions to maintain these systems.

A technology master plan adopted in 2010 provides a blueprint to centralize and standardize technology infrastructure and servers. Although restructuring of the division has occurred, major components of this plan have not been implemented to date. There is a continuing and prevalent perception that the Technology Services Division cannot meet the Educational Program Division's requirements for security and confidentiality, which has hindered other divisions from embracing the technology master plan and eliminating or reducing the technology units operating within their divisions. The absence of integrated technology support for many operational functions also hinders the organization's efficiency. Technology staff in all LACOE divisions are supporting many outdated systems that have been significantly customized. More technologically advanced systems could reduce operational costs.

LACOE's Technology Services Division provides core and mandated services to more than 70 school districts in Los Angeles County as well as to LACOE's offices and divisions. The services include internet services; connectivity to and technical support for business and human resource services software applications for LACOE and school districts that use PeopleSoft and HRS; and instructional technology services through region 11 of the California Technology Assistance Program (CTAP). Multimedia and network services are value-added services.

According to the 2010-11 organizational chart, the division includes departments for instructional technology outreach, technology infrastructure services, and information technology services applications, which is now reorganized and referred to as applications development and support. The division was required to reduce its budget in nonmandated areas by 25% for fiscal year 2011-12. Some vacant positions were not filled, but most reductions were achieved by reducing budget categories other than personnel rather than decreasing staff. Staff reductions will have to be considered in the future. The division is being reorganized as management positions become vacant to reduce the layers of management. For example, an assistant director position was eliminated and a manager in charge position was established in one of the departments. Consolidation of units and management levels is continuing.

The following tables are based on the 2010-11 organizational chart provided by LACOE. Although significant changes have been implemented during fiscal year 2010-11, they are not indicated here. The Technology Services Division is directed by the chief technology officer and employs 184 staff under 72 different job titles. This total includes 110 management staff, four management non-exempt staff, no confidential positions, and 70 classified staff. This results in a management-to-nonmanagement staff ratio of approximately 5-to-4. The table clearly demonstrates great disparity in the number of staff that management positions with similar titles supervise.

### *Technology Services Staffing*

| Department             | Finance & Administration | Instructional Technology Outreach | Technology Infrastructure Services | Information Technology Services Applications |
|------------------------|--------------------------|-----------------------------------|------------------------------------|--|
| Title                  | Director                 | Director                          | Director*                          | Director                                     |
| Number of Staff        | 9                        | 36                                | 80                                 | 59   |
| Management Staff       | 4                        | 26                                | 30                                 | 50   |
| Management Non- Exempt | 0                        | 0                                 | 3                                  | 1  |
| Confidential           | 0                        | 0                                 | 0                                  | 0  |
| Classified             | 5                        | 10                                | 47                                 | 8  |

### Staffing Comparison

FCMAT compared LACOE's technology services staffing with those of four other county offices of education. As indicated earlier in this report, a direct staffing and organizational comparison is not possible because of LACOE's size and because every county office is unique. However, the below comparison takes into account these known differences to the extent possible.

### *Technology Services Total Staffing Comparison by Department*

| Department   | LACOE     | San Diego | Orange  | Riverside | Kern    |
|--|-----------|-----------|---------|-----------|---------|
| Finance & Administration                                     | 9*        | 2*        | 3*      | 5*        | 2*      |
| Instructional Technology                                     | 36        | 41        | 8       | N/A       | 4       |
| Tech. Infrastructure Serv.                                   | 80**      | 25        | 9       | 23        | 15      |
| Information Tech. Serv. Applications                         | 59***     | 26        | 13      | 25        | N/A     |
| TOTAL  | 184       | 95        | 33      | 53        | 21      |
| Number of students served                                    | 1,532,539 | 473,133   | 484,328 | 400,834   | 164,998 |
| Percentage of students compared to LACOE                     |           | 31%       | 32%     | 26%       | 11%     |
| Number of Districts Served                                   | 80        | 41        | 17      | 19        | 47      |
| Percentage of districts as compared to LACOE                 |           | 51%       | 21%     | 24%       | 59%     |
| Percentage of Technology Services staffing compared to LACOE |           | 51%       | 18%     | 29%       | 11%     |

\*Includes chief technology officer/deputy/assistant superintendent and administrative assistants to division heads except for Riverside County where the deputy superintendent and administrative assistant is reported in the Business Services Division comparison chart.

\*\*Includes staffing from the network applications and engineering, and from the data center operations, analysis and planning organizational charts.

\*\*\*Includes staffing from the applications development and support and the technical support organizational charts.

### Staffing Comparison Notes:

- **San Diego County Office of Education**  
The San Diego COE's technology division includes a student information services unit with a staff of 10 that is not included in this comparison because LACOE's technology division does not provide student information services. The education technology services department staff of 24 is assigned to the learning resources educational technology division and is reported in the chart above for comparison purposes only. In addition, the technology division has a media and communications unit with a staff of 17 that is reported in the instructional technology department.
- **Orange County Office of Education**  
The division of alternative education has a technology unit with 10 staff members. The division of leadership and learning support services provides educational technology services with a staff of eight and is reported in the chart above for comparison purposes only. The technology division does not provide instructional technology services.
- **Riverside County Office of Education**  
Based on a review of organizational charts and the employee directory, all technology services are provided by the staff listed above. The deputy superintendent and administrative assistant are reported in the Business Services Division comparison chart.
- **Kern County Office of Education**  
The division of instructional services provides educational technology services with a staff of four and is reported in the chart above for comparison purposes only. The technology division does not provide instructional technology services. Based on a review of the staff directory, all technology services, with the exception of educational technology, are provided by the staff listed above.

### Divisionwide Issues Overview

The Technology Services Division faces many challenges, the greatest of which is its image. The duplication of technology services within other divisions is indicative of a continued perception that the Technology Services Division lacks the ability to provide the services required by the other divisions. The Technology Services Division has recently completed an approved master plan in July 2010 (see Appendix G) but has not yet developed an implementation plan to make it a reality. The master plan calls for standardizing equipment, centralizing some services, and supporting certain decentralized technology services in recognition that in an organization of LACOE's size must be a hybrid of centralized and decentralized technology services to optimize operations.

The Technology Master Plan adopted July 1, 2010 states the following:

The mission of LACOE's Technology Master Plan is to define the policies and procedures to ensure the effective use of technology for instructional, administrative, and business functions that are required to facilitate the delivery services to LACOE stakeholders and to the schools and school agencies that comprise the Los Angeles County Office of Education. The effective management of technological resources will:

Help LACOE to meet its Strategic Opportunities;

Facilitate, rather than complicate, the performance of required job functions;

Provide fiscal accountability to the taxpayers and local, state, and federal agencies;

- Provide for the assessment and prioritization of new technologies based on pre-established criteria;
- Provide a comprehensive training and support program for all required to use any agency-supported technologies;
- Create high-quality, integrated, stable, secure, and reliable informational databases that can effectively be used for fiscal planning and human resources management for all LACOE customers;
- Provide the tools and information for assessing the effectiveness of LACOE policies and programs as well as the technologies themselves;
- Equitably enable the use of technology throughout the organization based on identifiable needs;
- Store information in LACOE databases that is accessible to all with legitimate need to access it.

There are many challenges to implementing a plan of this magnitude in an organization as large as LACOE. The objectives outlined in the plan will need to be prioritized and an implementation plan developed with a timeline. The Technology Services Division must begin discussions with other divisions to determine their needs and concerns about program transfer. Technology Services and other divisions will need to work collaboratively to set standards for user support response times, which directly correlate to staffing ratios and operational costs. The Technology Services Division will also need to clearly communicate the method used to set priorities for responding to requests for software programming changes, referred to internally as green (PeopleSoft) and pink (HRS) sheet programming requests as well as user support requests.

LACOE needs to consolidate its technology services to increase efficiency and effectiveness. The transfer of technology services from the Personnel Commission to the Technology Services Division was successful. However, when consolidation of technology services occurred in other divisions because budget constraints required them to eliminate separate technology services, the transition was less successful. The Technology Services Division took responsibility for technology services without fully determining how the other division was functioning, and provided less than adequate services. When a division determines that specific services should be transferred to the technology services division, a transition plan should be developed to ensure a timely and smooth transition.

Another challenge is LACOE's continued focus on supporting PeopleSoft instead of exploring other possible online data solutions. This focus does not align with its stated organizational mission. The solutions required to address the many technology issues facing LACOE require a more comprehensive review than is provided in this study. It would benefit LACOE to begin such a review as soon as possible, with a serious commitment to implement the recommendations provided.

*Technology Services Division Administration*

| Title        | Chief Technology Officer | Senior Division Secretary | Administrative Aide |
|--------------|--------------------------|---------------------------|---------------------|
| No. of Staff | 1 *                      | 1 **                      | 1                   |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

*Instructional Technology Outreach Staffing*

| Title        | Director Instructional Technology | Resource Development Manager | Marketing Coordinator | Production Manager | Information Resource Coordinator | Consultant III | Media Production Coordinator | Consultant | Regional Technology Consultant |
|--------------|-----------------------------------|------------------------------|-----------------------|--------------------|----------------------------------|----------------|------------------------------|------------|--------------------------------|
| No. of Staff | 1 *                               | 1 *                          | 1 *                   | 1 *                | 1 *                              | 2 *            | 2 *                          | 1 *        | 8 *                            |

| Title        | Information Resource Specialist | Micro-computer Support Technician | Web Based Applications and Systems Consultant | Media Services Manager | Video Services Specialist | Television Engineer | Productions and Operations Engineer | TV Multimedia Producer / Director/ Editor | Multimedia Developer | Multimedia Specialist |
|--------------|---------------------------------|-----------------------------------|---|------------------------|---------------------------|---------------------|-------------------------------------|---|----------------------|-----------------------|
| No. of Staff | 3                               | 1                                 | 1   | 1 *                    | 1                         | 1 *                 | 1 *                                 | 2 *                                       | 1 *                  | 1 *                   |

| Title        | Senior Division Secretary | Administrative Coordinator | Assistant Administrative Analyst | Media Dispatching Clerk | Secretary |
|--------------|---------------------------|----------------------------|----------------------------------|-------------------------|-----------|
| No. of Staff | 1                         | 1 *                        | 1                                | 1                       | 1         |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The instructional technology outreach department's 36 FTE employees include one director, two managers, four coordinators, and 11 FTE consultants, all of which are included in the above tables. Total annual compensation for consultants listed in the above table ranges from \$134,334 to \$140,149, and an administrative credential is required for these positions. The majority of the services provided are value-added. This department works with the California Department of Education to assist school districts in Los Angeles County with creating and approving state-required technology use plans to enable districts to qualify for state and federal technology funding programs (e.g., E-Rate). The department provides professional development for teachers in the integration of technology into teaching and partners with the curriculum and instruction department to provide training for administrators in the use of technology to support administrative functions (e.g., data decision making). It also assists district staff with computer applications and related strategies for helping students improve their achievement. Reorganization of this department in 2011 resulted in a reduction to 33 full-time equivalent (FTE) positions.

LACOE's television and multimedia studio has eight FTE staff but is not used to its capacity. In 2010-11 the studio reported a total of 375.5 production hours in the studio and the field, including rehearsals, with 89 bookings and 16 clients served. The LACOE communications and special education departments were its most served clients, with a total of 38.5 hours of production. The studio reports that its 2010-11 production was double the previous year's workload. In comparison, Kern COE has four employees and reported a total of 979 production hours, 306 studio hours and 673 field/location hours, with 114 bookings and 22 clients served in 2010-11. The Riverside COE has three staff and 97 productions in studio and in the field for a total

of 1,830 hours. This comparison with Class II county office production studios indicates that LACOE may have opportunities to reduce the number of staff in this unit given its current rate of production. Total annual compensation is approximately \$134,334 for a multimedia consultant and approximately \$131,485 for a Web consultant.

The Center for Distance and Online Learning (CDOL) is a highly regarded program in the Educational Services Division that provides online courses for teachers and hires outside consultants to film instruction in the field but does not currently use multimedia studio staff. Much of the work is conducted in the field; however, this may be an opportunity to increase the use of LACOE production staff.

The television and multimedia studio does not use high-definition video equipment. LACOE will need to decide if it should continue to invest in the studio and replace aging equipment or if other multimedia resources will be more advantageous and cost effective.

## Technology Infrastructure Services Department

### *Technology Network Applications and Engineering, Management and Confidential Staffing*

| Title        | Director Technology Infrastructure Services | Assistant Director Information Services | Network Manager | Personal Computing Support Manager | Acting Telephone Services Manager | Television Engineer | Senior Network Engineer | Network Engineer | Assistant Network Engineer | Supervising Microcomputer Support Technician | Senior Systems Specialist | Ericsson Telephone Services Specialist |
|--------------|---|---|-----------------|------------------------------------|-----------------------------------|---------------------|-------------------------|------------------|----------------------------|--|---------------------------|--|
| No. of Staff | 1*  | 1*                                      | 1*              | 1*                                 | 1*                                | 1*                  | 7*                      | 7*               | 4                          | 1*   | 1                         | 1*                                     |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

### *Technology Network Applications and Engineering, Nonmanagement Staffing*

| Title        | Senior Division Secretary | Division Secretary | Secretary | Administrative Aide | Intermediate Typist Clerk | Telephone Service Technician | Telephone Service Assistant | Micro-computer Support Technician II | Microcomputer Support Technician I |
|--------------|---------------------------|--------------------|-----------|---------------------|---------------------------|------------------------------|-----------------------------|--------------------------------------|------------------------------------|
| No. of Staff | 1                         | 1                  | 1         | 1                   | 1                         | 2                            | 1                           | 4                                    | 2                                  |

### *Data Center Operations, Analysis & Planning Staffing*

| Title        | Director        | Assistant Director | Manager | Data Control Shift Supervisor | Computer Operations Shift Supervisor | Data Processing Operations Analyst | Senior Data Control Clerk | Data Control Clerk | Senior computer Operator | Computer Operator | Division Secretary      |
|--------------|-----------------|--------------------|---------|-------------------------------|--------------------------------------|------------------------------------|---------------------------|--------------------|--------------------------|-------------------|-------------------------|
| No. of Staff | 1* (see above)# | 1* (see above)#    | 2*      | 1***                          | 2***                                 | 6*                                 | 3                         | 10                 | 3                        | 12                | 1 (see in table above)# |

\*Management, \*\* Confidential, \*\*\* Management non-exempt, # counted once for comparison purposes

The technology infrastructure department provides network, personal computing support and telephone services support. Its organizational chart shows 80 positions, including many network engineers and computer support technicians who support most of the networks throughout

LACOE. Staff reported that LACOE's telephone system is outdated and needs to be replaced by 2015; however, LACOE has not established funds to implement this replacement.

## Information Technology Services Applications Development Department

### *Technology Services Applications Development and Support Staffing*

| Title        | Assistant Director | Manager Data Center, Web & RAD, Web Applications, Payroll & HR | Principal Systems Analyst | Senior Programming Systems Analyst | Applications Architect | Senior Application Developer | Web Coordinator | Senior Systems Specialist | Senior Multimedia Developer | Programmer Analyst II | Division Secretary | Technical Specialist III* |
|--------------|--------------------|--|---------------------------|------------------------------------|------------------------|------------------------------|-----------------|---------------------------|-----------------------------|-----------------------|--------------------|---------------------------|
| No. of Staff | 1* (see above)     | 5*   | 10*                       | 13*                                | 2*                     | 4*                           | 1*              | 1                         | 1*                          | 5                     | 1                  | 1                         |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

Technology services applications development and support staffing includes some positions that are listed as senior but no like positions that are not senior. Similarly, there is a programmer analyst II position but no programmer analyst I position.

### *Technology Services – Technical Support Staffing*

| Title        | Assistant Director | Manager – Mainframe Support, Open Systems Support | Database Analyst II | Systems Software Analyst II | Systems Software Analyst | Senior Network Engineer | Senior Programming Systems Analyst | Division Secretary |
|--------------|--------------------|---|---------------------|-----------------------------|--------------------------|-------------------------|------------------------------------|--------------------|
| No. of Staff | 1* #               | 2* 1#   | 3*                  | 8*                          | 1***                     | 1*                      | 1*                                 | 1                  |

\*Management, \*\* Confidential, \*\*\* Management non-exempt, # position is noted twice but counted once for comparison purposes

The majority of the services provided by the information technology services applications development department are considered essential to core functions, including payroll and PeopleSoft support. This department has 60 positions on the organizational chart.

LACOE does not have a fully integrated financial software system. The Financial Management section of this report provides analysis and recommendations related to financial software systems. The PC Budget software used to create the budget is separate from the PeopleSoft enterprise application. LACOE uses PeopleSoft version 7.5 for education and government, which is no longer supported by Oracle, the manufacturer. The mainframe system is expensive to maintain, with technicians available 24 hours a day, seven days a week. Because PeopleSoft is not a live system, updates must be loaded each evening. LACOE's position control system is a standalone system that does not communicate with PeopleSoft. The position control and personnel systems are not optimally automated.

### *Technology Finance and Administration Staffing*

| Title        | Financial & Administrative Manager | Budget Analyst | Assistant Administrative Analyst | Senior Accounting Clerk | Intermediate Typist Clerk | Administrative Aide |
|--------------|------------------------------------|----------------|----------------------------------|-------------------------|---------------------------|---------------------|
| No. of Staff | 1 *                                | 3 *            | 1                                | 1                       | 2                         | 1                   |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The Technology Services Division's finance and administrative services unit had nine positions at the beginning of fiscal year 2010-11, as noted in the table above; however, because of budget reductions it now has four employees including two budget analysts and two support staff. One of the functions of this unit is to bill departments and divisions for services provided by the Technology Services Division.

### **Changes Implemented in Spring 2011**

The Technology Services Division, like other divisions within LACOE, has been reviewing operations to implement efficiencies. The division has been restructured to flatten the organization and expand control of management staff. Few reductions in staff have occurred. Some of the changes include the following:

- Creation of an administrative services unit.
- Technology Services Network Applications and Engineering is now titled Technology Infrastructure Services.
- Certain positions in the division were moved to newly created units.

### **Duplication of Services**

There are numerous instances of duplication of technology services throughout LACOE. Various divisions and departments have created their own smaller technology departments or units, perhaps partly as a result of the Technology Services Division's reluctance or inability in the past to support these entities' technology requirements. Departments perceive that operating their own technology will ensure timely response to user needs and give them control over operational costs.

For example, the technology department in the controller's office provides programming, networking servers and infrastructure to support EPIC, the student information services system used by LACOE's Educational Programs Division for attendance and student reporting data. The EPIC technology support group also provides instructional technology support to the students LACOE serves through its Educational Programs Division. The technology department in the Human Resource Services Division supports both LACOE's personnel data and school districts' substitute list data. The Head Start program has technology staff for networking and applications. The regional occupational program operates a network system and servers supported by external contractors. The school financial services department has a technology unit that includes one financial operations consultant and five staff who liaise between the school financial services department and LACOE's Technology Services Division. The school financial services department also provides PeopleSoft training to districts 10 to 12 times a year. Some of the work of the school financial service department's technology group is clerical but the remainder could be consolidated with that of LACOE's Technology Services Division.

Conversely, the Technology Services Division includes an administrative services unit that duplicates some of the functions of the Business Services Division. Because of budget reductions, this

department was reduced from nine positions to four. This department performs business-related functions such as processing requisitions and initiating invoicing to districts for non-mandated services. Typically, an administrative assistant or secretary will initiate a purchase request in PeopleSoft, which then forwards it to the purchasing department for processing and ordering the product. Similarly, an administrative assistant or secretary would typically initiate the document for services to be invoiced to another agency, and the document would be forwarded to the Accounting and Budget Development Department, which would validate the invoice detail, generate the invoice in the LACOE format, record the invoice in the financial system, mail it to the client for payment, and monitor its payment until received. A desk audit of the functions and hours required to assist with invoicing would help LACOE determine the number of staff required.

Two departments are contemplating two different software programs for employee absence tracking, one to support internal LACOE functions and the other to support external district functions. The divisions are not communicating with the technology services division to determine if that division can support the systems being considered for purchase. There is a need to standardize the process for technology hardware and software procurement.

Educational technology support is provided in three different divisions within LACOE. The instructional technology outreach unit in the Technology Services Division provides California Technology Assistance Program (CTAP) training and support to school sites throughout the county. Educational technology for court and community schools is supported separately by the Educational Programs Division and the Educational Services Division's Center for Distance and Online Learning (CDOL). The work of the educational technology unit in the technology division does not align with the rest of the technology division. Leadership needs to determine if this is the best fit for educational technology in the organizational structure or if it is better suited to the educational services division. The television studio, another educational technology unit in the technology division, has a number of full-time staff but is not fully used. Leadership will need to determine if this is a function that still needs to be provided by the county office and, if so, how the studio can be more fully utilized.

## Recommendations

*The county office should:*

1. Commission an external comprehensive review of its technology needs and solutions to support both administrative operational functions and instructional applications. Determine which technology services should be centralized, which should be decentralized and which should be a combination of both, to provide expeditious and effective customer support.
2. Research the feasibility of a fully integrated financial software system that can provide all aspects of accounting, position control, payroll, budgeting, and report generation for both LACOE and school districts that contract with LACOE for financial, budget and payroll services. Involve both internal and external users in the feasibility study.
3. Review the technology division's role, responsibility and structure, and the technology services provided by departments other than the technology division.

4. Coordinate technology acquisition efforts and establish technological standards and protocols for the purchase of technology to ensure that all new technology is compatible and can be supported by the technology division.
5. Develop a plan for staff development, particularly in regard to technology and software programs necessary to complete assigned tasks.

*The Technology Services Division should:*

6. Consider reorganizing the division and reducing staffing as part of the division's budget reductions.
7. Conduct desk audits of staff by unit to determine workload, reorganize units and rebalance workload as needed.
8. Develop timelines and actions for implementing critical portions of the technology master plan such as the standardization of technology equipment.
9. Continue to work to improve the division's image by establishing a service approach to internal and external clients and decreasing response times for user support and service.
10. Establish procedures to review any technology being considered for purchase by any LACOE division and/or department to determine if the technology can be supported by the Technology Services Division.
11. Identify the technology departments or groups in other divisions that are performing work that could in part or in whole be provided by the Technology Services Division, and work with the other divisions to negotiate a viable transfer process and timeline.
12. Determine if efficiency and cost savings would be achieved by assigning invoicing and requisition to clerical or other staff positions rather than to higher level personnel.
13. Examine the cost and staffing needed to provide value-added technology services, such as the television studio, and determine the feasibility and cost efficiency of continuing to maintain them. Determine the cost to replace aging equipment and decide whether using other multimedia resources would be more advantageous and cost effective.
14. Ensure that the proposed comprehensive study of the Technology Services Division includes an analysis of whether the instructional technology outreach department could best serve its clients if it were transferred to the Educational Services Division or if it were to partner with the division to a greater extent.
15. Ensure that the multimedia studio and the CDOL explore additional opportunities for the CDOL to use the multimedia studio staff to reduce operational costs and better serve clients.
16. Establish a plan and timeline for replacing and supporting the LACOE telephone system that ensures these tasks will be accomplished no later than 2015.

17. Establish a technology hardware and infrastructure replacement program and timeline.



## Business Services Division

The core and mandated services provided by the Business Services Division include all internal LACOE fiscal and business operations, monitoring of financial transactions and providing AB 1200 oversight to local educational agencies throughout Los Angeles County. The division believes that the majority of its work is core and very few of its functions are value-added services.

The Business Services Division is directed by the assistant superintendent of business services and includes the following five departments, each of which is led by a director: Business Advisory Services, School Financial Services, Business Operations, Accounting and Budget Development, and the Controller's Office. The division has a total of 473 staff in addition to the assistant superintendent. This includes 160 management staff, 59 management non-exempt staff, and 254 nonmanagement non-exempt staff.

### *Business Services Staffing*

| Department             | Business Advisory Services | School Financial Services | Business Operations | Accounting & Budget Development | Controller |
|------------------------|----------------------------|---------------------------|---------------------|---------------------------------|------------|
| Title                  | Director                   | Director                  | Director*           | Director                        | Director   |
| Number of Staff        | 39                         | 143                       | 158                 | 64                              | 70         |
| Management Staff       | 23                         | 40                        | 36                  | 26                              | 35         |
| Management Non- Exempt | 5                          | 28                        | 3                   | 12                              | 11         |
| Confidential           |                            |                           |                     |                                 |            |
| Classified             | 10                         | 75                        | 119                 | 26                              | 24         |

County office organization varies according to the needs of the school districts and students served. County offices are mandated to provide specific core services and perform specific functions as the intermediate agency. However, there are many optional programs that county offices may choose to operate, and each county office organizes division functions according to its programs, staff, and resources. Therefore the number of staff by division or department can vary widely. FCMAT reviewed selected Class II county offices to provide a comparison of the organizational structure and a ratio of staffing.

*Business Services Division Staffing Comparison*

| County Office<br>Department                                      | LACOE      | San Diego    | Orange    | Riverside  | Kern       |
|--|------------|--------------|-----------|------------|------------|
| Accounting & Budget Development                                  | 64*        | 17*          | 28*       | 52*        | 27*        |
| Business Advisory  | 39         | 8            | N/A       | N/A        | 11         |
| Business Operations  | 158        | 44.6         | 26        | 65         | 92         |
| Controller   | 70         | N/A          | N/A       | 1          | N/A        |
| School Financial Services  | 143        | 35           | 18        | 29         | 8          |
| <b>TOTAL</b>   | <b>474</b> | <b>105.6</b> | <b>72</b> | <b>147</b> | <b>138</b> |
| Number of students served  | 1,532,539  | 473,133      | 484,328   | 400,834    | 164,998    |
| Percentage of students compared to LACOE                         |            | 31%          | 32%       | 26%        | 11%        |
| Number of Districts Served                                       | 80         | 41           | 17        | 19         | 47         |
| Percentage of districts as compared to LACOE                     |            | 51%          | 21%*      | 24%        | 59%        |
| Percentage of Business Administration staffing compared to LACOE |            | 22%          | 15%       | 31%        | 29%        |

\*Includes the deputy superintendent/assistant superintendent position for all departments within the business division.

**Staffing Comparison Notes**

- San Diego County Office of Education**  
 With the exception of a fleet services supervisor and two mechanic positions, there are no transportation positions listed on organization charts. Staff assigned to accounting and budgeting provide services similar to those provided by the controller's office in LACOE.
- Orange County Office of Education**  
 School financial services staff provide service(s) performed by the business advisory staff in LACOE. Accounting and budgeting staff provide services performed by the controller's office in LACOE. The human resources division in the Orange County Office of Education provides unemployment, district payroll and retirement services with a staff of 24 employees. This service is typically provided within the business division, as is the case in LACOE. The Orange County Office of Education's alternative education division has a staff of 16 employees who provide budget, operations and facility services for the division. Food service positions were not included because LACOE does not include these positions in the Business Services Division.
- Riverside County Office of Education**  
 School financial services staff provide services performed by the business advisory staff in LACOE. No special education transportation services are listed. Accounting and budgeting staff provide all budget and financial-related services for all county programs (ROP, alternative education, migrant, special education, early childhood and others). In contrast, LACOE operates smaller budget units in divisions other than the Business Services Division. Food service personnel were not included because these positions are not part of the LACOE Business Services Division.
- Kern County Office of Education**  
 Accounting and budgeting include services performed by the controller's office in

LACOE, and school financial services staff includes services performed by the business advisory staff in LACOE. Business operations does not include 124 bus driver positions assigned to the transportation department. Bus driver positions were not included for comparison purposes because LACOE contracts with private firms for student transportation and thus does not employ bus drivers. Food service positions were not included because LACOE does not include these positions in the Business Services Division.

LACOE's Business Services Division faces a number of serious issues that need to be addressed. LACOE does not have a fully integrated financial system. Numerous separate systems, including PeopleSoft, HRS, PC Budgets and various report generators, require multiple staff to support the mainframe, server and software applications. Sometimes the support staff are located in different divisions. Position control is a standalone system that does not communicate with PeopleSoft. PC Budget is also separate from PeopleSoft. Because of the significant number of modifications that LACOE has made to the PeopleSoft software, it is no longer supported by Oracle. PeopleSoft cannot be updated in real time; it must be updated each evening. The need to update and integrate financial and personnel systems is discussed in detail in the Financial Management section of this report.

In the past, the Business Services Division operated successfully with four departments; a fifth department was added approximately ten years ago, reportedly to retain a specific administrator.

The Business Services Division is divided into too many departments, resulting in problems with communication, duplication of work, and excessive management-level positions. The division would benefit from studying the feasibility of consolidating its five departments. For example, the controller's office and the Accounting and Budget Development Department could be combined because they both provide internal accounting functions. These two departments were combined successfully in the past. Another example would be to consolidate the business advisory department and the school financial services department because the majority of the services of both departments are to external users. A successful reorganization should result in a reduction of management positions, streamlined operations and improved communications. In any reorganization, LACOE will need to retain the separation between departments that provide AB 1200 oversight and those LACOE units and employees that provide direct budget and financial services to school districts.

As discussed later in this report, EPIC was developed and is operated by the controller's office, which is separate from the Technology Services Division. EPIC is a web-based technology that includes all attendance, grades and student data for the students LACOE serves in court schools and alternative education schools, and is expected to include data on special education students soon. The EPIC system has its own servers, and the system and servers are supported by technicians directed by the controller's office.

In addition, the Educational Programs Division now contacts the Controller's Office rather than the Technology Services Division to obtain support for instructional technology at juvenile court schools, and alternative education sites because reportedly there is a several month delay for the Technology Services Division to install new workstations or hardware. Staff reported that the technology staff who serve EPIC and are directed by the Controller's Office also provide instructional technology support to the school sites in the Educational Programs Division, such as helping set up computer labs and servicing hardware. A technology representative at each site has been identified and works with the EPIC technology staff on EPIC systems issues.

Staff indicated that there are at least three different optical imaging systems located within LACOE including the systems used by the controller's office, human resource services and the business operations department. Whenever possible, equipment should be standardized to obtain economies of scale and help to ensure that data can be readily accessed.

Interviews indicated that two employee attendance tracking systems are being investigated for implementation, one by the accounting and budget development department for internal LACOE functions and one by the school financial services department for external services. If the departments' efforts were combined, they may find that one system is sufficient to serve the needs of both departments and reduce costs.

## Recommendations

*The county office should:*

1. Include in its organizational chart the percentage or fraction of a full-time equivalent (FTE) for each position that is less than full time, including the FTE for each employee that is split between sites or supervisors.

*The Business Services Division should:*

2. Study the feasibility of reorganizing the division and reducing the number of separate departments. Examples include consolidating the controller's office and the accounting and budget development department and/or consolidating the business advisory and school financial services departments. Retain separation between the departments, units and personnel who have AB 1200 oversight functions and those who provide direct financial services to school districts.
3. Conduct desk audits of all positions to review the workload and responsibility level of each position and to help determine if duties need to be rebalanced and if positions need to be reduced.
4. Standardize optical imaging systems where possible.
5. Determine the feasibility of implementing one employee absence tracking system rather than two separate systems for internal and external services.
6. Investigate ways to produce one monthly financial system report that includes budget and actual financial data for sites and departments.
7. Investigate integrated financial and human resources systems.

## Business Advisory Services

The Business Advisory Services department provides external services to school districts in the areas of non-voter-approved debt issuance, including certificates of participation (COPs) and tax and revenue anticipation notes (TRANs); Williams Act compliance for facilities; Medi-Cal administrative activities (MAA) coordination; auditing and coordination of unemployment claims with the third-party administrator; and school district reorganization issues and elections. This department is also responsible for all aspects related to Assembly Bill 1200 oversight requirements, including the review and monitoring of school district budgets and interim financial reports.

The department is led by a director who supervises two assistant directors and one support staff member and is responsible for 21 management staff, five management non-exempt staff and nine classified support staff, for a management-to-staff ratio of approximately 5-to-2. The department is divided into five areas of operation with one assistant director managing Medi-Cal administrative activities, Williams Act compliance, school district organization and elections, facilities, unemployment insurance, and certificates of participation (COPs) and tax revenue anticipation notes (TRANs). The other assistant director manages the financial management services, which is split into two units, each of which is supervised by a financial advisory services officer.

### *Business Advisory Services Management and Confidential Staffing*

| Title        | Director | Assistant Director | Financial Advisory Services Officer | Regionalized Business Services Coordinator | Financial Operations Consultant | Business Advisory Services Manager | Business Services Consultant | Unemployment Insurance Specialist | Business Systems Analyst | Site Analyst |
|--------------|----------|--------------------|-------------------------------------|--|---------------------------------|------------------------------------|------------------------------|-----------------------------------|--------------------------|--------------|
| No. of Staff | 1 *      | 2 *                | 2 *                                 | 4 *  | 2 *                             | 5 *                                | 6 *                          | 1 *                               | 1 *                      | 3 ***        |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

### *Business Advisory Services Support Staffing*

| Title        | Senior Division Secretary | Division Secretary | Secretary | Accounting Technician | Senior Accounting Clerk | Senior Typist Clerk |
|--------------|---------------------------|--------------------|-----------|-----------------------|-------------------------|---------------------|
| No. of Staff | 1                         | 2                  | 5         | 2 ***                 | 1                       | 1                   |

Each of the six coordinators and officers supervise one to eight staff. Five of the six units are staffed with a secretary to support three to eight staff and have numerous other support staff positions. The two assistant director positions also each have a secretary. The entire department would benefit from a desk audit of management and support staff to rebalance workload and determine if some positions can be consolidated.

## Business Operations Department

The main services within LACOE provided by the Business Operations Department include warehousing, purchasing, inventory, transportation, contracts, reprographics, mail services, security, facilities planning and construction, and maintenance and operations.

Because the department director position is vacant, the department is led by two assistant directors and seems to be functioning well. Many of the top management staff have school district experience. One of the assistant director positions and several supervisors, officers, managers

and coordinators are responsible for warehousing, purchasing, inventory control, transportation, contracts, mail services, reprographics and security functions. Staff indicated that the department provides both core and value-added services. The department staff incur overtime toward the end of the fiscal year for purchasing. There is reportedly a flurry of spending to use unspent funds at year end, especially Title I funds. This issue is discussed in detail in the Financial Management section of this report.

The facilities and construction assistant director supervises the facilities planning officer, the interim construction management officer (a position that was created in January 2011) and the maintenance and operations officer. The facilities planning officer supervises two facilities planning managers and one senior real estate specialist. Each of the two facilities planning managers supervises two or three facility planning specialists. This structure contains too many layers of management and too narrow a span of control. It may be more efficient to reorganize the facilities planning specialists under one facilities planning manager. The total annual compensation for a facility planning manager is \$118,000.

### *Warehouse, Purchasing and Inventory Services Management and Confidential Staffing*

| Title        | Director      | Assistant Director | Procurement Services Officer | Procurement Services Manager | Asst. Warehouse Supervisor | Supervising Buyer | Special Assignment |
|--------------|---------------|--------------------|------------------------------|------------------------------|----------------------------|-------------------|--------------------|
| No. of Staff | 1 *<br>Vacant | 1 *                | 1 *<br>Vacant                | 1 *                          | 1 ***                      | 1 *               | 1                  |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

### *Warehouse, Purchasing and Inventory Services Support Staffing*

| Title        | Senior Division Secretary | Division Secretary | Secretary | Admin. Analyst | Buyer | Senior Accounting Clerk | Intermediate Accounting Clerk | Asst. Buyer | Warehouse Worker | Inventory Control Clerk | Senior Typist Clerk | Intermediate Typist Clerk |
|--------------|---------------------------|--------------------|-----------|----------------|-------|-------------------------|-------------------------------|-------------|------------------|-------------------------|---------------------|---------------------------|
| No. of Staff | 1                         | 1                  | 1         | 1 *            | 2     | 3                       | 1                             | 1           | 9                | 2                       | 1                   | 1                         |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The warehouse, purchasing and inventory services unit has six management staff, one management non-exempt staff member and 24 classified staff. A number of positions are vacant, including the procurement services officer position, which directly supervises only one employee: the procurement services manager. The number of secretarial support positions in the department remains high and needs to be reviewed. Total annual compensation is \$74,000-\$86,000 for a senior division secretary, \$72,000-\$84,000 for a division secretary, and \$69,000-\$75,000 for a secretary position, depending on seniority. The annual total compensation for a procurement services officer is \$137,500.

### *Transportation and Contract Services Management and Confidential Staffing*

| Title           | Director      | Assistant Director | Transportation and Planning Officer | Procurement Services Manager | Specialist: Accounting and Transportation | Transportation Planner | Senior Contracts Specialist |
|-----------------|---------------|--------------------|-------------------------------------|------------------------------|---|------------------------|-----------------------------|
| Number of Staff | 1 *<br>Vacant | 1 *                | 1 *                                 | 1 *                          | 2 *                                       | 2 *                    | 1                           |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

### *Transportation and Contract Services Support Staffing*

| Title           | Admin. Analyst | Division Secretary | Secretary | Procurement Services Assistant | Asst. Admin. Analyst | Senior Accounting Clerk | Transportation Scheduler   | Senior Typist clerk | Intermediate Typist Clerk |
|-----------------|----------------|--------------------|-----------|--------------------------------|----------------------|-------------------------|----------------------------|---------------------|---------------------------|
| Number of Staff | 1              | 1#                 | 1         | 2 *                            | 1 *                  | 1                       | 5 (one position is vacant) | 1                   | 1#                        |

\*Management, \*\* Confidential, \*\*\* Management non-exempt, # included in tables above but not duplicated in the count

The transportation section is led by a planning officer who supervises nine staff, and the contracts unit is led by a procurement services manager who supervises seven staff. One transportation planner position supervises three staff and another supervises two staff, though one of the planner positions is vacant. It may be feasible to combine the two transportation planner positions. In addition, there are a variety of support staff positions, some of which it may be possible to combine. The contract services section contracts for security, transportation and crossing guards and after-school activities; transportation costs are reportedly fully reimbursed as school districts are billed for services. The total annual compensation for a transportation planner is \$107,000-\$108,000.

### *Mail Services, Reprographics, and Security, Management Staffing*

| Title        | Director | Assistant Director | Administrative Services Officer and Executive Director JET | Reprographics Supervisor | Mail Service Supervisor | Asst. Mail Service Supervisor | Events Specialist Coordinator | Data Management Supervisor |
|--------------|----------|--------------------|--|--------------------------|-------------------------|-------------------------------|-------------------------------|----------------------------|
| No. of Staff | 1 *      | 1 *                | 1 *  | 1 *                      | 1 *                     | 1                             | 1 *                           | 1                          |

\* Management, \*\* Confidential, \*\*\* Management non-exempt # not duplicated in total count

### *Reprographics, Nonmanagement Staffing*

| Title        | Senior Offset Press Operators | Offset Press Operators | Senior Reprographics Workers | Reprographics Workers | Imaging Specialist | Office Wide Recycling Warehouse Worker | Forms Technician | Warehouse Worker | Secretary (also serves Mail and security) |
|--------------|-------------------------------|------------------------|------------------------------|-----------------------|--------------------|--|------------------|------------------|---|
| No. of Staff | 2                             | 2                      | 1                            | 3                     | 2                  | 1                                      | 2                | 1                | 1   |

### *Mail Services and Security, Nonmanagement Staffing*

| Title           | Mail Delivery Driver | Addressing Services Intern Clerk | JET Delivery Driver | Intermediate Typist Clerk | Intermediate Clerk | Reception Services |
|-----------------|----------------------|----------------------------------|---------------------|---------------------------|--------------------|--------------------|
| Number of Staff | 3                    | 1                                | 8                   | 1                         | 1                  | 3                  |

LACOE operates internal mail delivery services and mail delivery to districts through JET, an express delivery service. This unit also provides printing and reprographics production to internal LACOE divisions as well as security services at LACOE facilities. The unit has three management positions and 34 classified positions listed on its organizational chart, for a management-to-staff ratio of approximately 1-to-10. The unit has a reprographics unit that is underutilized by other

departments within LACOE. Best practice is to centralize reprographics to reduce operational costs.

**Facilities Planning Staffing**

| Title           | Facilities & Construction Assistant Director | Facilities Planning Officer | Construction Management Officer | Facilities Planning Manager | Facilities Planning Specialist | Senior Real Estate Specialist | Real Estate Specialist | Secretary | Admin. Aide |
|-----------------|--|-----------------------------|---------------------------------|-----------------------------|--------------------------------|-------------------------------|------------------------|-----------|-------------|
| Number of Staff | 1 *  | 1 *                         | 1 *                             | 2 *                         | 5 *                            | 1 *                           | 2 *                    | 1         | 1           |

Management, \*\* Confidential, \*\*\* Management non-exempt

The department’s second assistant director position, along with several officers, supervisors and managers, is responsible for all facility-related services for LACOE including facility planning and construction, purchase of real estate and facility leases.

The Business Operations Department’s facilities planning unit employs several facility planning management positions as identified in the table above but has few major facility projects in progress. One of the positions was newly added to the staff because two career technology projects are under construction at a total combined cost of approximately \$40 million; however, these are the only two major facility projects under construction and little facilities expansion is being considered for the foreseeable future. The cost of employing the newly added architect is being charged to the state’s School Facility Program, which reduces the funds available for construction, furniture and equipment. Rather than following a capital facility project from inception to project closeout, the architectural staff are assigned to different aspects of LACOE’s facility projects such as facility standards, educational specifications, preconstruction or construction. The total annual compensation for an architect is \$134,000. Eliminating one facilities planning management position would result in a potential annual savings of approximately \$118,000 - \$134,000.

**Building Services**

**Building Services Staffing**

| Title           | Facilities & Construction Assistant Director | Maintenance & Operations Officer | Building Operations Supervisor | Senior Accountant | Facilities Maintenance Supervisor | Site Inspector | Accounting Specialist |
|-----------------|--|----------------------------------|--------------------------------|-------------------|-----------------------------------|----------------|-----------------------|
| Number of Staff | 1*<br>#                                      | 1*                               | 1*                             | 1*                | 1                                 | 1***           | 1                     |

\* Management, \*\* Confidential, \*\*\* Management non-exempt # included in another table

| Title           | Secretary | Senior Custodian | Custodian | Lead Maint. Worker | Maint. Worker | Asst. Admin. Analyst | Senior Accounting Clerk | Admin. Aide | Intermediate Typist Clerk | Custodial Shift Supervisor |
|-----------------|-----------|------------------|-----------|--------------------|---------------|----------------------|-------------------------|-------------|---------------------------|----------------------------|
| Number of Staff | 1         | 3                | 28        | 1                  | 6             | 1                    | 1                       | 1           | 1                         | 2 ***                      |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The building services assistant director position, the maintenance and operations officer and several supervisor positions are responsible for the maintenance, inspection and operations of all LACOE facilities. This includes custodial and grounds services. The building services unit has

51 employees to provide the above services. Because the unit does not employ any skilled maintenance workers with journeymen or trade skills, it must contract for all work that requires trade skills. In addition to the 28 employees who provide custodial services, the unit also contracts for custodial services at several sites leased by LACOE. The unit also maintains an accounting section that includes six accounting and administrative assistant positions. This section prepares invoices to bill LACOE divisions and departments for services, confirms invoices, and forwards them to the accounting and budget development department for payment.

The School Preventive Maintenance Management System (SPMMS) software is used by building services for tracking and billing work orders. However, staff indicated that work orders are initiated manually rather than through the software program. A significant amount of staff time could be saved and maintenance response time improved if sites and departments were trained to submit work order requests electronically.

Because the Educational Programs Division determines the budget and allocates funding for leasing facilities and for the maintenance projects at sites used for special education programs and curriculum and instruction services, the level of facilities and their maintenance are not consistent throughout LACOE. The entire department would benefit from a desk audit of management and support staff to rebalance workload and determine if some positions can be consolidated.

## Recommendations

*The Business Services Division should:*

1. Conduct a desk audit of secretarial support positions in the Business Operations department to determine the number of hours required to complete the work assigned to each position, and rebalance workload and adjust staffing as needed.
2. Consider consolidating the transportation unit's two transportation planner positions to one position while one of them is vacant.
3. Conduct a desk audit of the transportation services unit to determine the number of hours required to complete the work assigned to each position, and consolidate positions when possible.
4. Reconsider the need for the number of facilities planning management positions based on current facility projects. Ensure that the facilities planning unit conducts a desk audit and consider the feasibility of reorganizing the facilities planning specialists under one facilities planning manager. Consider redistributing workload and eliminating positions where feasible.
5. Consider assigning architects to projects from inception to closeout for efficiency.
6. Consider assigning facility department staff to oversee construction projects from start through closeout.
7. Provide sites and departments with access to the business operations work order software and necessary training so that work order requests may be submitted electronically.

8. Encourage the Communications Department to use the services of the Reprographics Department and existing graphics software to reduce costs.

## Controller's Office

The core and mandated services provided by the Controller's Office include student attendance accounting, special education accounting, grant monitoring, fiscal support for charter schools, and student administrative services provided through the EPIC software program developed and operated by the Controller's Office. The Controller's Office is divided into four sections: educational programs fiscal support; financial support services; management information systems, under which the EPIC student information system program development and implementation resides; and grants project management. The assistant controller supervises the work of the educational programs and financial support services sections; a financial operations team leader supervises the grants project management section; and the controller provides oversight of all programs and directly supervises the work of the management information systems section. This organization changed during fiscal year 2010-11 when the controller acted as interim assistant superintendent of business services and the assistant controller acted as interim controller. The assistant controller position was not filled with an interim, and as a result the controller and assistant controller assumed additional duties while also retaining the duties of the EPIC program.

The Controller's Office has experienced staff reductions except in the management information systems section. This section also hires short-term consultants to complete portions of projects as needed rather than hiring full-time permanent staff. Reducing the layers of management in the controller's office's organizational structure has been a major initiative, especially in the pupil attendance accounting unit. Some staff reductions occurred as a result of districts creating their own SELPA. No overtime is reportedly incurred by the Controller's Office staff, and independent contracts have been issued only to support development of the EPIC student information system.

### *Controller's Office Administration Staffing*

| Title           | Controller | Assistant Controller | Senior Division Secretary | Senior Accountant | Senior Typist Clerk | Division Secretary |
|-----------------|------------|----------------------|---------------------------|-------------------|---------------------|--------------------|
| Number of Staff | *          | *                    |                           | *                 |                     |                    |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

## Educational Programs Fiscal Support

### *Fiscal Services Support Unit Staffing*

| Title           | Financial Ops Consultant | Senior Accountant | Human Resource Specialists | Senior Accounting Clerk | Budget Technician | Administrative Analyst |
|-----------------|--------------------------|-------------------|----------------------------|-------------------------|-------------------|------------------------|
| Number of Staff | 7 *                      | 3 ***             | 0                          | 0                       | 0                 | 1                      |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

*Analytical Unit for Department of Special Education Staffing*

| Title           | Financial Ops Consultant | Accountant | Human Resource Specialists | Senior Accounting Clerk | Budget Technician | Administrative Aide |
|-----------------|--------------------------|------------|----------------------------|-------------------------|-------------------|---------------------|
| Number of Staff | 1 *                      | 0 ***      | 0                          | 3                       | 1                 | 0                   |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

According to the 2010-2011 organizational chart, the Controller's Office's educational programs fiscal support section has eight management, three management non-exempt and five classified staff. It is organized into the following units: Los Angeles County High School for the Arts (LACHSA), the division of student programs, and the special education/analytical unit. Each of these three units has two to seven staff. The educational programs fiscal support section would benefit from a review of the three financial operations consultants' duties to determine if consolidation is feasible. Total annual compensation for each financial operations consultant positions is \$119,000-\$139,000.

The human resources specialists in the special education/analytical unit were recently transferred to the newly expanded position control unit in the Accounting and Budget Development Department to ensure conformity and consistency across all divisions in matters of position control.

**Financial Support Services***Financial Support Services Administrative Staffing*

| Title           | Financial Ops Consultant | Principal Systems Specialist | Senior Systems Specialist | Senior Accountant | Senior Accounting Clerks | Administrative Analyst |
|-----------------|--------------------------|------------------------------|---------------------------|-------------------|--------------------------|------------------------|
| Number of Staff | 7 *                      | 1 ***                        | 1                         | 2 *               | 1                        | 1 *                    |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The financial support services section has 10 management, one management non-exempt and two classified staff and is divided into three units: special education, pupil attendance accounting and compliance, and charter schools. Each unit has two to eight staff; there are a few vacancies. Six financial operations consultant positions are authorized on the 2010-11 organizational chart in the special education unit and have as their primary function the preparation of special education bill-backs to school districts. The financial operations consultants provide fiscal support to SELPA directors, provide assistance with district-managed budgets and trust funds, and monitor SELPA expenditures. As stated later in this report, a number of districts have transferred special education services back to district operation. This decreases the workload in terms of bill-backs and invoicing districts. Currently, 46 districts are served directly through LACOE-operated SELPAs, and multiple districts contract with the county to provide designated instructional services (DIS) to between 5,000 and 5,700 students. The unit needs to conduct a desk audit of the functions of the financial operations consultant positions to determine if the workload can be redistributed and the number of positions reduced. The total annual compensation for a financial operations consultant is \$119,000-\$139,000.

## Management Information Systems

### *Management Information Systems Administrative Staffing*

| Title        | Information Systems Manager Student Data | Coordinator | Application Architect | Senior Application Developer | Senior Network Engineer | Network Engineer | Senior Server Engineer | Server Engineer | Systems Specialist | Data Processing Specialist | Accounting Specialist                 |
|--------------|--|-------------|-----------------------|------------------------------|-------------------------|------------------|------------------------|-----------------|--------------------|----------------------------|---------------------------------------|
| No. of Staff | 1 *                                      | 2 *         | 1 *                   | 1 *                          | 1 *                     | 1 *              | 1 *                    | 1 *             | 1                  | 7                          | 2 (one FTE as both positions are 50%) |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The Controller's Office is developing and managing the EPIC student information system that tracks student data. In 2007 LACOE determined that it required a more advanced system to track attendance in student programs such as court and community schools in the juvenile court system, and special education programs. LACOE assigned this project jointly to its Controller's Office and its technology department. LACOE hired a consultant to help develop specifications and system requirements, then issued a request for proposals (RFP) and selected a system that was abandoned within three months of the award of the contract because both the contractor and LACOE determined that the system would not meet LACOE's needs. At that point LACOE decided to develop its own system based on an existing model used in its Educational Programs Division.

LACOE also determined that the development and implementation of the student information system would be the responsibility of one department rather than continuing with the joint venture between the Controller's Office and Technology Services Division. The Controller's Office was selected as the lead for this project. The Controller's Office recruited and hired some existing technology department staff members and some external staff. Later, the staff members who supported the legacy student information systems in special education and educational programs were also consolidated into the controller's office to coordinate efforts as LACOE planned the transition to a single system. Since that time the controller's office has developed the attendance system, which has been deployed in juvenile court and community schools and alternative education programs, and there is a plan to implement the individualized education program (IEP) special education module in fall 2011.

## Grants Project Management

### *Grants Project Management Administrative Staffing*

| Title        | Financial Operations Team Leader | Secretary | Financial Operations Consultant | Business Services Consultant | Budget Analyst | Senior Accountant | Accountant | Accounting Technician | Admin. Aide | Senior Typist Clerk | Intermediate Typist Clerk |
|--------------|----------------------------------|-----------|---------------------------------|------------------------------|----------------|-------------------|------------|-----------------------|-------------|---------------------|---------------------------|
| No. of Staff | 1 *                              | 1         | 4 *                             | 1 *                          | 1 *            | 6 *               | 5 ***      | 3***                  | 1           | 1                   | 1                         |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The grants project management unit has 13 management, eight management non-exempt and four classified staff and is divided into five areas: Title 1/First Five LA/Systems Support; Part

E/S/Other Programs/Systems Support; Head Start; Individuals with Disabilities Education Act (IDEA)/Medi-Cal administrative activities (MAA)/Other Programs; and Greater Avenues for Independence (GAIN)/Other Programs. The unit is supervised by the financial operations team leader, and a financial operations consultant or business services consultant leads each of the five areas except for Head Start, which is led by a business services consultant. Each consultant supervises two to five staff. There may be opportunities to combine areas and reduce the number of financial operations consultants. For example, part E/S/Other Programs/System Support has only three staff, and may be able to fit under the Title 1/First Five LA/Systems Support unit, which has four staff members. The total annual compensation for a financial operations consultant is \$119,000-\$139,000.

The entire department would benefit from a desk audit of management and support staff to rebalance workload and determine if some positions can be consolidated.

## Accounting and Budget Development

The core and mandated services provided by the Accounting and Budget Development Department include accounts payable, accounts receivable, payroll, position control, budget development, budget transfers, and budget reporting for internal LACOE divisions and departments. The department's administrative staff includes a director, an assistant director, a general accounting officer, a financial operations team leader, and several operations consultants. The department is divided into three sections: accounting, budget, and internal systems support. Based on the 2010-11 LACOE organizational chart, this department has 64 positions assigned to it as identified below in the staffing charts. The staff reportedly do not incur overtime but use student assistants when necessary. The department does not use independent contractors or professional experts.

### *Accounting and Budget Development Administrative Staffing*

| Title           | Director | Assistant Director | General Accounting Officer | Senior Division Secretary | Administrative Assistant | Division Secretary |
|-----------------|----------|--------------------|----------------------------|---------------------------|--------------------------|--------------------|
| Number of Staff | *        | *                  | *                          |                           |                          |                    |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

### Accounting Section

The accounting section in the Accounting and Budget Development Department is responsible for internal accounts payable, general accounting, accounts receivable and payroll. The general accounting officer supervises these four areas of operation with a principal accountant or financial operations consultant leading each of the units, which have five to 15 staff each. There is a significant difference between the number of staff supervised by the principal accountants and the financial operations consultants. The distinction between these two management positions is not clear. In addition, each of these units has senior accountants, principal accountants or a payroll systems supervisor as intermediate supervisors, which adds another layer of management. There may be an opportunity to reorganize the workload and combine some of the units that perform similar functions and eliminate management positions.

## Accounts Payable

### *Accounts Payable Staffing*

| Title           | Principal Accountant | Senior Accountant | Accounting Technicians | Senior Accounting Clerks | Intermediate Accounting Clerk | Intermediate Typist Clerk |
|-----------------|----------------------|-------------------|------------------------|--------------------------|-------------------------------|---------------------------|
| Number of Staff | 1 *                  | 2 *               | 2 ***                  | 8                        | 1                             | 2                         |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The accounts payable unit is led by a principal accountant who directs the work of two senior accountants. The senior accountants each supervise six to seven accountants and support staff.

## General Accounting

### *General Accounting Staffing*

| Title           | Financial Operations Consultant | Principal Accountant | Senior Accountant | Accountant | Accounting Specialist | Intermediate Accounting Clerk |
|-----------------|---------------------------------|----------------------|-------------------|------------|-----------------------|-------------------------------|
| Number of Staff | 1 *                             | 1 *                  | 1 *               | 1 ***      | 1                     | 1                             |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The general accounting unit is supervised by the financial operations consultant, who directly supervises one staff member, a principal accountant, who supervises one staff member, a senior accountant, who supervises three staff. This unit has excessive layers of supervision, and the department may be able to combine its work with one of the other three areas of operation under the general accounting officer, resulting in the possible reduction of one or more management positions. In some cases supervisors are also responsible for direct functions, and this should be considered when studying the feasibility of reducing staff. Eliminating a senior position would result in a potential annual savings of approximately \$101,000 to \$139,000.

## Accounts Receivable

### *Accounts Receivable Staffing*

| Title           | Financial Operations Consultant | Principal Accountant | Accountant | Accounting Specialist | Accounting Technician |
|-----------------|---------------------------------|----------------------|------------|-----------------------|-----------------------|
| Number of Staff | 1 *                             | 1 *                  | 1 ***      | 2                     | 1 ***                 |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The accounts receivable unit is one of the two units supervised by a financial operations consultant rather than a principal accountant. The financial operations consultant directly supervises only one staff member, a principal accountant, who supervises one staff member, an accountant. Two other units in the accounting section are supervised by a principal accountant; this raises the question of why a higher level of management is needed for this unit when it has fewer staff to supervise than other units in the same section. A desk audit of the workload and level of authority of the financial operations consultant and the principal accountant needs to be conducted to determine if the workload can be redistributed and one of the positions eliminated. The potential annual savings from eliminating a senior position is between \$101,000 and \$139,000.

## Payroll

### *Payroll Staffing*

| Title           | Principal Accountant | Payroll Systems Supervisor | Senior Accountant/<br>CALPERS | Accountant | Principal Accounting Technicians | Accounting Technicians | Senior Accounting Clerks |
|-----------------|----------------------|----------------------------|-------------------------------|------------|----------------------------------|------------------------|--------------------------|
| Number of Staff | 1 *                  | 1 *                        | 1 *                           | 1 ***      | 2 ***                            | 2 ***                  | 2                        |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The payroll unit is supervised by a principal accountant, who supervises a staff of nine, though two positions are vacant. Three positions report directly to the principal accountant: the payroll systems supervisor, a senior accountant/CALPERS, and an accountant. The remaining six positions report to the payroll systems supervisor.

Duties for six of the payroll unit staff members include entering employee absence information into a standalone database so that leave balances may be calculated. These balances are not provided to the employees with their payroll checks or in any other written format. Thus the payroll staff members receive numerous calls from employees requesting leave balance information. Using employee absence tracking for this function and printing leave balances on each employee's monthly payroll stub could save a significant amount of staff time. This will be discussed later in the report.

## Budget Section

### *Budget Section Staffing*

| Title           | Financial Operations Consultant | Principal Accountant | Senior Accountant | Budget Analyst | Principal Systems Specialist | Systems Specialist | Budget Technician |
|-----------------|---------------------------------|----------------------|-------------------|----------------|------------------------------|--------------------|-------------------|
| Number of Staff | 1 *                             | 1 *                  | 1 *               | 2 *            | 1 ***                        | 1                  | 4                 |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The budget section is responsible for internal LACOE functions, including position control, revenue analysis, coordinating the budget process, preparing the budget book, and categorical program budgeting. This section has not experienced any reduction in staff but has been affected by inexperienced employees moving into department positions as a result of the reduction in force. The section is supervised by a financial operations consultant who is responsible for ten staff.

Staff indicated that budget and expense transfer requests are processed using paper forms rather than electronically. If LACOE were able to automate these processes, the time required for staff to acquire approval for the requests and complete the transactions could be reduced. Subsequent to FCMAT's fieldwork, the staff reported that the division is developing an automated system.

## Internal Systems Support

### *Internal Systems Support Staffing*

| Title           | Financial Operations Team Leader | Senior Data Processing Specialist | Financial Operations Consultant | Systems Administrator | Principal Systems Specialist | Business Systems Analyst |
|-----------------|----------------------------------|-----------------------------------|---------------------------------|-----------------------|------------------------------|--------------------------|
| Number of Staff | 1 *                              | 1                                 | 2 *                             | 1 *                   | 1 ***                        | 3 *                      |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The internal systems support section consists of nine employees and its main responsibilities are to support PeopleSoft applications and reporting for LACOE's internal business services functions. This section was formerly included in the Technology Services Division but was moved back to the Accounting and Budget Development Department in July 2010. The financial operations team leader supervises the senior data processing specialist, two financial operations consultants and the systems administrator. Each financial operations consultant supervises two management staff. The entire department would benefit from a desk audit of management and support staff to rebalance workload and determine if some positions can be consolidated.

### Indirect Costs

California School districts and county offices of education charge indirect costs to programs for the support that they provide for these programs in the form of general management services such as accounting, budgeting, payroll preparation, personnel services, purchasing and central data processing. In contrast, direct costs are the costs of providing measurable, direct benefits to particular programs. These include the cost of items such as teachers' and instructional aides' salaries and benefits, textbooks, instructional supplies, and pupil services (e.g., counseling, health services and transportation).

The California Department of Education's (CDE's) website's frequently asked questions about indirect costs section defines an indirect cost rate as follows:

In general terms, an indirect cost rate is the percentage of an organization's indirect costs to its direct costs and is a standardized method of charging individual programs for their share of indirect costs.

General management costs are necessary for any program to exist. For instance, all programs will use the business office at one time or another for services such as contracts, purchasing, payroll checks, and personnel management. Without the benefit of an indirect cost rate, there would be no standard way for each program to contribute its share of the general management costs without spending a lot of staff time having to "time account" to each activity. By using an indirect cost rate, LEAs have a standardized, efficient way to recover a share of general management costs from individual programs.

Source: <http://www.cde.ca.gov/fg/ac/ic/icrfaq.asp>. For further information about the indirect cost rate calculation, see CSAM ([<http://www.cde.ca.gov/fg/ac/sa/index.asp>] Procedure 915 at <http://www.cde.ca.gov/fg/ac/sa/index.asp>)

Indirect costs are calculated annually by the CDE and are based on the operational expenses reported by the district or county in the second prior fiscal year. Indirect costs can fluctuate from year to year depending on the expenses attributed to the categories used when calculating the rate.

The Controller's Office is responsible for charging indirect costs to various programs and communicating the services covered by these costs. However, many LACOE managers interviewed did not understand the services covered by the indirect charge and have difficulty differentiating between indirect and direct charges to their programs. The increase in the percentage of the indirect costs that the controller's office charges to grant and contract programs is becoming more problematic for those programs because it reduces the resources available and makes it challenging to provide the same level of services after budget reductions result in a loss of staff.

## Recommendations

*The Business Services Division should:*

1. Ensure that the controller's office clearly communicates the services covered by the indirect cost charge to differentiate this from the services that are directly charged to the programs.
2. Conduct a desk audit of the management and support staff to rebalance workload and determine if some positions can be consolidated.
3. Work collaboratively with the Education Programs Division and SELPA to review the functions of the financial operations consultant position to determine if the workload can be redistributed and the number of positions reduced.

## School Financial Services Department

The School Financial Services Department is divided into three service areas: accounting and financial services; district personnel information services; and districts, charter schools and business systems support. The department's administrative staff has one director, two assistant directors, and several managers, financial operations consultants and coordinators. The department director oversees the districts, charter schools and business system support service area, one assistant director oversees the accounting and financial services section, and the other assistant director oversees the district personnel information services section. The department provides school districts and LACOE (which is treated like another school district) with oversight of core and mandated accounting and financial services including warrants, accounts payable, fiscal reports, budget support, general ledger, revenue and apportionments, and banking.

This department also provides personnel services, which include payroll oversight, credential monitoring, retirement reporting and CalSTRS retirement counseling, HRS system support, position control support, and charter school support. The CalSTRS retirement function is being transferred back to CalSTRS in January 2012, and most employees in this unit are transitioning to CalSTRS employment. Because the personnel services are provided to school districts, there is no duplication of services with LACOE's Human Resource Services Division, which serves only LACOE internal staff. The School Financial Services Department also provides school districts, community colleges and charter schools with training in each of its areas of responsibility.

Based on LACOE's organizational chart for 2010-11, this department provides the aforementioned services to 80 Los Angeles County school districts and LACOE with 143 full-time employees.

### *School Financial Services Administrative Staffing*

| Title           | Director | Assistant Director | Senior Division Secretary |
|-----------------|----------|--------------------|---------------------------|
| Number of Staff | 1 *      | 2 *                | 1                         |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

### Accounting and Financial Services

The accounting and financial services section is led by an assistant director and is divided into two units: financial systems and accounting. Each unit is led by a manager, and each manager is assisted by an intermediate typist clerk, though one of the manager positions is currently vacant. The director also oversees a division secretary.

#### Financial Systems

##### *Financial Systems Unit Staffing*

| Title I         | Assistant Director | Disbursements and Financial Systems Manager | Financial Operations Consultant | Senior Auditor | Business Systems Analyst | Accountant | Senior Systems Specialist | Principal Systems Specialist | Senior Data Processing Specialist |
|-----------------|--------------------|---|---------------------------------|----------------|--------------------------|------------|---------------------------|------------------------------|-----------------------------------|
| Number of Staff | Noted above        | 1*  | 3*                              | 1*             | 2*                       | 1***       | 1                         | 1***                         | 1                                 |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

### *Financial Systems Unit Support Staffing*

| Title           | Division Secretary | Intermediate Typist Clerk | Senior Accounting Clerks |
|-----------------|--------------------|---------------------------|--------------------------|
| Number of Staff | 1                  | 1                         | 7                        |

The financial systems unit is divided into four areas: commercial claims; accounts payable; purchasing and inventory; and reports, interfaces, and security. Each of these areas is led by a financial operations consultant or a senior auditor who directs the work of one to eight staff. For example, the financial operations consultant who is responsible for accounts payable directs the work of one other staff member. A review of the workload may present opportunities to combine the four work areas into two or three and reduce the number of management positions. The annual savings from eliminating a senior position could be up to approximately \$139,000.

### **Accounting**

#### *Accounting Unit Staffing*

| Title           | Assistant Director | School Accounting and Finance Manager | Financial Operations Consultant | Principal Accountant | Business Services Consultant | Business Systems Analyst | Senior Accountant | Accountant |
|-----------------|--------------------|---------------------------------------|---------------------------------|----------------------|------------------------------|--------------------------|-------------------|------------|
| Number of Staff | Noted above        | 1*                                    | 2*                              | 2*                   | 1*                           | 3*                       | 2*                | 2***       |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

#### *Accounting Unit Support Staffing*

| Title           | Intermediate Typist Clerk | Intermediate Accounting Clerk | Accounting Technicians |
|-----------------|---------------------------|-------------------------------|------------------------|
| Number of Staff | 1                         | 1                             | 7***                   |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The accounting unit is divided into four areas: accounting and budget support; general ledger and budget; revenue and apportionment; and banking. Each area is supervised by a financial operations consultant, business services consultant, or principal accountant, each of whom supervise two to five staff. There is a wide variety of management titles that do not correlate with the number of staff supervised. A review of the workload may present opportunities to combine the four work areas into two or three and reduce the number of management positions. For example, it may be possible for accounting and budget support and general ledger and budget to be managed by a single financial operations consultant supervising seven staff rather than two financial operations consultants managing seven staff. Eliminating a senior position could result in a savings of approximately \$101,000 to \$139,000.

### **District Personnel Information Services**

The district personnel information services section is led by an assistant director and is divided into the following seven units:

- Payroll

- Retirement
- Human resource services employee services
- CalSTRS benefits counseling
- Certification
- Human resource services operations
- Human resource systems support

Four of the seven units are directed by a coordinator, two by a financial operations consultant and one by a retirement specialist. The number of staff each coordinator supervises varies from five (human resources coordinator) to 31 (retirement systems coordinator). The assistant director also oversees a division secretary.

## Payroll

### *Payroll Unit Staffing*

| Title           | Assistant Director | Payroll Systems Coordinator | Payroll Systems Supervisor | Principal Systems Specialist | Senior Systems Specialist | Systems Specialist | Senior Accounting Clerk | Typist Clerk |
|-----------------|--------------------|-----------------------------|----------------------------|------------------------------|---------------------------|--------------------|-------------------------|--------------|
| Number of Staff | Noted above        | 1 *                         | 1 *                        | 3 ***                        | 2                         | 5                  | 1                       | 1            |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The payroll unit is responsible for processing direct deposits, garnishments, warrant cancellations and replacements, remitting tax sheltered annuities, testing the payroll module, implementing systemwide payroll tables and codes, processing W-2 forms, and maintaining master payroll tax files for 120 educational agencies in Los Angeles County, including school districts, community colleges and charter schools. The unit also answers payroll questions and provides monthly payroll training to the educational agencies it oversees.

The payroll systems coordinator supervises the work of the payroll systems supervisor, who directs the work of the rest of the unit. The supervisor position was established in 2003 to provide direct oversight of daily operations. This appears to be a duplication of service, and one of the two positions may not be required. Staff indicated that at the same time the payroll unit in the Accounting and Budget Development Department, which processes LACOE's internal payroll, established a similar position with the same title. Eliminating the payroll systems supervisor or coordinator position could result in an annual savings of approximately \$103,000 to \$134,000.

## Retirement

### *Retirement Unit Staffing*

| Title           | Retirement Systems Coordinator | Retirement Systems Accountant | Retirement Systems Supervisor | Principal Systems Specialist | Senior Systems Specialist | Systems Specialist | Secretary |
|-----------------|--------------------------------|-------------------------------|-------------------------------|------------------------------|---------------------------|--------------------|-----------|
| Number of Staff | 1 *                            | 1 ***                         | 2 *                           | 2 ***                        | 9                         | 16                 | 1         |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The retirement unit's main functions are reporting retirement data for all educational agencies in Los Angeles County and remitting retirement contributions. The unit divides its work into two areas: the California Public Employees' Retirement System (PERS) and the California State Teachers' Retirement System (STRS). The coordinator directly supervises the two retirement systems supervisors, who supervise the principal systems specialists. The principal system specialist positions were created in 1995, adding another layer of supervision to the unit. The senior systems specialists are a resource to the system specialists and handle the unit's more technical work. The accountant is responsible for reconciling the transfer of funds report and the remittances to STRS and PERS.

There is a need for overtime when CalSTRS performs compliance audits of a district and determines that the district is out of compliance. The unit helps the district make the required corrections and adjustments within 60 days. The unit does not hire outside consultants because of the extensive training required to do the work. The unit's supervisors provide all new staff with classroom training that typically takes about one month to complete. Because of this investment in training its staff, the reduction in force negatively affects the unit.

The majority of charter schools use outside payroll services to process their payroll rather than the LACOE financial system, thus a third party is used to convert and report the retirement data from the charter schools to LACOE. This is a charter school option; however, it can cause delays and challenges for LACOE staff. Staff indicated that charter schools may be affected by a new CalSTRS policy on late remittance.

The unit's staff indicated that a new retirement system supervisor position was added in May 2011 because of charter school activity and that another position may be needed because of the new CalSTRS regulations regarding late reporting and remittance and the associated penalties and interest. Because CalSTRS sends one invoice for penalties, the unit will need to determine the total penalty each entity owes.

## Human Resource Services Employee Services

### *Human Resource Services Employee Services Unit Staffing*

| Title           | HRS coordinator | Principal System Specialist | System Specialist | Senior Typist Clerk |
|-----------------|-----------------|-----------------------------|-------------------|---------------------|
| Number of Staff | 1 *             | 3 ***                       | 1                 | 1                   |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The Human Resource Services Division's employee services unit has six employees, including the HRS coordinator, who supervises the staff.

## Certification

### *Certification Unit Staffing*

| Title           | Assistant Director | Credentials Coordinator | Supervising Credentials Technician | Senior Human Resource Specialist | Human Resource Specialist | Secretary |
|-----------------|--------------------|-------------------------|------------------------------------|----------------------------------|---------------------------|-----------|
| Number of Staff | Noted above        | 1 *                     | 2 ***                              | 3                                | 8                         | 1         |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The certification unit is supervised by the credentials coordinator, who supervises two supervising credentials technicians and a secretary. The technicians each supervise the senior human resource specialists, who provide support to human resource specialists and handle more technical aspects of the position. There may be an unnecessary layer of supervision, and the unit will need to determine if sufficient work exists for a credentials coordinator and two supervising credential technicians or if these positions can be consolidated. Eliminating a senior position could result in an annual savings of approximately \$87,000 to \$110,000. The certification unit's main duties are monitoring credentials and assignments for external educational agencies and LACOE, registering credentials, processing temporary county teaching certificates, and training district staff. Staff indicated that having the certification unit in the School Financial Services Department provides for good communication with the payroll unit regarding district employees who do not have the proper credentials.

## Human Resource Services Operations

### *Human Resource Services Operations Staffing*

| Title           | Assistant Director | Financial Operations Consultant | Principal Systems Specialist | Senior Systems Specialist | Intern Accounting Clerk | Secretary |
|-----------------|--------------------|---------------------------------|------------------------------|---------------------------|-------------------------|-----------|
| Number of Staff | * Noted above      | 1 *                             | 1 ***                        | 2                         | 1                       | 1         |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The human resource services operations unit is primarily responsible for liaising between the technology department and school financial services staff. This unit's staff act as subject matter experts. For example, the unit is familiar with both the functionality of the HRS software system and the technical aspects of Business Objects, a tool used to extract reports from the system. So if the payroll unit in the School Financial Services Department initiates a request to develop a reporting tool to better administer garnishments, this unit would help them understand the technical side and help the technology division understand the importance of properly handling a garnishment. The unit also sets up the lab for monthly half-day trainings, though some of this work is shared by the technology services division. It would benefit the unit to determine the number of employee hours required to prepare and conduct the training and the percentage of FTE required for this aspect of the unit's work. It is not clear that high-level management staff are required to prepare the lab for workshops.

The unit collects the training material from other units in the division and reproduces and packages the documents. This work is primarily clerical in nature and could be performed by a clerical employee. It is unclear whether this work is currently completed by a management-level employee or clerical support. The unit also develops HRS usage invoices for member districts biannually. This task could be performed by another department.

The unit also responds to districts' requests for ad hoc reports. The unit has not reviewed requests to determine if some of the reports are requested frequently enough to warrant adding them to the standard list of reports that can be produced. Performing such a review immediately may provide opportunities to reduce the workload required to create individual reports.

Occasionally the unit will be asked to make a mass change on data for a district, such as when a district changes salary schedules or a payroll cycle. LACOE will need to consider whether it is feasible to continue to offer this level of individualized service to districts. If LACOE moves to

a new financial software system, it may find that fewer staff are required to create ad hoc reports and support district needs.

There appears to be little difference between the level of authority of the senior systems specialist and the principal systems specialist positions, and the unit does not have any system specialist. The entire unit would benefit from a desk audit. The total annual compensation for the senior system specialist and the principal system specialist ranges from approximately \$91,000 to \$100,000 for each position.

### Human Resources Services Systems Support

#### *Human Resources Services Systems Support Unit Staffing*

| Title           | Assistant Director | Financial Operations Consultant | Senior Systems Specialist | Clerical Supervisor | Accounting Clerks | Intermediate Typist Clerks |
|-----------------|--------------------|---------------------------------|---------------------------|---------------------|-------------------|----------------------------|
| Number of Staff | *Noted above       | *                               |                           | ***                 | 2                 | 3                          |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The clerical supervisor position in this unit is currently vacant and the unit could benefit from determining whether it is necessary to fill this position. The main responsibilities of this unit are to run the payroll warrants for 120 local educational agencies including districts, community colleges and charter schools, and to distribute the payroll and commercial warrants to the respective agencies. The unit also acts as a liaison between the school financial services and technology departments and is responsible for tracking and prioritizing the HRS system requests from districts to the technology department. Eliminating the clerical supervisor position could result in an annual savings of approximately \$61,000. The human resource services operations and human resource services systems support units each have a financial operations consultant. A desk audit of these two consultant positions would be appropriate to determine if the two positions could be combined. Eliminating a senior position could result in an annual savings of approximately \$119,000 to \$139,000.

### Districts, Charter Schools and Business Systems Support

#### *Districts, Charter Schools and Business Systems Support Staffing*

| Title           | Director     | Financial Operations Consultant | Principal Systems Specialist | Business Systems Analyst | Senior Auditor | Senior Accountant | Accountant | Senior Systems Specialist | Senior Accounting Clerk |
|-----------------|--------------|---------------------------------|------------------------------|--------------------------|----------------|-------------------|------------|---------------------------|-------------------------|
| Number of Staff | *noted above | 4 *                             | 3 ***                        | *                        | *              | *                 | ***        |                           |                         |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The work of this unit is supervised by the director of the school financial services department and is divided into four areas: PC Budget (a computer financial application), district support and PC Products, reconciliation and review, and business charter schools. Each of the four units is supervised by a financial operations consultant who supervises a staff of one to four. A desk audit of the work of the four financial operations consultants would help determine if the number of these positions could be reduced. Eliminating a financial operations consultant position could result in an annual savings of approximately \$119,000 to \$139,000.

Reconciliation and review performs cash reconciliations between the PeopleSoft financial system and the county treasury for 188 educational agencies (including school districts, community colleges, charter schools and LACOE) that maintain cash accounts with the county treasurer's office; provides fiscal monitoring for the deputized, fiscally accountable and fiscally independent educational agencies; reviews districts' audited financial statements; and reviews policies and procedures for all School Financial Services Department units.

The entire department would benefit from a desk audit of management and support staff to rebalance workload and determine if some positions can be consolidated.

## Recommendations

*The School Financial Services Department should:*

1. Ensure that a clerical employee rather than management staff is responsible for collecting, reproducing and packaging training materials from the department's various units rather than having the human resource services operations unit staff perform this task.
2. Ensure that the human resource services operations unit in the district personnel information services section of the department reviews districts' requests for ad hoc reports to determine if requests for certain reports occur frequently enough to warrant adding them to the standard list of reports that can be produced, thereby reducing the workload for individual reports.
3. Determine whether it is feasible to continue to make mass payroll data changes for individual districts in the HRS software system.
4. Ensure that the human resource services systems support unit in the district personnel information services section reviews the necessity of filling the currently vacant clerical supervisor position.
5. Consider conducting a desk audit of the work of the positions identified in the narrative above and determine if the positions could be combined and the number of positions reduced.

## Duplication of Services

There is duplication of services within the Business Services Division. Both the Controller's Office and accounting and budgeting units work with grant programs, and both the contracts department and facilities department work with real estate contract issues. Separate units in the Accounting and Budget Development Department send separate monthly financial reports to school sites and departments; one report contains budget information and another contains information regarding the actual expense transactions. If these reports could be combined it would save staff time in the Accounting and Budget Development Department and could provide school site and department staff with a more useful tool for analyzing their respective budgets. Some LACOE divisions, departments and programs, such as the regional occupational program (ROP), Head Start, GAIN, curriculum and instruction, migrant education, the Educational Programs Division and the Technology Services Division, operate their own smaller business units. Administrative analysts, assistant administrative analysts and budget technicians provide support for these smaller units such as creating client detail to be used in invoices, tracking personnel absences, budget tracking, and developing purchase orders or requisitions. Many of these functions are clerical and do not require high-level finance staff. Some of the units in the divisions manage a program budget of no more than \$1,000,000 but have several support staff to complete these tasks. The divisions will need to examine the nature of the work and determine the appropriate level of staff required to complete those functions.

The Head Start program includes a fiscal operations and support section that employs fiscal staff who temporarily report to the controller. The return of this fiscal operations section to Head Start is planned. This is discussed in detail later in this report. The fiscal staff who support Head Start delegate agencies need to fully understand federal and state guidelines specific to the program. The consultants work directly with the delegate agencies to ensure compliance rather than auditing and then penalizing the agencies. LACOE decentralized the business operations support for Head Start to provide more direct support and ensure that agencies meet federal guidelines. This is not a duplication of service but rather a decision to decentralize business operations and can be an effective method to meet delegate agency needs and provide the level of oversight LACOE desires.

## Risk Management Services

The risk management unit was under the leadership of the director of business operations, but that position has been vacant for several months. Risk management services was moved under the Office of the General Counsel and Workers' Compensation was moved to the Human Resource Services Division on April 1, 2011. Staff reported that the risk management officer position would not be replaced.

## Recommendations

*The Business Services Division should:*

1. When reorganizing departments, carefully consider the level of management required. Review management duties and core functions and apply more uniform criteria to determine the level of management needed.
2. Investigate the capability of the districts' financial software to process budget and expense transfer requests electronically.

3. Consider implementing employee absence tracking software that is capable of printing leave balances on each employee's monthly payroll stub.
4. Review the workload of each technology support position in the division and, where appropriate, develop a plan to consolidate technology services into the Technology Services Division once that division has proven that it can meet departments' and divisions' technology needs at a lower cost and provide an adequate level of customer service and support.

## Communications Department

The Communications Department is responsible for all aspects of communications for LACOE, including marketing, press conferences, press releases, working with the media, and speech writing. The department also administers the emergency response program, helps school districts with emergencies, and responds to public record requests. The department provides training to LACOE managers regarding how to deal with requests from the media and how to respond to emergency situations. It has established guidelines for sites and departments to direct media inquiries to the Communications Department. The department also provides the administrative support to the Los Angeles County School Trustees Association (LACSTA).

The Communications Department's staff includes a director, who reports directly to the superintendent, as well as two public information officers, two graphic artists, a marketing coordinator, two publication assistants, and two support staff. The department's staff was reduced from 16 to 10 during the past few years.

### *Communications Department Staffing*

| Title           | Director | Public Information Officer | Marketing Coordinator | Publications Assistant | Graphic Artist | Senior Division Secretary | Secretary |
|-----------------|----------|----------------------------|-----------------------|------------------------|----------------|---------------------------|-----------|
| Number of Staff | 1 *      | 2 *                        | 1 *                   | 1, 1**                 | 2              | 1**                       | 1**       |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

There is some duplication of services because other departments such as technology services and curriculum and instruction carry out their own marketing of entrepreneurial activities. LACOE has a fully equipped studio available for use by communications and other departments, but it is underused.

The Communications Department reviews all materials produced for consistency of brand image and graphics standards, but other departments do not always follow protocols in these areas; therefore, communications from LACOE departments are not always consistent with LACOE's adopted standards.

The response time required for media requests and emergencies has become shorter with the prevalence of social media networks, smart phones and other personal technology. The department took on the responsibility of developing and maintaining LACOE's website with assistance from the Technology Services Division. The department occasionally contracts with professional photographers or writers.

## Recommendations

*The Communications Department should:*

1. Review the organization of the department and determine whether there are feasible opportunities to reduce the number of management level positions.
2. Continue to provide training to LACOE managers regarding how to deal with media requests and how to respond to emergency situations.

3. Continue to provide guidelines for sites and departments to direct media inquiries to the Communications Department.

## Internal Audit and Analysis Division

The Internal Audit and Analysis Division main responsibility is to protect LACOE's assets, promote sound business practices and ensure that the organization is fiscally solvent. The division works with internal LACOE departments and sites to implement sound business practices. The division monitors the Juvenile Justice Department settlement agreements, the Casey A. settlement agreement, the LACOE hotline, and conflict of interest filings. The division is not responsible for external audits; those are the responsibility of the Business Services Division. The division is funded through indirect costs assessed to other divisions and programs.

At one time this division had as many as 30 staff, many of whom were focused on Head Start delegate agency audit and review. When the Head Start duties were transferred to the Educational Programs Division, the staff of the Internal Audit and Analysis Department were moved to the newly responsible division. As shown in the table below, the division now has five auditors as well as a senior auditor and a principal auditor, both of whom perform audit work in addition to their management duties. The division's director also performs some auditing functions.

The division normally prepares an annual risk assessment to determine workload and focus for the year. However, the number and scope of the examinations is limited to remaining staff time and division resources after the primary function of monitoring the Department of Justice (DOJ) settlement. In May 2011 the federal court approved the Casey A. settlement agreement, which assigns additional monitoring of LACOE compliance to this division. Annual risk assessment should include all programs and identify all areas of risk that are unacceptable to the organization. Plans that address the audit of these risks, including the use of consultants, should be developed and the work completed in a timely fashion. These activities require appropriate resources.

The division has been completely involved in the compliance auditing of the DOJ agreements and has completed approximately 27 audits of other LACOE operations since 2005. Staff reported that the division was to begin an audit of payroll and possibly an audit of Title I during the next year. Subsequent to fieldwork, the division initiated a payroll audit. It may be beneficial to have another division perform compliance monitoring of the DOJ agreements and have the Internal Audit and Analysis Division oversee this activity. It would be more effective to use the division to perform additional proactive audits, including continuing the audits of average daily attendance (ADA) and payroll, and recommend improvements to LACOE processes and procedures.

The division's staff include the director, a principal auditor, a senior auditor, five auditors and two support employees. All but two of the staff are management employees. In comparison, the Orange, Kern and Riverside county offices of education each employ 1.0 FTE internal auditor, and the San Diego County Office of Education does not have an internal auditor but its internal business staff perform some internal audit functions.

### *Internal Audit and Analysis Division Staffing*

| Title           | Director III | Principal Auditor | Senior Auditor | Auditor | Senior Division Secretary | Senior Typist Clerk |
|-----------------|--------------|-------------------|----------------|---------|---------------------------|---------------------|
| Number of Staff | *            | *                 | *              | 5 *     | **                        | **                  |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

## Recommendations

*The county office should:*

1. Make better use of the Internal Audit and Analysis Division to audit internal operations to improve LACOE operations and efficiency.
2. Consider transferring to another division the less technical monitoring tasks required by the DOJ agreement that are currently performed by highly trained staff members in the Internal Audit and Analysis Division. Work with legal counsel and the DOJ to negotiate and implement any changes in the monitoring process.
3. Develop an annual schedule for internal audits of divisions and departments based on risk assessments, and ensure that all departments are reviewed regularly.

*The Internal Audit and Analysis Division should:*

4. Review the division's organization to determine the feasibility of reducing the number of management positions without reducing the functions and responsibilities of the department.
5. Conduct audits of LACOE's internal functions, and monitor the corrective actions taken in response to the internal audit findings.
6. Strengthen the risk assessment component of internal controls by devoting additional resources and time to this function.
7. Using the internal control review program, expand proactive audits based on annual risk assessment and planned annual oversight reviews to be conducted by the Internal Audit and Analysis Division or independent audit firms.
8. Have the Office of the General Counsel review settlement agreements and determine if monitoring can be accomplished by other divisions with oversight provided by the Internal Audit and Analysis Division.

## Office of the General Counsel

Until two years ago, LACOE contracted most legal work to outside law firms. The majority of outside legal counsel expenditures at that time were in labor relations and special education. Fiscal year 2007-08 expenditures for outside counsel for these two areas alone were \$866,709. In fiscal year 2008-09 the Office of General Counsel assumed responsibility for the majority of work in these areas. The office also assumed responsibility for most of the litigation oversight previously performed by the risk management unit. That oversight has resulted in a significant reduction in costs, from \$998,520 in fiscal year 2008-09 to \$229,316 in fiscal year 2010-11. The Office of the General Counsel is now expanding to provide in-house attorneys to address more of LACOE's legal issues in a more efficient and cost-effective manner. In the past, divisions have contracted with outside legal counsel, in some cases without conferring with the Office of General Counsel first. During FCMAT's fieldwork LACOE transferred the authority for finding, hiring and overseeing any outside counsel to the Office of the General Counsel. The office is staffed with a general counsel, two deputy general counsels and two legal secretaries. The two deputy general counsels address special education and charter school issues. The office plans to hire another deputy general counsel to work on labor relations and employment issues.

A reorganization that was taking place within LACOE during FCMAT's fieldwork transferred risk management to this office. The office also plans to assist with employment contract oversight and collective bargaining negotiations.

Some Class II county offices of education hire outside legal counsel (Riverside) and others have internal legal counsel (Orange, Kern).

### *Office of the General Counsel Staffing*

| Title           | General Counsel | Deputy General Counsel II | Executive Legal Secretary | Legal Secretary |
|-----------------|-----------------|---------------------------|---------------------------|-----------------|
| Number of Staff | 1 *             | 2 *                       | 1 **                      | 1 **            |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

## Recommendations

*The Office of the General Counsel should:*

1. Continue to assess areas of risk and liability for LACOE and work proactively to reduce the risks identified.
2. In consultation with the cabinet, establish a protocol to determine when outside legal counsel can be used, and communicate this protocol to all divisions and departments; establish a policy that states that any contracting for outside counsel must be approved by the superintendent and the Office of the General Counsel.
3. Establish procedures to assist LACOE with employment contract oversight, developing standard contract language for personal service contracts, and reviewing contracts that exceed a designated monetary threshold.
4. Continue to support the county office administration, superintendent and board in legal issues.

## Educational Programs Division

The Educational Programs Division provides direct services to students in the Los Angeles County area through special education, alternative education, and other programs such as Workforce Investment Act; transition and special needs; Title I, Neglected and Delinquent; and assessment.

The division's organizational structure is complex and comprises 62 pages of LACOE's 2010-11 organizational chart. This section focuses on the division's central office management and staffing. The division employs 75 management, two confidential, and 87 classified staff at its central office. It is led by an assistant superintendent and a director of student programs and includes SELPA directors; a director of special education; principals at ten principal administrative units (PAUs) for court, community and alternative education and 11 PAUs for special education; and numerous administrators, project directors, coordinators, program specialists and managers for various educational programs. The division's site-level staffing and other issues related to juvenile court schools, community day schools and special education are discussed in detail in the Juvenile Court, Community and Community Day Schools section of this report.

Like other county offices of education throughout the state, LACOE has experienced significant changes in program funding, the number of incarcerated youth served, the severity of offenses of juvenile court school pupils, and working relationships with related agencies. Over the past decade, there has been a shift of California's most serious juvenile offenders from state-operated California Youth Authority/Department of Juvenile Justice programs to county-operated juvenile court schools. The magnitude of the shift has placed enormous pressures on juvenile court school programs. In addition, LACOE programs have experienced a significant decline in enrollment. Based on data from the California Basic Educational Data System (CBEDS), LACOE's juvenile court school program enrollment decreased by 19% between fiscal years 2006-07 and 2009-10, compared to a statewide decrease of 22.7% for the same period. The special education unduplicated student count (the total number of students served, not counting multiple enrollments during the school year for the same student) for the LACOE SELPA decreased by 50% between 2008-09 and 2010-11. The total funded staff has decreased by only 14% according to LACOE's California Special Education Management Information System (CASEMIS) data sheet.

This division has been deficit spending for several years and there is a prevalent belief across the division that funding for court schools is inadequate. This belief has hampered the division's efforts in seeking operational efficiencies. In fiscal year 2010-11 the division began making organizational changes to reduce expenditures in various program areas such as closing facilities, reducing the number of alternative education PAUs to two and reducing expenditures in special education. However, the reductions have not been sufficient to bring the program within budget, and additional emphasis must be placed on implementing program efficiencies.

Similar to other divisions, there are no staffing ratios for court schools or special education, with the exception of the LACEA collective bargaining agreement, thus workloads and number of students served are not consistent. For example, there is a wide variance between the caseloads of speech and language pathologists who work in the juvenile court schools and those who work in special education settings.

As indicated frequently in this report, LACOE lacks an integrated system that links financial data with human resources and position control to allow program managers to effectively and efficiently monitor staffing and budgets. This issue is discussed in detail in the Financial

Management section of this report. Technology issues such as security, absence of consistent user support, and delays in installation of newly purchased equipment are prevalent within the division. Site administrators make independent decisions about technology purchases without consulting with the Technology Services Division to determine if resources are available to support the hardware purchased. Delays in the installation of newly purchased equipment are an ongoing concern. Staff reported that there is little or no technology security at the sites to prevent students from accessing or posting inappropriate materials. As reported earlier, LACOE needs a process for reviewing technology purchases to ensure that technology standards are met and acquisitions can be supported.

## Educational Programs Administration

### *Educational Programs Administration Staffing*

| Title        | Assistant Supt. | Director Special Education | Director Student Programs | SELPA Director | Senior Program Specialist | Coordinator III | Coordinator | Executive Assistant | Senior Typist Clerk | Secretary |
|--------------|-----------------|----------------------------|---------------------------|----------------|---------------------------|-----------------|-------------|---------------------|---------------------|-----------|
| No. of Staff | 1 *             | 1 *                        | 1 *                       | 5 *            | 1 *                       | 1 *             | 2 *         | 1 **                | .50 FTE             | 1         |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The Educational Programs Division is organized into two areas: special education and student programs, each of which is led by a director III. The director of student programs oversees juvenile court schools, community and community day schools, special education services to students in alternative settings, workforce investment act, transition and special needs, Title I neglected and delinquent, and assessment. Students known to the courts are served in three juvenile halls, three alternative education PAUs and four camps or court school PAUs. In addition, LACOE operates two specialized high schools and two charter schools. Two new facilities for the specialized high schools are under construction on college campuses and will be operated by LACOE when completed.

The director of special education oversees direct special education programs that are provided to district students. Special education students are served through six district special education local plan area (SELPA) cooperatives and the LACOE SELPA. The assistant superintendent of educational programs provides direct oversight to the SELPA directors. One SELPA director oversees three of the seven SELPAs; each of the other four directors manages one SELPA. The seven SELPAs are divided into PAUs; the 11 special education PAUs are a collection of special education classrooms located at various schools within a geographic region, and each PAU is similarly staffed with administrators, support employees and additional professional staff to provide intervention services for special education students. The Juvenile Court, Community and Community Day Schools section of this report details the recommended staffing adjustments in the special education program, and staffing detail is included in Appendix EE.

Two coordinators employed by the Educational Programs Division are located in the Controller's Office and helped to coordinate the development and implementation of the EPIC system. One of the two coordinators recently retired and the position was eliminated in July 2011.

The Educational Programs Division employs personnel to provide services that are available in other LACOE divisions. In some cases this is a costly and inefficient practice. For example, rather than using Educational Services Division staff and services for curriculum and instruction support, the division employs its own subject matter program specialists, provides professional

development for its teaching staff, and contracts with outside vendors for professional development. The total annual compensation for a curriculum and instruction consultant II is \$135,000. Recently, however, the division has been working more collaboratively with the Educational Services Division to provide professional development for its staff. In addition, a district assistance and intervention team (DAIT) report issued in July 2011 details specific findings and recommendations to improve the instructional practices of the Educational Programs Division and increase collaboration with other LACOE divisions to improve student outcomes.

## Recommendations

*The Educational Programs Division should:*

1. Review its organizational structure for consistency, consolidate the number of program units where appropriate, and reduce the number of management level positions where possible.
2. Establish guidelines for staffing ratios for various positions such as speech and language pathologists to assist in staffing assignments and provide a more equitable distribution of student caseloads. Specific detail is provided in the Juvenile Court, Community and Community Day Schools section of this report.
3. Continue efforts to reduce expenditures across the division specifically in the area of facilities leases as identified in the Juvenile Court, Community and Community Day Schools section of this report.
4. Increase collaboration with other LACOE divisions and seek opportunities to better use the services of the Educational Services and Technology Services divisions. Reduce the number of duplicate services in curriculum and instruction and staff development.
5. Reconsider the need for the curriculum and instruction positions within the division.

## Programs within the Educational Programs Division

### Division of Special Education

The Special Education Division is a large division that provides special education services across Los Angeles County to SELPAs and to school districts within those SELPAs that contract with LACOE for these services. There are currently 46 school districts in the SELPAs, and a new Los Angeles County SELPA for charter schools (known as CHELPA) is being developed; it is not yet operational but is expected to be operating and to have four participating schools next year.

#### *Special Education Administration, Direct Services Staffing*

| Title           | Director | Regional Director | Principal Administrative Unit | Senior Division Secretary | Division Secretary |
|-----------------|----------|-------------------|-------------------------------|---------------------------|--------------------|
| Number of Staff | 1 *      | 2 *               | 11 *                          | 1                         | 2                  |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

#### *Special Education Administration Staffing*

| Title           | Director | Project Director III | Coordinator III | Coordinators II | Special Education Administrator | Senior Program Specialist |
|-----------------|----------|----------------------|-----------------|-----------------|---------------------------------|---------------------------|
| Number of Staff | 1 * #    | 2 *                  | 1 *             | 4 *             | 2 *                             | 2 *                       |

\* Management, \*\* Confidential, \*\*\* Management non-exempt, # reported in above table

The Special Education Division is led by a director who supervises two regional directors. Each regional director oversees five to six principal administrative units (PAUs). In addition to the PAU site staff, the division staffs several project directors, administrators and consultants at the central office level who supervise different programs or services that are delivered to all SELPAs, such as foster youth, compliance, speech and language pathologists, and multicultural pupil services. There are 11 PAUs, which consist of numerous special education classrooms at various schools across a large geographic area. The division's main function is to ensure compliance with the Individuals with Disabilities Education Act (IDEA) by ensuring that quality instruction is provided to the students, ensuring individualized education program (IEP) compliance, developing and implementing appropriate curricula, and providing and monitoring staff development. The division administration oversees the self-review process and handles personnel matters, parent complaints and complaints from the California Department of Education (CDE). The division administration also coordinates designated instructional services (DIS). For example, it employs more than 150 speech and language pathologists.

The Special Education Division provides primary services to special education students who are referred to LACOE and secondary services to mainstreamed students in neighborhood schools. LACOE provides DIS services to between 5,000 and 5,700 students. Because the cost of educating special education students continues to increase, a number of LACOE districts, like others across the state, have chosen to serve their own students rather than contract with the county to provide the services. Other districts are considering the feasibility of serving their own students. LACOE continues to explore ways to reduce the cost of its services while maintaining a high quality of service to remain a competitive and viable option for districts. As a result of

program transfer to district operation, county offices statewide increasingly provide services to students with the most intensive needs.

A great deal of time is spent administering student IEPs, and many children have multiple IEPs each year. The majority of a principal's day can be spent in IEP meetings. IEPs for students with the most severe disabilities or with multiple disabilities can take 12 to 14 hours over multiple days. An increasing number of students have legal representation at IEP meetings, which increases the number of staff involved and the need for consultation with LACOE legal counsel. Trainings focused on the IEP process, writing IEPs and creating transition plans are scheduled as frequently as possible at different PAUs and school sites. Training is important for both principals and assistant principals because assistant principals also attend IEP meetings.

### SELPA Administration

There are a total of 16 SELPAs in Los Angeles County, seven of which are operated by LACOE. In some cases one large district may form a single SELPA; in other cases a consortium of smaller districts form a SELPA. Most SELPAs provide their own special education services, though some may contract with LACOE for DIS. LACOE's organizational chart includes the seven SELPAs operated by LACOE. LACOE's SELPA is different from every other SELPA in the state in that it serves students whom LACOE serves directly in juvenile court schools, halls and camps; independent study; community day schools; and a new charter school. The administrative staffing listed for the SELPAs below is comparable to that of similarly sized SELPAs statewide.

#### *SELPA Administration Staffing and Organization*

| SELPA                                 | Downey<br>Montebello | East San<br>Gabriel<br>Valley | LACOE   | Southwest  | West San<br>Gabriel<br>Valley | Mid Cities | CHELPA<br>(Charter<br>School<br>SELPA) not<br>yet<br>operational |
|---------------------------------------|----------------------|-------------------------------|---------|------------|-------------------------------|------------|--|
| Director                              | .50 FTE              | 1                             | .50 FTE | 1          | 1                             | 1          |  |
| Coordinator III                       |                      |                               | 1       |            |                               |            |  |
| Coordinator                           |                      |                               |         | 1          |                               |            |  |
| Senior Program<br>Specialist          | 1                    | 1                             |         |            |                               |            |  |
| Psychologist                          |                      |                               |         | 2 (vacant) |                               |            |  |
| Senior Division<br>Secretary          |                      | 1                             |         |            |                               |            |  |
| Division Secretary                    | 1                    |                               | .50 FTE | 1          | 1                             |            |  |
| School<br>Administrative<br>Secretary |                      |                               |         | 1          |                               |            |  |
| Senior Typist<br>Clerk                | 1                    |                               |         | 1          |                               |            |  |
| School Clerk                          |                      |                               | 1       | 1          |                               |            |  |
| Total<br>Administration               | 3.5                  | 3                             | 2.75    | 8          | 2                             |            |  |

FCMAT provides direct comparison of special education staffing levels in the Juvenile Court, Community and Community Day Schools section of this report, including the number of

PAU principals, site certificated teachers and DIS providers. However, FCMAT was unable to complete a full analysis of the effectiveness and efficiency of LACOE's special education delivery system. LACOE could benefit from an independent and external review of its special education programs and services.

### Foster Youth Services

Los Angeles County has 32,000 foster youth, 11,000 of whom are eligible for foster youth support services. Approximately 5,800 foster youth were reported as served by LACOE last fiscal year.

#### *Foster Youth Services Staffing*

| Title           | Project Director III | Coordinator I | Counselor | Educational Community Worker | LACOE retiree | Data Processing Specialist | Senior Typist Clerk | Admin. Asst. |
|-----------------|----------------------|---------------|-----------|------------------------------|---------------|----------------------------|---------------------|--------------|
| Number of Staff | 1 *                  | 1 *           | 9         | 10                           | 1             | 1                          | 2                   | 1            |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The foster youth services program has 26 full-time equivalent (FTE) staff and four part-time employees who are retirees. The FTE include 10 educational community workers and nine counselor positions assigned to different areas of the county to provide case management. The annual budget for this department is approximately \$3 million. The majority of this funding is allocated to provide tutoring services for foster youth, and the program contracts out for these services.

The program's funding will be reduced in fiscal year 2011-12, and the 10 educational community worker positions, the project director III position and the administrative assistant position will be eliminated. The program will be headed by a coordinator II position. Further expenditure reductions include relocating the program's office to a space shared with Children and Family Services, an outside agency. The program reports that it will have difficulty meeting the 9.31% charge for indirect costs next year.

### Division of Student Programs – Administration

The Division of Student Programs provides services to students whom the courts assign to LACOE to educate. The division's main mission is to provide a quality instructional program for youth who are incarcerated in juvenile halls and court schools or camps. This division is divided into the following special project departments: Workforce Investment Act; transition and special needs; Title I, Neglected and Delinquent; and assessment unit. There is also a special education administration compliance unit. There are seven PAUs for incarcerated youth: three in juvenile halls and four in camp settings. Three additional PAUs offer alternative education such as community day school or an independent study program.

#### *Division of Student Programs, Administrative Staffing and Organization*

| Title           | Director III | Regional Director | Coordinator I | Assistant Principal | Resource Development Analyst | Program Specialist | HR Specialist | Senior Division Secretary | Secretary | School Admin Secretary |
|-----------------|--------------|-------------------|---------------|---------------------|------------------------------|--------------------|---------------|---------------------------|-----------|------------------------|
| Number of Staff | 1 *          | 3 *               | 4 *           | 1 *                 | 1 *                          | 1 *                | 2             | 1                         | 1         | 1                      |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The PAUs receive support from special education services, a career transition specialist to special education incarcerated youth, 13 additional transition specialists, and 16 literacy coaches supported by Title I funding.

Both the special education and Title I programs fund transition counselors, and each program supervises and evaluates its own transition counselors. Foster youth programs provided through Title I Part A Neglected funds should be coordinated more closely with the foster youth program in the special education division to optimize the funding. To reduce potential duplication of effort, it would benefit the Educational Programs Division to consider organizing staff and programs based on type of services provided or type of client being served rather than by funding source.

### The Division of Student Programs - Special Projects Department

The special projects department is divided into four units: Workforce Investment Act; transition and special needs; Title 1, Neglected and Delinquent; and assessment. Each unit is directed by a different level of manager, and the number of staff in each unit ranges from three to 13. Total staffing for this department is shown in the table directly below and then by unit in the tables following.

#### *Division of Student Programs – Special Projects, Administrative Staffing*

| Title I      | Director III   | Coordinator III | Resource and Development Manager | Coordinator I | Special Education Administration Compliance | Coordinator II | Senior Program Specialist | Career Develop. Supervisor | Career Develop. Program Specialist | School to Career Transition Specialist |
|--------------|----------------|-----------------|----------------------------------|---------------|---|----------------|---------------------------|----------------------------|------------------------------------|--|
|              | *              |                 |                                  |               |   |                |                           |                            |                                    |  |
| No. of Staff | Reported above | *               | *                                | *             |   | **             | *                         | 2 *                        | 3                                  | 12                                     |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

#### *Division of Student Program -- Special Projects, Support Staffing*

| Title           | Data Processing Asst. | Administrative Analyst | Resource Analyst | Career Development. Program Assistant | Administrative Assistant | Secretary | Senior Typist Clerk | Intern Typist Clerk |
|-----------------|-----------------------|------------------------|------------------|---------------------------------------|--------------------------|-----------|---------------------|---------------------|
| Number of Staff |                       | *                      |                  |                                       |                          |           |                     |                     |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

#### *Title I, Neglected and Delinquent*

| Title           | Coordinators III | Coordinator II | Senior Program Specialist | Secretary | Senior Typist Clerk | Intermediate Typist Clerk |
|-----------------|------------------|----------------|---------------------------|-----------|---------------------|---------------------------|
| Number of Staff |                  |                |                           |           |                     |                           |

The Title I, Neglected and Delinquent unit is staffed with a coordinator III, who supervises a coordinator II, a senior program specialist, and three clerical positions. This unit has multiple management positions and would benefit from a desk audit to determine the workload of each position. Given the reduction in the number of students served and the reduction in funding, the unit may be able to redistribute duties, resulting in the possible reduction of one or more management positions. Some supervisors are also responsible for direct functions, and this should

be considered when studying the feasibility of reducing staff; a desk audit would help identify these direct functions. Eliminating a senior position (coordinator III or II) would result in a potential annual savings of \$128,000 to \$141,000.

The department contracts with 37 part-time hourly teachers who work in group homes with foster youth for a maximum of 40 hours per month and 60-70 tutorial aides who work in group homes and juvenile court schools for a maximum of 80 hours per month. Many of the tutoring aides are college students. The unit provides services to agencies that do not receive Title I services from the districts. Title I also funds 13 transition counselors for the juvenile court schools and 16 literacy specialists to provide targeted assistance to the lowest performing students in the court and camp school PAUs and the three community day school PAUs.

Several years ago, county offices became eligible to apply for Title I, Part A, Basic funds. Because students in court and community day schools are extremely transient, it is more challenging to demonstrate learning growth in this student population. Similar to many other court and community day schools across the state, all of LACOE's court and community day schools are in program improvement. Schools that do not meet adequate yearly progress (AYP) criteria for two consecutive years are identified for program improvement (PI) under the federal Elementary and Secondary Education Act (ESEA). The ESEA requires all states to implement statewide accountability systems based on state standards in English language arts and mathematics; annual testing for students; and annual progress objectives with the goal that all students achieve proficiency by 2013-14. Schools and educational agencies that fail to make AYP toward proficiency goals are subject to improvement and corrective measures.

### Transition and Special Needs Unit

#### *Transition and Special Needs Unit Staffing*

| Title           | Resources and Development Manager | School to Career Transition Specialists | Administrative Assistant |
|-----------------|-----------------------------------|---|--------------------------|
| Number of Staff | .5                                | 12                                      | Vacant                   |

A 0.5 FTE resources and development manager leads the transitions and special needs unit and helps supervise the 12 school-to-career transition specialists that are funded by Title I. The transition specialists help students prepare for work or college. The unit provides nine sessions in life skills and independence training. The resources and development manager also works 0.5 FTE on the First Five LA project in the Educational Services Division's Parent and Community Services department. Plans for next year will shift the assignment to 0.7 FTE in educational programs and 0.3 FTE in educational services.

The transition and special needs unit also supports the Workability I program, which provides life skills training and pre-employment skills, and facilitates Operation Graduation for the court, alternative and special education schools, as well as the Academic Bowl between the camps, and scholarship programs.

## Workforce Investment Act Unit

### *Workforce Investment Act Unit Staffing*

| Title           | Coordinator I | Career Development Supervisor | Career Development Program Specialist | Career Development Program Assistants |
|-----------------|---------------|-------------------------------|---------------------------------------|---------------------------------------|
| Number of Staff | Vacant*       | 2*                            | 3*                                    | 1                                     |

This unit is led by a coordinator position (which is currently vacant), two career development supervisors, three career development program specialists and one career development program assistant. The work is similar to that of the Transition and Special Needs Unit, and the two units could be combined under the leadership of that unit's resources and development manager. Eliminating the vacant coordinator position would result in an annual savings of \$123,000 to \$125,000.

## Assessment Unit

### *Assessment Unit Staffing*

| Title           | Special Education Administrator | Administrative Analyst | Data Processing Assistant | Resource Analyst |
|-----------------|---------------------------------|------------------------|---------------------------|------------------|
| Number of Staff | 1                               | 1                      | 1                         | 1                |

The assessment unit is led by a special education administrator and staffed by an administrative analyst and a data processing assistant. The primary function of this unit is to provide disaggregated data related to outcomes for students in LACOE's alternative education programs.

## Compliance Support Services

### Student File Center/Student Records Acquisition Unit

#### *Student File Center/Student Records Acquisition Unit Staffing*

| Title           | Project Director III | Special Education Administrator Compliance | Counselor | Senior Program Specialist | Senior School Clerks | School Clerks |
|-----------------|----------------------|--|-----------|---------------------------|----------------------|---------------|
| Number of Staff | 1*                   | 1*   | 1         | 2*                        | 9                    | 2             |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The compliance office serves as a one-stop shop for processing complaints regarding special education services, Title IX, Title VI, civil rights violations, and Williams legislation issues. This office attends due process hearings, facilitates IEPs and attempts to resolve complaints on a local level. This office also maintains the student file center and is the custodian of student records. Other assignments include technical advisor for counselors, 504 Plan coordinator, and contracts with residential treatment centers or other agencies that provide special services.

## Recommendations

*The Educational Programs Division should:*

1. Review the recommendations related to staffing, staffing ratios, and program efficiencies in the Juvenile Court, Community and Community Day Schools section of this report.
2. Review the organization of management positions within the division; reconsider the practice of assigning managers on a project basis, and consider organizing the division based on type of service provided or type of client served.
3. Consider consolidating programs that provide similar services and reducing the number of management positions within the division.
  - In addition to other consolidations, consider combining the Workforce Investment Act unit with the transition and special needs unit under the leadership of the latter unit's resources and development manager.
4. Review the specific recommendations in the Juvenile Court, community and Community Day Schools section of this report related to workload assignments, and assign workloads for identically titled positions more equitably. Ensure that this includes adjusting speech and language pathologists' caseloads to achieve more equity.
5. Continue efforts to reduce the cost of providing special education services so that LACOE remains a viable option for districts seeking services for their students with special needs.
6. Ensure that Title I, which receives Part A, Neglected funds for foster youth, coordinates services more closely with the foster youth program in the special education division.
7. Establish a process for reviewing technology purchases to ensure that technology standards are met and educational programs are consistent.
8. Implement security procedures for educational technology to ensure that technology is used for appropriate educational purposes.
9. Consider requesting an independent and external review of the special education delivery system.

## Educational Services Division

The Educational Services Division provides numerous educational services, mainly to the school districts it serves, though some services are provided to the student programs that LACOE operates directly.

This division operates both mandated and value-added (self-supporting or funded by grants or other separate revenue) programs and services. Mandated programs include the following:

- Williams legislation oversight
- Charter schools oversight
- Student support services (e.g., child welfare and attendance)

Value-added services include the following:

- Head Start
- Parent programs
- Community services
- Greater Avenues for Independence (GAIN, which provides training to welfare recipients to help them gain employment)
- Regional Occupational Program (ROP)

The division has recognized the need to reorganize because of budget reductions and has begun an analysis of alternative organizational structures that still allow it to meet client needs. Administrators stated that staffing is adequate to address mandated services, but additional staff may be needed to monitor the growing number of charter schools for which LACOE is responsible and the number of charter school applications and appeals that must be reviewed and processed.

The division is organized into the following seven departments:

- Curriculum and Instruction
- Student Support Services
- Division for School Improvement
- Career and Workforce Development/ROP
- Greater Avenues for Independence (GAIN)
- Head Start
- Parent and Community Services

The division is led by an interim assistant superintendent, and each department is led by a director III. The division employs a total of 466.5 FTE staff, which includes 172.5 management positions, 293 classified positions and one confidential position. The ratio of management to nonmanagement staffing is 1-to-1.7. LACOE does not have established criteria to determine the level of management required to function effectively at a unit, section, department or division level. The factors that could be considered when determining the level of management needed were discussed in detail earlier in this report and include the size of the budget, number of staff supervised, the level of authority, the level of communication required, and the level of audience (federal, state, regional or county) with which the management position is required to communi-

cate. Although the following table compares only the number of staff supervised, it clearly shows a disparity among management positions with the same title.

As stated earlier in the discussion of the Human Resource Services Division, LACOE does not use criteria to determine the level of management required for specific positions, and as a result the responsibilities and functions of managers vary widely. It would benefit LACOE to develop management-level criteria and apply those criteria when filling management vacancies, developing new positions or restructuring a department. In some cases the high number of management positions is a result of the highly technical support required to operate the programs; however, LACOE could benefit from reviewing its classification policy to determine if some of these staff should be reclassified as nonmanagement, overtime-exempt.

### *Comparison of Number of Staff Supervised, Educational Services Division*

| Department                 | Curriculum & Instruction | Parent & Community Services | Student Support | Head Start    | ROP           | GAIN/ GROW    | School Improvement |
|----------------------------|--------------------------|-----------------------------|-----------------|---------------|---------------|---------------|--------------------|
| Title                      | Director III*            | Director III*               | Director III*   | Director III* | Director III* | Director III* | Director III*      |
| Number of Staff Supervised | 71.5                     | 25.5                        | 14              | 104           | 54            | 144.5         | 40                 |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

## Staffing Comparison

The Division of Educational Services is organized differently at LACOE and each of the comparison county offices of education. For example, LACOE has a separate department for student support services. This is not a typical department within the comparison county offices of education, as indicated by the table below. In addition, only the San Diego COE has a department for school improvement; the other comparison county offices include school improvement in the instruction unit. The different organizational structures reflect each county office of education's different educational focus and approach to allocating limited resources.

### *Comparison of Educational Services Staffing by Unit*

| County Office                         | LACOE | San Diego                                 | Orange                               | Riverside                  | Kern                      |
|---------------------------------------|-------|---|--------------------------------------|----------------------------|---------------------------|
| Department                            |       |   |                                      |                            |                           |
| Curriculum & Instruction              | 71.5  | 38  | 103***                               | 60****                     | 33***                     |
| Student Support Services              |       |   | 31<br>Leadership/Learning<br>Support | 6<br>Safe Schools          | ---                       |
|                                       | 14    | 24 ELL                                    |                                      |                            | ---                       |
| School Improvement                    | 40    | 61**                                      | ---                                  | ---                        | ---                       |
| Career and Workforce Dev. & ROP       | 54    | 15 ROP                                    | ---                                  | 25<br>Career Tech          | 3 ROP                     |
| Greater Avenues for Independence GAIN | 144.5 | ---                                       | ---                                  | ---                        | ---                       |
| Head Start                            |       | 49<br>Early Ed &<br>Pre-school<br>for All | 25<br>Child Care Project             | 37<br>Children<br>Services | 28<br>Child Dev.<br>Serv. |
|                                       | 104   |   |                                      |                            |                           |
| Parent & Community Services           | 25.5  | ---                                       | 24                                   | 49                         | 40                        |

| County Office<br>Department                                   | LACOE     | San Diego      | Orange                               | Riverside | Kern    |
|---|-----------|----------------|--------------------------------------|-----------|---------|
|   |           | 24*<br>Ed Tech | 10*<br>Ed Tech                       |           |         |
|   |           |                | 39<br>Business Partnerships,<br>Data |           |         |
| Total Number of Staff   | 466.5     | 211            | 232                                  | 177       | 104     |
| Number of Students Served                                     | 1,532,539 | 473,133        | 484,328                              | 400,834   | 164,998 |
| Percentage of students compared to LACOE                      |           | 31%            | 32%                                  | 26%       | 11%     |
| Number of Districts Served                                    | 80        | 41             | 17                                   | 19        | 47      |
| Percentage of districts as compared to LACOE                  |           | 51%            | 21%                                  | 24%       | 59%     |
| Percentage of Educational Services staffing compared to LACOE |           | 45%            | 50%                                  | 38%       | 22%     |

## Notes:

\*In the San Diego COE, educational technology is included in the Learning Resources and Educational Technology Division, and in Orange County it is under Leadership and Learning Support Services.

\*\* In the San Diego COE, school improvement is emphasized, and a large district and school improvement unit is organized under the Division of Learning Resources and Educational Technology Division. One section of the district and school improvement unit focuses on school support and another on district support.

\*\*\* In the Orange COE, all educational services are organized under the Division of Instructional Services, including categorical programs, school improvement, grants development and media services. Similarly, Kern COE has no separate units for school improvement, student support or curriculum and instruction, which are all included under the Division of Curriculum, Instruction and Accountability.

\*\*\*\* In the Riverside COE, the curriculum and instruction figures include a teacher support section with 24 employees, and the assessment unit with 3 employees.

Migrant education is included in different divisions, sometimes under educational services and sometimes under educational programs. For example, migrant education is included under the Educational Services Division in LACOE, and under the Division of Curriculum, Instruction and Accountability in the Kern COE, but is under Student Services and Support Programs in the Riverside COE.

## Curriculum and Instruction

The Curriculum and Instruction (C&I) Division within the Educational Services Division serves all districts in the county and LACOE's educational programs. The division provides curriculum leadership for various educational programs and subject matter consultants to support the districts' curricular programs with technical assistance and professional development. The annual budget for this division is \$19 million. The division has taken steps to reduce its size and consolidate functions and positions for next year because of budget constraints. Within two months of the development of the 2010-11 organizational chart, two consultants retired and were not replaced, and an assistant director retired. The senior project director moved into the assistant director position, and the senior project director position was left unfilled. Reductions for fiscal year 2011-12 include elimination of the educational leadership project director position and the elimination of equity and student achievement.

In 2010-11, C&I employed subject matter consultants for history and social science, mathematics, science, visual and performing arts, marine and outdoor science education, and reading and language arts. Subject matter areas are being consolidated for fiscal year 2011-12, and some subject matter consultant positions are being eliminated. These consultants serve as the

instructional leaders in the subject area, supporting the school districts' instructional and/or curricular leaders and providing training for the districts' teachers. They also assist the districts' leadership with textbook adoption and help them work with outside agencies that provide educational support or resources to the schools. Many of these consultants assist in the work of other LACOE departments, such as on school improvement review teams, in reviews of charter school applications, or in professional development for LACOE's teachers in the Educational Programs Division.

In 2010-11, the C&I division's educational program areas included school health and physical education, Advancement Via Individual Determination (AVID), educational leadership, equity and student achievement, multilingual academic support, the Center for Distance and Online Learning (CDOL), and the Regional After School Technical Assistance System. The Regional After School Technical Assistance and AVID programs are grant programs and are reduced as grant funds decrease. The CDOL is supported by entrepreneurial and grant funds, and the school health and physical education program receives 50% of its funding from grants.

### *Curriculum and Instruction, Administrative Staffing*

| Title               | Director III | Assistant Director | Project Director III | Program Coord. | Coord. III | Regional Coord. | Project Coord. | Consultant III | Consultant II | Senior Program Specialist |
|---------------------|--------------|--------------------|----------------------|----------------|------------|-----------------|----------------|----------------|---------------|---------------------------|
| Number of Positions | 1 *          | 1 *                | 8 *                  | 1 *            | 1 *        | 1 *             | 1 *            | 4 *            | 8 *           | 8 *                       |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

### *Curriculum and Instruction, Nonadministrative Staffing*

| Title               | Teacher | Nutrition Specialist | Distance Learning Resource Specialist | Multimedia Developer | Admin. Analyst | Asst. Admin. Analyst | Budget Technician | Accounting Technician | Web Publisher |
|---------------------|---------|----------------------|---------------------------------------|----------------------|----------------|----------------------|-------------------|-----------------------|---------------|
| Number of Positions | 2       | 1.5 *                | 4 *                                   | 1 *                  | 2 *            | 4                    | 1                 | 1 ***                 | 1             |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

### *Curriculum and Instruction, Support Staffing*

| Title           | Senior Division Secretary | Division Secretary | Secretary | Administrative Aide | Administrative Assistant | Typist Clerk |
|-----------------|---------------------------|--------------------|-----------|---------------------|--------------------------|--------------|
| Number of Staff | 1                         | 7                  | 9         | 2                   | 2                        | 1            |

The C&I division is organized by subject areas such as science or math, or project areas such as CDOL or AVID. Eight project director III positions supervise management and classified staff within each curricular or project area. The number of staff each project director supervises ranges from three (marine and outdoor education) to nine (AVID and CDOL). Each curricular area is staffed by a consultant II or III and a secretary, and one curricular area also has an administrative analyst. This unit could benefit from a desk audit. FCMAT believes there are opportunities to combine curricular areas or projects under the project director III positions and eliminate some

of these high-level management positions. Eliminating a project director III position could result in an annual savings of approximately \$132,500 to \$146,000.

The division's managers believe that the type of work in the various curricular areas requires management-level expertise in their field. The consultant II or III positions work with district administrators such as directors of curriculum, principals, and teachers. To attract the necessary level of expertise, the salary level must be commensurate with that of a district-level coordinator. In addition, interviewees indicated that LACOE's practice requires that a coordinator position supervise a minimum of two employees, hence the secretary and other support positions. This level of support may not be needed. The department could benefit from a desk audit and possible consolidation of secretarial and support positions. Total annual compensation is \$74,000 to \$87,000 for a senior division secretary, \$72,000 to \$84,000 for a division secretary, and \$69,000 to \$75,000 for a secretary. As stated earlier in this report, LACOE needs to review the practice of requiring that coordinator positions supervise at least two employees because it is determining the staffing formula and resulting in unnecessary clerical support staff. In addition, the division will need to review the main functions of the coordinator position to determine if the position should be designated as coordinator or a specialist.

As stated previously, the C&I division has begun to review its curricular consultant II and III positions and has begun to combine curricular areas and eliminate some of these positions. However, there was no indication that the project director III positions and duties were equally reviewed and consolidated. Other county offices have combined their school improvement and curriculum and instruction departments and have reduced the number of staff who provide direct curriculum support to school districts. LACOE will need to review the feasibility of combining the work of these two departments within its Educational Services Division.

As in other county offices of education, attendance at workshops has declined over the past several years during the state's fiscal crisis. LACOE still provides some training in the field at school sites at their request; this model is costly and billing for the service may not recover the full cost. LACOE provides training through a variety of methods: county office workshops at a school or district, on-site, online and regionally. The division would benefit from reviewing and comparing attendance at trainings to determine which method is cost efficient and has produced the highest attendance.

Division staff reported that there is little need for overtime except in the case of short-term projects such as the science fair and math day, which occur on weekends. The division uses independent contractors and short-term employees when needed, for example to conduct Williams' legislation compliance monitoring for instructional materials.

## Recommendations

*The Curriculum and Instruction Division should:*

1. Seek to combine curricular areas or projects under the project director III positions and where appropriate combine oversight functions and reduce high-level management positions.
2. Conduct a desk audit of secretarial and other support positions in the C&I division to determine which functions can be redistributed and which positions can be eliminated.

3. Review the level of function needed in the coordinator positions to determine if it requires a coordinator title or if a specialist title would be more appropriate.
4. Review the longitudinal attendance records of workshops and determine if attendance has remained strong or declined and if it warrants continued workshops in specific areas.
5. Compare attendance among trainings that use different delivery methods (online, in person at LACOE, or in person at the district or school) to determine which delivery method garners the highest attendance.
6. Consider alternate methods of delivering training to reduce costs, such as through the CDOL and LACOE's television studio.
7. In coordination with the Human Resource Services Division, develop management-level criteria and apply those criteria when filling management vacancies, developing new positions, or restructuring a department.
8. In coordination with the Human Resource Services Division and the Personnel Commission, review the classification of management staff and determine if the position should be reclassified as nonmanagement, overtime-exempt.

## School Health and Physical Education

### *School Health and Physical Education, Administrative Staffing*

| Title           | Project Director III | Consultant II | Senior Program Specialist | Nutrition Specialists | Secretary | Administrative Analyst |
|-----------------|----------------------|---------------|---------------------------|-----------------------|-----------|------------------------|
| Number of Staff | 1*                   | 1*            | 1*                        | 1.5*                  | 2         | 1*                     |

The school health and physical education program is funded by grants and contracts totaling approximately \$4 million annually. The grants include Tobacco Use Prevention, Network for Healthy California, American Recovery and Reinvestment Act (ARRA) funding for obesity, Project Renew, and Project Trust. Fifty percent of the program's funding comes from Part A general funds to provide subject area leadership and support to the county's 80 school districts. The program hires some professional experts to provide services. For example, a professional expert was hired to provide professional development for the seven school districts that participate in Project Renew, and a professional expert was hired to conduct fitness testing of students in grades five, seven and nine as part of a fitness grant.

The program's ratio of managers to staff is 5.5-to-2.

## Advancement Via Individual Determination (AVID) Program

### *AVID Staffing*

| Title           | Project Director | Senior Program Specialist | Assistant Admin. Analyst | Division Secretary | Administrative Aide |
|-----------------|------------------|---------------------------|--------------------------|--------------------|---------------------|
| Number of Staff | 1*               | 6*                        | 1*                       | 1                  | 1                   |

The AVID program provides professional development and technical assistance to more than 1,000 AVID teachers and 32,000 students in 300 schools. A great deal of time is devoted to training and assisting teachers, and a yearly program of professional development is offered. The AVID program is grant-funded, and staffing has been reduced as funding has decreased. AVID's annual budget is approximately \$1.2 million in grant funds and a small amount of entrepreneurial funds. LACOE has a fiscal responsibility to monitor compliance data.

The AVID program provides no direct funds to the schools. Schools are charged a \$750 professional development fee, which allows the program to pay for two coaches. The program hires several certificated hourly contract consultants, each of whom provides support to as many as 20 schools in participating districts. The program is no longer able to provide some activities that it did in the past, such as the graduation celebration at the Galen Center.

AVID staff listed on the 2010-11 organizational chart include one project director III, six senior program specialists, an assistant administrative analyst to prepare invoices for client districts, an administrative aide and a division secretary. The AVID program's funding ends on June 30, 2012.

## After-School Programs

### *After-School Programs Administrative Staffing*

| Title           | Program Coordinator | Regional Coordinator | Project Coordinator | Administrative Analyst | Typist Clerk |
|-----------------|---------------------|----------------------|---------------------|------------------------|--------------|
| Number of Staff | 1*                  | 1*                   | 1*                  | 1*                     | 1            |

As one of 11 regions in the state, LACOE oversees a team that provides technical assistance for after-school education and safety programs (ASES) or 21st Century Community Learning Centers programs. LACOE has 120 grantees with 1600 sites; 38% of all after-school funding in the state is directed to LACOE districts. Many districts contract their after-school programs to community organizations; more than 10,000 part-time and 2,000 full-time staff serve 275,000 students countywide. Oversight for the after-school program used to be part of grants development but is now under the Curriculum and Instruction Division.

The after-school program receives a technical assistance grant of approximately \$980,000; 75% of this grant comes from ASES and 25% from 21st Century. Program administrators report that the new indirect cost rate of 9.31% for fiscal year 2011-12 will affect program services.

The program staff visit after-school sites and report on their findings. Fifteen percent of the sites are selected for a visit based on their federal program monitoring schedule, attendance reports from the CDE if the site did not meet its targets, or grantee request.

Because the after-school programs unit's staffing is limited, staff required to conduct site visits are hired on a contractual hourly basis. Every year the program reviews its budget and workload to determine the number of part-time contracts it can issue to conduct these visits.

## Center for Distance and Online Learning

### *Center for Distance and Online Learning Staffing*

| Title           | Project Director II | Coordinator III | Administrative Analyst | Accounting Technician | Secretary | Distance Learning Resource Specialist | Multimedia Developer |
|-----------------|---------------------|-----------------|------------------------|-----------------------|-----------|---------------------------------------|----------------------|
| Number of Staff | 1*                  | 1*              | 1*                     | 1                     | 1         | 4*                                    | 1*                   |

The Center for Distance and Online Learning (CDOL) uses technology to provide a range of services for teachers, parents and students. CDOL is led by a project director II who supervises nine staff. It provides teachers with professional development courses online using the state's verification process for teachers in special settings (VPSS) program for teachers to attain highly qualified teacher status to meet the requirements of the No Child Left Behind Act (NCLB). LACOE is the only county office of education in the state that provides this entire service online.

The CDOL produces online programs or professional development in response to the needs of LACOE's Curriculum and Instruction Division and districts throughout the county. The CDOL also creates online tutorials on topics such as web design and data programming. Videos are also made and posted online. Some of the online programs provided include TeachStar Online Academy, MathStar, TEAMS Teaching Circles, and TEAMS Distance Learning. Courses for students include math, algebra, and activities for second language learners. Through a partner-

ship between LACOE and the Los Angeles County Department of Mental Health, the CDOL also provides a teen suicide prevention program for school personnel and parents.

The CDOL has an accounting technician to assist in the licensing of videos that it produces. Forty percent of the funding for CDOL personnel is from Part A general funds and 60% is from Part E entrepreneurial funds. The CDOL hires online teaching staff at \$25 per hour and course developers at \$50 per hour. Contracts are written in terms of stated deliverables. The CDOL also maintains a help desk to provide technical support as needed.

## Parent and Community Services

The Parent and Community Services Department includes several different types of programs that are responsive to parent concerns. These include support for mandated compliance with the Williams and Valenzuela legislation; the Charter Schools office; Migrant Education; the Early Childhood Education Career Development Policy project; the Parent Academy, and the Friday Night Live project. Some organizational changes are being considered for this division.

### *Parent and Community Services Administrative Staffing*

| Title           | Director III | Project Director III | Project Coord. | Coord. III | Coord. II | Consultant III | Assistant Regional Coordinator | Parent Education Specialist |
|-----------------|--------------|----------------------|----------------|------------|-----------|----------------|--------------------------------|-----------------------------|
| Number of Staff | 1 *          | 2 *                  | 1 *            | 1 *        | 4 *       | 1 *            | 2 *                            | 1 *                         |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

### *Parent and Community Services Support and Clerical Staffing*

| Title           | Senior Division Secretary | Division Secretary | Accounting Specialist | Secretary | Budget Analyst | Senior Special Program Assistant | Data Processing Assistant | Admin. Assistant | Clerk |
|-----------------|---------------------------|--------------------|-----------------------|-----------|----------------|----------------------------------|---------------------------|------------------|-------|
| Number of Staff | 1                         | 3                  | .5                    | 3         | 1 *            | 1                                | 1                         | 1                | 1     |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

Some positions, such as the accounting specialist, are vacant and have not been filled, and some positions are funded in part by other departments within the Educational Services Division. A desk audit would help the department determine if work should be adjusted and/or positions eliminated. In addition, many classified support positions with different titles perform similar functions. LACOE would benefit from having the Personnel Commission review the titles of support positions that perform similar functions to determine if some classifications should be combined. Total annual compensation is \$74,000 to \$87,000 for a senior division secretary, \$72,000 to \$84,000 for a division secretary, and \$69,000 to \$75,000 for a secretary.

## Williams and Valenzuela Compliance

This office is led by an interim assistant superintendent of educational services who ensures that schools are reviewed for compliance with the instructional components of the Williams Act. The interim assistant superintendent supervises five classified support staff. Approximately 577 schools are visited each year from August through early December. The office establishes the list of schools to be reviewed, determines whether visits will be announced or unannounced,

establishes the calendar for the visits, hires numerous professional experts to review the schools, and monitors the site visits. Reviewers for instructional materials are paid \$25 per hour and lead reviewers \$35 per hour. Training is provided for all reviewers and clerical staff, quarterly letters are sent, documentation is maintained, and reports of the completed reviews are consolidated and submitted. This office also coordinates the Williams review of facilities and credentialing compliance conducted by other divisions. The Educational Services Division acknowledged, however, that it could do a better job of seeking assistance from other divisions in the area of instructional materials compliance reviews rather than the current practice of hiring independent contractors.

### **Charter School Office**

The charter school office is staffed with a project director III, two coordinator II positions and one clerical position. The office receives 1% of funds allocated to charter schools so that it can perform administrative oversight and review of charter school petitions. In 2009-10 this amount was \$61,000. The office's total budget in 2010-11 was approximately \$570,000. The office's workload is increasing: last year the office reviewed eight charter school petitions; to date for fiscal year 2010-2011 it has reviewed 18. LACOE currently has eight approved charter schools and recently approved two more so will have a total of 10 next year. The charter school office requires and uses legal counsel when reviewing charter school petitions and providing oversight. It also relies on the assistance and instructional expertise of other personnel within the division to conduct reviews of petitions.

The office also provides districts with training regarding charter provisions and technical assistance with their oversight of charter schools and review of charter school petitions. The charter school office may require an increase in staffing.

### **Migrant Education**

Eligibility for migrant education services was reduced from six years to three in 1995 as part of the Improving American Schools Act. Since then, staffing has been reduced commensurately. The migrant education office has one project director, two coordinators and five support staff that process student data, develop district program agreements and claims, and coordinate communication with districts. The program monitors migrant services across the county and ensures that all federal and state regulations are being met. The error rate with regard to student eligibility is only 3% in LACOE, which is excellent.

The Migrant Education program also provides the mandated parent advisory component and parent training. The program has trained parents of former migrant students to conduct workshops for other parents, and this has been beneficial. The Personnel Commission helped the Migrant Education program develop a classification for these bilingual parents to conduct this work. Up to 10 or 11 of these parents are hired each year for up to 720 hours per year to provide two or three evening workshops in each local district for parents of students in those districts.

The migrant education budget analyst works closely with the grants project manager in the controller's office to review the districts' site allocation budgets before funds are disbursed and checks the appropriateness of expenditures. This is a positive collaboration, and claims are corrected prior to disbursement.

Thirty of the 80 school districts in Los Angeles County participate in the Migrant Education program. To offer an independent Migrant Education program, a district must have at least 400

to 500 children who have been identified as eligible for this service. There are three types of organizational models for migrant services in the county: a district that has a large population of eligible students might operate as an independent program; a regional consortium of smaller districts might pool their resources and hire a coordinator to organize services; and districts that are too far away from existing regional consortia can contract with the county office for direct services. LACOE provides direct services to six of the 30 participating districts.

## Recommendations

*The Parent and Community Services Department should:*

1. Conduct a desk audit of the duties and workload of support staff positions to determine if work should be reallocated and positions eliminated.
2. Ensure that Personnel Commission reviews support staff job titles in the Parent and Community Services Department to determine if the type of work done by positions with different titles is similar enough to combine job descriptions.

## Student Support Services Department

The Student Support Services Department is led by a director II and is subdivided into a Child Welfare and Attendance office and a Community Health and Safe Schools office.

### *Student Support Services Department Administrative and Support Staffing*

| Title           | Director II | Project Director III | Consultant II | Program Manager | Division Secretary | Administrative Assistant | Secretary |
|-----------------|-------------|----------------------|---------------|-----------------|--------------------|--------------------------|-----------|
| Number of Staff | 1 *         | 3 *                  | 3 *           | 1 *             | 1                  | 1                        | 4         |

Note: \* Management, \*\* Confidential, \*\*\* Management non-exempt

The director II supervises three project directors, who each supervise a consultant II and one to 2.5 support staff. The three project areas are: California Counselor Leadership Network, Child Welfare and Attendance, and Community Health and Safe Schools. The unit employs eight management staff and six nonmanagement classified support staff for a management-to-staff ratio of 4-to-3. The unit would benefit from reviewing workloads to determine if three project directors are needed or if projects could be combined under fewer directors. In addition, the office needs to consider performing a desk audit of secretarial staff to determine their workload and make adjustments to balance workload as needed. If the department is able to reorganize and eliminate a director III position, the annual savings in total compensation would be \$132,000 to \$146,000. Total annual compensation is \$74,000 to \$87,000 for a senior division secretary, \$72,000 to \$84,000 for a division secretary, and \$69,000 to \$75,000 for a secretary.

### **Community Health and Safe Schools**

The Community Health and Safe Schools office provides a broad range of services such as mental health, dental health, school health programs, school crisis intervention, gang prevention and intervention, safe schools planning, and classroom management and discipline. The Safe Schools unit helps schools with development of their safe schools plans and provides districts with counselors and crisis response teams when needed.

### **Child Welfare and Attendance**

The Child Welfare and Attendance office provides technical assistance to districts, administrators, school personnel, and LACOE schools via telephone and e-mail in the areas of student discipline, attendance, homelessness, student records, custody issues, student residency, academic counseling, homeless students, and course requirements. The office also provides workshops to district administrators on the laws, policies and procedures related to student discipline and interdistrict transfers to reduce the number of appeals. The office is attempting to expand these workshops to parents as well as school personnel. The office has developed informational guidelines regarding student discipline, student residency, custody issues and other topics to help school district staff take appropriate action. It has also developed sample forms and letters in English and Spanish that comply with applicable regulations.

A large part of the work supports mandated services by preparing materials for county-level board appeals of interdistrict transfer requests and expulsions. Three staff members serve as hearing officers and form a panel to hear the cases and attempt to resolve the appeal between the parties before it goes to the board; panel members often include project director and director II level positions. For appeals that cannot be resolved at this level, the board receives a copy of the hearing summary and all documentation provided by the district and the parent. Each appeal

case is then allocated a five-minute hearing before the board, which makes the final determination on each case.

Because the summer is especially busy with many appeals for interdistrict transfers and appeals of student discipline, the office hires temporary consultants to serve as hearing officers as needed. These are usually retired administrators or administrators who are released to serve as hearing officers.

Staff and managers expressed concern that the possible reduction of the office's classified staff would leave them unable to meet the work demands. The current staff understand the work of preparing the necessary documents on time for the board and other parties and individuals who must receive copies. California Education Code Sections 48919 and 48920 specify time limits for a county office of education's response to district expulsion appeals. Because some of the current classified staff are less senior in the organization, they may be displaced during a reduction in force by more senior employees who do not understand the procedures and other requirements of this work.

## Recommendations

*The Student Support Services Department should:*

1. Review workloads to determine if three project directors are needed or if projects can be combined under one or two project directors.
2. Conduct a desk audit of the workload of its secretarial staff and adjust and balances the workload as needed.

## Head Start – State Preschool

LACOE's Head Start program has been operating since 1979 and is the largest in the nation, serving 24,000 children with a budget of approximately \$250 million. LACOE Head Start is an oversight organization that monitors and provides technical assistance to 27 delegate agencies, including school districts and nonprofit agencies, that serve children at 500 different facilities. The program's monitoring and oversight helps ensure that delegate agencies meet the required performance standards for each of the 24 federal program requirements. Delegate agencies provide supplemental services in nine areas including nutrition, dental, special needs disabilities, mental health, social services and education. At least two Head Start office staff members monitor each of the service areas to ensure that the agencies comply with requirements when delivering these services. Two delegate agencies were closed in 2010-11, one due to fiscal issues and another because of fraudulent recordkeeping.

This program office also provides an Early Head Start program that serves approximately 1,000 children from infancy to three years of age. This program is costly and requires staff who have a different kind of knowledge and training.

At one time the program office had 275 staff and also provided direct services, but it was reorganized to be an oversight agency beginning in 2004 with full implementation occurring in 2006. This significantly reduced staffing. The 2010-11 organizational chart identifies 104 employees in this department; however, many LACOE employees in other divisions also provide support to Head Start program operations. Federal Head Start regulations restrict administrative costs to no more than 15%, including indirect charges.

Parents, a member of the county board of education, and community representatives form a policy council for LACOE's Head Start program and have shared governance. This council provides a report to LACOE's governing board monthly. The policy council and the county board of education approve the refunding application, and the board appoints one of its members to attend the Head Start policy meetings.

LACOE's Head Start program is led by a director and is divided into the following three units, each of which is led by an assistant director:

- Program review and support
- Internal and external affairs
- Fiscal operations and support

The director supervises the three assistant directors of the units, three support staff and seven management program staff, and is responsible for 104 staff positions.

### *Head Start Administrative Staffing*

|              | Director | Assistant Director | Consultant | Program Manager | HS Training and Technical Assistance Specialist | Human Resource Specialist | Senior Division Secretary | Secretary | Admin. Analyst | Admin. Coordinator |
|--------------|----------|--------------------|------------|-----------------|---|---------------------------|---------------------------|-----------|----------------|--------------------|
| No. of Staff | 1*       | 3*                 | 1*         | 1               | 3   | 1                         | 1                         | 1         | 1*             | 1*                 |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

## Fiscal Operations and Support

The Head Start program's fiscal operations and support unit acts as the program's financial office. The program's managers state that it is necessary to operate independently from the Business Services Division because of a number of factors including the size of its budget and the fact that it is responsible for developing contracts with delegate agencies, developing and reviewing the risk assessment, and providing ongoing fiscal monitoring of delegate agencies.

In order to monitor and provide assistance to the delegate agencies, the Head Start fiscal personnel must understand nonprofit issues, federal Head Start regulations and program requirements. Employees typically learn these subjects after spending some time working in the program. Because of the unique knowledge required, the Head Start program has experienced difficulty during the recent reductions in force when its business services consultants have been displaced by individuals from other departments who hold the same title but do not have the program knowledge required for Head Start.

The three main functions of Head Start's fiscal operations and support unit are system compliance, monitoring the viability of programs operated by school districts and non-profit organizations, and a risk analysis of school district and nonprofit organizations that operate Head Start programs. This is not a duplication of the services provided by the business unit in the Controller's Office, which is responsible for cash management and federal reporting for all specially funded programs, including Head Start programs.

### *Head Start Fiscal Operations and Support Unit Staffing*

| Title           | Assistant Director | HS Program Manager | Financial Operations Consultant | Business Services Consultant | Network Engineer | Microcomputer Support Technician | System Admin. | Senior Data Processing Specialist | Data Processing Specialist |
|-----------------|--------------------|--------------------|---------------------------------|------------------------------|------------------|----------------------------------|---------------|-----------------------------------|----------------------------|
| Number of Staff | 1 *                | 2 *                | 2 *                             | 8 *                          | 1 *              | 1                                | 1 *           | 2                                 | 1                          |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

| Title           | Division Secretary | Administrative Analyst | Assistant Administrative Analyst | Senior Accounting Clerk | Budget Technician | Warehouse Worker | Delivery Driver         |
|-----------------|--------------------|------------------------|----------------------------------|-------------------------|-------------------|------------------|-------------------------|
| Number of Staff | 1                  | 1 *                    | 1                                | 1                       | 1                 | 1                | 2 (one position vacant) |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The Head Start fiscal operations and support unit has 16 management staff and 11 support staff. The assistant director is responsible for 26 staff and directly supervises six staff. The unit divides itself into three distinct areas. In the first area, business services consultants work under the direction of the fiscal operations program manager. Each consultant is assigned to and provides direct support to specific delegate agencies. The second area supports technology and program data and is led by a program manager for information services. The third area supports the unit's fiscal and warehouse operations. This area is under the direction of the assistant director and includes two financial operational consultants and seven support staff.

Oversight of the delegate agencies includes tasks such as determining whether they have sufficient protocols for procurement, whether the proper bidding and selection procedures were followed, and whether costs were reasonable.

## Internal and External Affairs

### *Head Start – State Preschool Internal and External Affairs Administrative Staffing*

| Title           | Assistant Director | Program Manager | Resources and Development Manager | Consultant: Community Outreach, Program Results, Program Control | Specialist: Program Development, Program Results | Program Coordinator | Resources and Development Analyst |
|-----------------|--------------------|-----------------|-----------------------------------|--|--|---------------------|-----------------------------------|
| Number of Staff | 1 *                | 2 *             | 1 *                               | 5 *  | 4 *  | 1 *                 | 1 *                               |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

### *Head Start – State Preschool Internal and External Affairs Support Staffing*

| Title           | Division Secretary | Secretary | Community Outreach Assistant | Language Interpreter | Senior Typist Clerk | HS Program Development Assistant |
|-----------------|--------------------|-----------|------------------------------|----------------------|---------------------|----------------------------------|
| Number of Staff | 1                  | 3         | 2                            | 3                    | 3                   | 1                                |

The Head Start – State Preschool internal and external affairs unit is led by an assistant director who supervises 27 staff, including direct supervision of two support staff and four managers. The unit has 15 management staff and 13 classified support staff and is divided into the following four areas: research and evaluation, community outreach, resources and development, and program development services.

The internal and external affairs unit supports both Head Start and the state preschool program, which serves approximately 1,700 children who are served directly by LACOE and through contracts with delegate agencies. This unit hires professional experts to provide technical assistance with Response to Intervention (RTI) and mentor program staff at sites. RTI is a method of academic intervention designed to identify learning disabilities early based on data and help children who are having difficulty learning. LACOE staff in the Educations Services Division's departments of school improvement, Regional System of District and School Support (RSDSS) and Curriculum and Instruction Division have this knowledge. LACOE needs to continue to determine if other divisions could provide this type of assistance rather than contracting for these services.

The community outreach staff are responsible for collecting and assessing data on children's outcomes. The resources and development staff develop community partners. The internal and external affairs unit also serves as a forum for customer service and for political and public contact.

## Program Review and Support

### *Program Review and Support Unit Staffing*

| Title           | Assistant Director | Program Manager: Delegate Services, Governance Services, Delegate Liaison Services | Facilities Planning Manager | Consultant: Child Development, Nutrition, Mental Health, HS Governance, Program Design | Specialist: Child Development, Disabilities, Nutrition, Health, Mental Health, Family & Community, Facilities Planning | Division Secretary | Secretary | Senior Typist Clerk | HS Governance Assistant |
|-----------------|--------------------|--|-----------------------------|--|--|--------------------|-----------|---------------------|-------------------------|
| Number of Staff | 1 *                | 3 *  | 1 *                         | 14*  | 13   | 1                  | 4         | 1                   | 1                       |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The Head Start program's program review and support unit is led by an assistant director who is responsible for 38 staff, including direct supervision of six staff. The unit is divided into four areas: delegate services, facilities planning, governance services, and delegate liaison services.

Delegate services monitors delegate agencies for compliance in nine program areas including child development, nutrition, disabilities, health, mental health, family and community partnership, and education.

Facilities planning staff visit sites and inspect facilities using federal Head Start performance standards to evaluate conditions such as furniture arrangement and the square footage of indoor and outdoor facilities. Approximately 500 facilities are used to serve 24,000 children through the delegate agencies. In addition, if a delegate agency wants to renovate a facility it may request funds to do so and must complete a checklist and provide specifications. A facilities team member inspects the progress of the approved renovations.

The facilities planning manager and facilities specialist are managed jointly by the assistant director of facilities, the construction office in the Business Operations department in the Business Services Division, and the assistant director of the Head Start program's review and support unit. The facility specialists were located in the business operations department but are now located in the Head Start office, and communication has improved as a result. The director of the Business Operations Department and the director of program review and support meet monthly to discuss processes.

Although federal and state regulations regarding preschool and infant child care facilities differ from regulations regarding facilities for school age children, professionals such as the architects in the facilities planning unit in the Business Services Division's Business Operations Department could be used to conduct these inspections. Other opportunities to reduce services provided by the two divisions may also exist. The program review and support unit needs to determine and document the number of employee hours required to plan, prepare and conduct a site visit and the number of sites to be visited annually and adjust its facility inspection staffing accordingly.

The program review and support unit's governance services staff support delegate agencies to ensure that parents are involved in decisions and that all federally required meetings are held. The unit's delegate liaison services staff monitor program compliance in the areas of human resources, recordkeeping and reporting of community assessment results. They also visit sites to observe students in classrooms and assess program results.

The Head Start program invests a significant amount of time in recruiting capable employees, though it occasionally uses additional consultants when short-term assistance is needed. Because Head Start program guidelines are unique, LACOE could benefit from evaluating the feasibility of creating distinct job titles for positions in the Head Start program.

## Recommendations

*The Head Start – State Preschool Program should:*

1. Work with the Personnel Commission to create job titles and descriptions that reflect the unique job responsibilities and background for the employees assigned to its fiscal operations and support unit.
2. Ensure that its program review and support unit determines and documents the number of employee hours required to plan, prepare and conduct a site visit, and the number of sites to be visited annually, and adjusts its staffing accordingly.
3. Implement recommendations related to internal controls and oversight as enumerated in other sections of this report.

## Career and Workforce Development/Regional Occupational Programs

The Career and Workforce Development/Regional Occupational Programs (ROP) department supports vocational programs in 23 school districts and partners with the Educational Programs Division's Division of Student Programs to provide ROP programs in two of LACOE's high schools. The LACOE ROP is a county-operated ROP rather than a single-district ROP or a multidistrict joint powers authority ROP, which are the other two common organizational models.

The department collaborates with other vocational agencies and uses the following instructional models:

1. The classroom setting
2. 50% community site training at a business or industry
3. Paid internships while still receiving 15 hours of classroom instruction

The department reports that the instruction and curriculum being used have common standards and are both state-approved and approved by the business advisory groups.

The department receives approximately \$24 million per year in grant funds, most of which is passed on to the school districts. The allocation is based on the districts' average daily attendance (ADA) and a formula modified in 2007-08. The department applies annually for the Perkins Grant and for Senate Bill (SB) 70 grants. It has developed a demonstration site for video and film education as well as several apprenticeship programs, the largest of which is electrical.

ROP is now a Tier III program, which means that districts have flexibility in the use of these categorical funds. This may affect LACOE's program in the future. To date, districts have asked for greater flexibility in using their portions of funds but have not eliminated their ROP programs.

### *Career and Workforce Development/Regional Occupational Program Administrative Staffing*

| Title           | Director III | Assistant Director | Project Director | Consultant III | Counselor | System Administrator | Senior Systems Specialist |
|-----------------|--------------|--------------------|------------------|----------------|-----------|----------------------|---------------------------|
| Number of Staff | 1 *          | 2 *                | 1 *              | 6 *            | 26        | 1 *                  | 1                         |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

### *Career and Workforce Development/Regional Occupational Program Support Staffing*

| Title           | Administrative Coordinator | Senior Division Secretary | Division Secretary | Secretary | Asst. Administrative Analyst | Senior Typist Clerk | Senior Clerk | Intermediate Accounting Clerk | Intern Typist Clerk - DSP |
|-----------------|----------------------------|---------------------------|--------------------|-----------|------------------------------|---------------------|--------------|-------------------------------|---------------------------|
| Number of Staff | 1 *                        | 1                         | 2                  | 3         | 3 *                          | 2                   | 2            | 1                             | 1                         |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The department's director III oversees 53 program staff and directly supervises two assistant directors, a project director and six support staff. The department has 15 management staff and 39 nonmanagement staff and is divided into three units: business support, instructional and student services, and credentials. A majority of staff are in the instructional and student services unit.

Each of the department's six consultant III managers is dedicated to 14 industries, and each has an annual budget of approximately \$5 million to fund credentialed district teaching staff. LACOE retains 15% of the grant funds, or approximately \$2.5 million, for operations. The department's 26 counselors provide direct counseling services to high school students in the 23 districts served. The cost of employing the counselors is approximately \$1.5 million.

This department reports that the LACOE business office has not been able to provide timely budget information to districts in the past. As a result, the department operates its own business support. This may be a duplication of services, and the department is open to reconsidering this arrangement. The department will still need a knowledgeable business manager because members of its staff meet with the districts' chief business officials three times a year to review their financial projections. The department also has a systems administrator who supports the technology that collects ADA and other student data. The department has a unit that is responsible for granting designated subject credentials for vocational teachers in the ROP program. The department recognizes that staff reductions will need to occur and that it faces challenges in maintaining the quality of services provided.

The department could benefit from a desk audit of the workload of each of its counselors to determine if the workload needs to be adjusted or if positions can be eliminated.

## Recommendations

*The Career Workforce Development/Regional Occupational Programs Department should:*

1. Conduct a desk audit of the workload of each of its counselors to determine if positions can be eliminated and if the workload needs to be rebalanced.
2. Review the feasibility of transferring credentialing responsibility from ROP to the Human Resource Services Division.
3. Collaborate with the Business Services Division to determine if some of the financial support functions can be transferred to that division.
4. Collaborate with the Technology Services Division to determine if technology support for ROP systems can be transferred to the Technology Services Division.

## Greater Avenues for Independence (GAIN) and General Relief Opportunity for Work (GROW)

### *Gain/Grow Program Administrative Staffing*

| Title           | Director II | Management Coordinator | Program Manager | Administrative Analyst (Supervisor) | Career Development Program (CDP) Supervisor | Senior CDP Specialist | CDP Specialists | CDP Assistant |
|-----------------|-------------|------------------------|-----------------|-------------------------------------|---|-----------------------|-----------------|---------------|
| Number of Staff | 1 *         | 2 *                    | 4 *             | 1 *                                 | 11 *  | 5                     | 95              | 15            |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

### *GAIN/GROW Program Support Staffing*

| Title        | Senior Division Secretary | Secretary | Administrative Analyst | Senior Accounting Clerk | Microcomputer Technician II | Administrative Coordinator Reservations Unit | Senior Typist Clerk | Intermediate Typist Clerk | Warehouse Worker | Delivery Driver |
|--------------|---------------------------|-----------|------------------------|-------------------------|-----------------------------|--|---------------------|---------------------------|------------------|-----------------|
| No. of Staff | 1                         | 1         | 2 *                    | 1                       | 1                           | 1 *  | 2                   | 1                         | 1                | .5 FTE          |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The director II is responsible for 144.5 staff, including direct supervision of eight management staff and two nonmanagement support staff. Program locations are divided between the two management coordinators who supervise the career development program (CDP) manager and other areas of operation such as fiscal and program operations. The CDP manager supervises the 11 CDP supervisors who each supervise one or more locations and have direct supervision of seven to 12 staff members including career development program specialists and career development program assistants.

In 1998, the GAIN welfare-to-work program started and the Los Angeles County Department of Public Social Services (DPSS) contracted with LACOE to provide services. GAIN is a California Work Opportunity and Responsibility to Kids (CalWORKS) program but is called GAIN in Los Angeles County. The GAIN program operates 14 sites across the county and serves approximately 1,500 people per month. Eligibility is determined by DPSS. The GAIN employment standard is that 30% of clients find employment. The total amount of time that eligible clients can receive aid, support and services has been reduced from 60 to 48 months.

GAIN is considered a value-added LACOE service with a \$15 million grant-funded budget. The program provides training to help unemployed parents who are receiving welfare find work. The program also provides support for child care services and transportation. Eligible individuals participate in a four-week training program called the Job Club. The first week of the training program is eight hours per day and focuses on skills required to obtain employment. The second week of training provides a half day of training each day so that participants can look for a job. Weeks three and four are focused on the job search. Individuals who have not found employment after week four can participate in a vocational assessment to generate an employment plan that might include continuing education or skills training, and they might enter a subsidized employment program. The current GAIN contracts end on June 30, 2013.

This office also supervises the General Relief Opportunity for Work (GROW) program, which operates at three sites and has a budget of \$2.5 million. The GROW program is similar to the

GAIN program but is for individuals who are eligible for general relief but do not have a child. The GROW clientele is a more difficult population to work with and the program's standard for employment is that 8% of its participants gain employment.

Two supervisor units differ in staffing composition: CDP GROW fast track employs only two CDP specialists, but GROW fast track and program support is staffed by five senior CDP specialists and three CDP specialists. One site, GAIN El Monte, Pomona, Rosemead, is supervised by an administrative analyst rather than a CDP manager and has a total of 15 CDP specialists and four CDP assistants. Similar to other divisions, this unit has not established standards for the number of staff supervised, and management responsibilities are not equitably distributed. The unit would benefit from a review of functions and redistribution of assignments to balance the workload.

The GAIN/GROW program pays the full indirect cost rate to LACOE in addition to paying rent and all other charges for their satellite work sites. Budget management is challenging because the GAIN contract follows the fiscal year but the GROW contract follows the calendar year. This requires additional fiscal oversight and monitoring. The 98 CDP specialists who work in the program are Service Employees International Union (SEIU) members and are not overtime-exempt. Some are receiving additional stipends due to bilingual abilities or longevity status in their assignments and may be earning more than their supervisors, which can cause morale issues.

## Division for School Improvement

The Division for School Improvement provides technical assistance to districts to ensure high quality instructional programs. The division has a budget of approximately \$10 million, approximately 83% of which is categorical and approximately 17% of which is from Part A of LACOE's general fund.

The division is divided into the following project-based departments:

- Categorical Program and Data Support
- School Validation and Improvement Project/QEIA
- Family Literacy Support Network
- California Preschool Instructional Network
- Regional System of District and School Support (RSDSS)
- District Assistance Intervention Team (DAIT)

The division serves specific groups of clients and works closely with Curriculum and Instructional Services Division, including using that division's staff and expertise for assistance in reviews.

### *Division for School Improvement Administrative Staffing*

| Title           | Director III | Project Director III | Regional Director | Consultant III | Consultant II | Coordinator II | Parent Ed Specialist |
|-----------------|--------------|----------------------|-------------------|----------------|---------------|----------------|----------------------|
| Number of Staff | 1 *          | 4 *                  | 1 *               | 2 *            | 11 *          | 2 *            | 2 *                  |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

### *Division for School Improvement Support Staffing*

| Title           | Senior Division Secretary | Division Secretary | Assistant Admin. Analyst | Secretary II | Secretary | Assistant Administrative Analyst | Budget Technician | Senior Typist Clerk | Intermediate Typist Clerk |
|-----------------|---------------------------|--------------------|--------------------------|--------------|-----------|----------------------------------|-------------------|---------------------|---------------------------|
| Number of Staff | 1                         | 5                  | 2 *                      | 1            | 3         | 2 *                              | 1                 | 2                   | 1                         |

\* Management, \*\* Confidential, \*\*\* Management non-exempt

The division is led by a director III who is responsible for a staff of 40 that is composed of 26 management positions and 14 classified positions. The ratio of secretaries to management staff is higher than the average ratio of other divisions. The number of staff supervised by each project director III varies from two to 13. The division would benefit from a review of the functions of the consultant II positions to determine whether the workload can be rebalanced and positions reduced. The total annual compensation for a consultant II position is \$135,000. Total annual compensation is \$74,000-\$86,000 for a senior division secretary, \$72,000-\$84,000 for a division secretary, and \$69,000-\$75,000 for a secretary position, depending on seniority.

### **School Validation and Improvement Project/QEIA**

The Quality Education Investment Act (QEIA) department is a ten-county collaborative that serves schools that were awarded QEIA funding. The unit is led by a regional director and has one consultant III, two consultant IIs and four support staff. The School Validation Improvement Projects/QEIA office has had its staff reduced so relies on professional experts (approximately five during the past year) to help monitor schools that are eligible for QEIA funding and assistance.

The department assists charter schools, works with the regional assessment network and works on developing school improvement grants. This department is partially funded by grants and funds from Part A of LACOE's general fund to allow it to participate in other Educational Services Division activities such as district assistance and intervention teams (DAITs), charter school petition reviews, Williams Act review teams and other assignments as needed.

### **Regional System of District and School Support (RSDSS), and District Assistance Intervention Team (DAIT)**

The Regional System District School Support (RSDSS) and DAIT department manages the statewide system of school support required for entities that receive Title I funds. This department is led by a project director III and staffed by a consultant III, a parent education specialist, six consultant IIs, and five support staff. LACOE is its own region, Region 11. This department serves schools that are in years 3, 4 or 5 of Program Improvement status by assigning the corrective action required. In addition, it support districts that have schools in years 1, 2 or 3 of Program Improvement status; districts that receive Title I funds; and districts that are in Program Improvement status and must take corrective action but are no longer receiving funds. The department hires professional experts and approximately seven independent contractors on a short-term basis to form the DAITs. The annual budget for this department is approximately \$2.9 million. There are restrictions on the use of RSDSS funds.

The Division for School Improvement recently conducted a DAIT review of LACOE's schools in the Division of Educational Programs and issued its report in June 2011. The report findings and recommendations are in alignment with the issues addressed in section three of this report.

## California Preschool Instructional Network

The California Preschool Instructional Network is led by a project director III who supervises one consultant II and four support staff.

## Categorical Program and Data Support

The Categorical Program and Data Support department is led by a project director III who supervises one consultant II and one support staff member.

## Recommendations

*The county office should:*

1. Review the programs and services provided by Educational Programs and Educational Services divisions for opportunities to consolidate. Consider reorganizing the Division of Educational Programs and the Division of Educational Services and organizing the various programs and services based on whether they are provided to students served directly by LACOE or externally to school districts. Review organizational structures from Class II county offices to provide models for consideration.
2. Consider developing criteria for all management positions, and apply those criteria to determine the level of management required when it fills vacancies, develops new positions or restructures a department.
3. Review its classification policy to determine if some of the management positions in the Parent and Community Services Department should be reclassified as nonmanagement, overtime-exempt.

*The Division of Educational Services should:*

4. Continue to review its organizational structure to consolidate programs that provide similar services and reduce the number of management positions. Determine if some of the projects can be combined and reduce the number of project directors, whose total annual compensation ranges from \$132,000 to \$146,000.
5. Consider reorganizing the division based on types of services provided or types of clients served rather than based on projects or funding sources. Review the organizational structures of other Class II county offices of education to find models for consideration to begin the discussion.
6. Review management positions in the division and establish standards for workload and span of control to determine the management level required to perform the work.
7. Review workload assignments and assign work more equitably for management positions that have the same title.
8. Reduce the number of clerical staff as management-level positions are reduced.

9. If LACOE has a policy requiring that coordinator positions supervise at least two staff, immediately begin an effort to change the policy so that staffing can be determined by program need.
10. Review the feasibility of combining the work of the School Improvement Department with that of the Curriculum and Instruction Division.



# Fiscal Management Overview

## Fiscal Management

This section of the report deals directly with LACOE's fiscal management practices. A portion of this includes providing recommendations on the budget and financial reports that are presented to the board of education as to content, frequency and format to improve communication and transparency. In addition, the policies, procedures, and internal controls were evaluated related to the Business Services department, including position control, internal controls, payroll, purchasing, accounts payable, accounts receivable, communications, budget development and monitoring, and AB 1200 oversight, with specific recommendations given for each area on ways to improve current operations.

FCMAT conducted testing with the goal of providing the Los Angeles County Office of Education with reasonable assurance, based on the testing performed, that adequate management controls are in place with regard to bid and award of consultant and personal service contracts.

FCMAT also examined a test sample of consultant and personal service contracts to evaluate the county office policies, division procedures, and internal controls related to the administration of consultant and personal service contracts, to determine whether contracts are entered into by properly authorized personnel and whether the bidding and award of contracts follow county office policy and Government Code. In addition, the division of labor and segregation of duties between administration and staff was evaluated with regard to bidding, award, and oversight of consultant and personal service contracts, as well as whether there were any instances where consultant or personal service contracts may supplant the responsibilities of existing employee positions. Recommendations were also provided for improving policy and practices with regard to bidding and award of consultant and personal service contracts based on best practices.

## Board Fiscal Communications

Supplementary fiscal information provided to the Los Angeles County Board of Education does not contain all the components necessary to provide a complete picture of budget and interim financial reports. Staff presentations to the board should have a consistent format and content. Board members should receive ongoing training and guidance on reviewing and assessing financial information to help them make informed decisions. The board should take action on budget revisions based on the information presented.

On behalf of the county superintendent, designated staff should provide the board with criteria for charter school operations at a minimum with regard to cash balances, ongoing deficit size and debt load. The board should use these criteria to assess the financial viability of the charter schools it oversees.

Education Code Section 1281 states that if a superintendent enters into consultant agreements of \$25,000 or more that require budget revisions, those revisions shall be incorporated into the agency's next interim report. According to the California School Accounting Manual, a budget revision is a net increase or decrease to the budget. The information provided to the board relative to consultant agreements (Report of Contracts) needs to be reviewed and a consensus needs to be reached between the board and superintendent as to the appropriate level of detail to be provided.

The board has several standing committees, including an Audit and a Finance committee. A review should be completed of the duties and functions of these two committees as they relate to

formal actions by the board during regularly scheduled meetings. The review should identify and eliminate processes and procedures that are cumbersome and duplicative for the board and staff and to improve communication with staff and the public.

## Internal Control

Internal controls at LACOE are not well-defined, and a control environment does not extend throughout the organization. FCMAT found that written policies and procedures, a code of ethics and standards of conduct have not been well established. In addition, these guidelines are not current, and many are not documented in writing or effectively communicated to all staff. Certain elements of fraud prevention exist at LACOE, such as a hotline and protocol for financial system access and authority. However, the study team did not find an authorized comprehensive fraud prevention program. This is not to say that FCMAT found examples or indicators of fraud, but the county office should do everything in its power to mitigate the perception or chance that fraudulent activities will occur. Ongoing employee education designed to prevent and detect occupational fraud should be instituted.

A risk assessment of limited scope is completed each year, but does not include the Head Start and State Preschool programs. Plans should be developed to identify and address all programs and areas of risk.

Although the audit reports for LACOE for the last three years do not identify material weaknesses in internal control with respect to financial statement reporting or compliance with federal or state programs, they do cite instances of significant deficiencies in internal control for all three years. Some of these findings and recommendations include ongoing deficit spending and excessive carryovers of Title 1 funding. Independent auditors' recommendations and management comments should be implemented to strengthen LACOE's internal controls.

Decentralization of technology support has led to inconsistencies regarding which programs have dedicated technology staff and which do not. Program managers with dedicated staff cite a lack of timely progress on IT project development and lack of current financial information from the PeopleSoft system as reasons for hiring technology staff members. Dedicating technology staff to a program may be appropriate in some cases unless it leads to duplication of effort and therefore increased cost and lack of standardization, quality control or economies of scale.

Approval processes in some areas are burdensome and time-consuming. Industry standard for most day-to-day transactions is two approvals.

The last physical inventory of equipment, supplies and materials completed at LACOE was approximately three years ago. A new physical inventory is under way. A lack of compatible technologies necessitates the manual completion of this labor-intensive task.

The reconciliations for LACOE cash balances are not validated by staff in internal operations. This is an important control activity to ensure appropriate control over reported cash balances.

Categorical funding allocations are not always spent in a timely manner. Other categorical funding is overspent, resulting in encroachment and the unplanned use of unrestricted funding. Ongoing in-service trainings are needed for program managers and administrators in the effective use of program dollars.

Control activities for contracts could be strengthened. Daily rates on contracts for personal services can be misleading and inconsistent. Some contracts do not include additional deliver-

ables or work products. This makes it very challenging to analyze and properly oversee contract work.

Many other internal control issues are addressed in later sections of this report.

## Budget Development and Monitoring

While LACOE has annual budgetary goals and objectives, many LACOE staff members are unaware of them, including managers responsible for program budgets, business support staff, administrators and board members. LACOE does not use guiding principles that could help focus discussions during annual budget development.

Some board members would like to review aspects of budget development in more detail than is currently provided. Redesigned budget study sessions led by county office staff would provide board members with that information. Monthly updates regarding budget development progress also would enhance board members' knowledge of the budget.

The development of a financial plan for an agency as large as LACOE is a significant challenge. This challenge is compounded by the cumbersome, inefficient, and often unclear processes for producing financial documents. Updated and more efficient systems are needed. The process for printing and distributing hard copies of financial reports is labor intensive and the information often is obsolete by the time the reports reach their final destination. LACOE should ensure that managers have access to and utilize the budgetary information that is available to them online and can print their own reports, thus providing them with more current data.

LACOE's budget development and monitoring processes are severely limited by the number and functionality of independent software applications involved. Systems that do not interface well require manual subsidiary schedules and worksheets to be maintained. Throughout the organization, routine tasks require the use of multiple systems. The independently developed human resources, budget and financial systems require ongoing in-house technical support to maintain them and allow for partial information-sharing among the three systems. Data from individual source documents must be manually compiled, such as for employee leave tracking. Independent applications like Excel are used to capture expenditure details. The use of subsidiary systems is labor intensive and less reliable than fully integrated systems would be. While migration to fully integrated systems would be a daunting endeavor, it should be weighed against the challenges of maintaining the existing systems and compensating for their shortcomings.

The decentralized process used for developing program budgets significantly limits effective and efficient budget development. During the winter months, managers receive information from several different departments that must be summarized. Ensuing costs for personnel, direct services, and indirect costs are added later. In April, program budgets coalesce into complete plans. At that point it is too late for managers to make substantive changes to avoid over- or under-expending projected program revenues. Budgets that require revenues in excess of what they will earn should be individually assessed by the executive leadership team against consistently applied criteria, with encroachments of specified amounts approved prior to budget adoption. Administrators at all levels of the organization should understand every critical budget component and should strive to maintain programs within a balanced budget.

Prior year budget revenues and expenditures in categorical programs are used as the baseline for projecting the upcoming year's budget. This practice simply continues whatever current trend exists and can be problematic if categorical program baseline budgets were not balanced in the prior year, or if poor budget decisions had been in place. Because a significant percentage of

funding in any county office of education is categorical, allowing prior year overspending in restricted programs can have a considerable negative effect on the office's unrestricted reserves.

Budget development and monitoring tools should be developed so that all managers can become more accountable for their programs' fiscal performance. These tools should include a standard enrollment projection and monitoring protocol, ongoing training programs for managers, online access to PeopleSoft financial information, a standardized online report format with information for budget development, financial information by resource, and budget development worksheets by resource.

LACOE's working budget is not kept current. Updated projections are not generally incorporated into the financial system's working budget, and the office maintains the cost for vacant personnel positions in its working budget. Leaving vacant positions in the budget is a long-standing practice, largely because managers fear that a position might be permanently eliminated if it is removed from the budget. However, a working budget that is not accurate cannot be used to assess whether the organization is meeting its annual goals and objectives or complying with its guiding principles. It also cannot be used as an accurate base for multiyear financial projections.

LACOE carries over large amounts of federal Title 1 funding from year to year in excess of what the program allows. Every opportunity to serve the needs of the students who generate this funding should be utilized, because if an extension cannot be obtained, the money must be returned to the federal government.

## Position Control

Accurately projecting employee salary and benefit costs is essential to ensure correct expenditure budgets. The position control system should be reconciled to the budget at regular intervals throughout the year. LACOE's position control system tracks and allows changes to all positions, but it is difficult to retrieve information in a form that completely accounts for the total costs related to budgets. It uploads into the financial accounting software each night, but the budget does not adjust automatically. LACOE staff members in each division adjust their budgets to reflect the information in position control, with each using a unique way to accomplish this, which is not an efficient use of time.

New positions go through five to eight approvals before the hiring process can begin. This process can take up to eight weeks, making divisions reluctant to close or delete vacant or obsolete positions, resulting in overbudgeting. These timelines also prevent the organization from being able to respond quickly to personnel needs.

Prior to completion of each interim report, the system data is downloaded into Excel and sent to specific divisions for updated projections. However, when the updated information comes back in, the position control system and the budget are not updated with the information. Industry standard is to update the budget to reflect all changes at each interim reporting period.

## Payroll

Payroll is generated on the HRS system, but it is a very manual and cumbersome process, without some necessary automated checks and balances to ensure an accurate payroll.

Changes in position control often are not updated in payroll in a timely manner, resulting in numerous cases of employees not receiving accurate payment. Position control should automatically feed the updated information to the payroll system when adjustments occur.

LACOE has a unique pay cycle, with an earned salary advance issued on the 20<sup>th</sup> of the month, and the balance issued on the 5<sup>th</sup> of the following month. This is a complicated and labor-intensive methodology. The industry standard is for once a month checks in 10, 11 or 12 equal increments at the end of the month.

An additional payroll at either the 10<sup>th</sup> or the 15<sup>th</sup> of each month provides the supplemental earnings for overtime or supplemental hours, time sheets, extra hires and substitutes.

Substitute pay is coded to holding accounts: one for certificated and one for classified. Staff then obtains the supporting information to determine the account to which the substitute should be charged and makes journal entries to the correct account code. Industry practice is to determine which account should pay a substitute when the payroll is processed rather than after the fact.

Employee leave is tracked manually, and leave balances do not print on employees' pay stubs. This results in numerous calls from employees asking for their leave balances. The manual process increases the risk of errors. Managers are not informed of the leave activity/balances of the employees they supervise, so an employee may be allowed to take leave that has not actually been earned. An integrated leave reporting system would streamline processes, increase accuracy and provide better access to leave information.

LACOE utilizes several different software packages for its personnel, payroll, position control, leave tracking, and general ledger systems. Staff members often develop spreadsheets at their work stations to get the information they need. Financial system options that allow the integration of personnel, payroll, position control, leave tracking, and general ledger systems would reduce or eliminate the use of spreadsheets and manual tracking.

## Accounts Receivable

No formal process exists to track checks/deposits that arrive in accounts receivable without sufficient information to correctly post the payment to the financial system. All unidentified checks should be logged as they are received, prior to being researched for proper posting.

Invoice detail can be prepared in any LACOE department, but invoicing has recently been centralized in accounts receivable, which has greatly strengthened the process. Invoices are reconciled for a few services on a monthly basis; this should be extended to all invoiced services.

## Accounts Payable

Many LACOE programs and departments wait until late in the fiscal year to make purchases. The spending patterns of programs/departments should be reviewed and adjusted. The Warehouse holds many of these deliveries for a later date, so receipts are not recorded for months and invoice payments are delayed. In addition, site employees must utilize e-mail or a phone call to report deliveries to Purchasing, which has proved unreliable. Sites should designate a single employee to verify and report all merchandise deliveries to Purchasing. Employees should be trained to look for and take advantage of invoice discounts whenever possible.

Warrant printing procedures include appropriate safeguards, except that a single employee takes possession of the warrants and has access to side doors that are only minimally monitored.

Although the purchasing and accounts payable functions are interdependent, these departments do not hold joint meetings to discuss issues and resolve problems. Better communication also is needed between accounts payable and facilities planning staff, particularly regarding the large progress payments that must be processed for LACOE's facilities projects. Communication issues

also exist within the AP Unit. Regular meetings of the whole unit would help to ensure standardization in procedures and application of LACOE regulations, most notably with regard to travel expenditures.

Accounts payable records are maintained for five years, surpassing the legal requirement. However, records related to the district's payments/reimbursements for special education programs should be retained longer because of the higher than normal level of litigation in this area. Very old Class 1 records (those required to be preserved indefinitely) that are stored under a fire-suppression sprinkler system should be moved from their current location to reduce the risk of loss.

## Purchasing

The PeopleSoft system and its enhancements have adequately addressed LACOE's procurement demands but are becoming outdated. A more robust and easily modifiable financial system would allow greater efficiencies in the purchasing process.

LACOE's internal dollar limits for purchases meet or exceed those specified in Public Contract Code 20111. However, the current purchasing process does not allow for quotes on purchases under \$10,000 although Title 5 states that three formal written quotes are required for any capital outlay item exceeding \$2,500.

The Downey warehouse facility is crowded but not undersized. Freight receipt requires double handling. The pace of work seemed slow given the concerns of departments regarding delayed receipt. Employee overtime incurred near the end of the fiscal year is in the hundreds of hours, indicating a need to review ordering and processing strategies.

The surplus inventory warehouse is neat and well organized, but needs to be purged of obsolete materials and equipment to reduce overall storage costs.

The Jet (interoffice) mail system is inefficient both in terms of routing and departure times.

## AB 1200 and Fiscal Oversight

Assembly Bill 1200 (Chapter 1213), Statutes of 1991, which was further expanded through Assembly Bill 2756 (Chapter 52), Statutes of 2004, outlines the county superintendents' legal standards and responsibilities in assisting with school district fiscal stability. LACOE has historically met the legal standards governing fiscal oversight. The Business Advisory Services department assists districts comprehensively with school business, finance, and regionalized business services. School district staff have a positive working relationship with Business Advisory Services staff. Some of LACOE's business services consultants may need further training to ensure they are knowledgeable and possess all requisite skills. These staff members collaborate well with the financial operations consultants, who are the subject matter/technical experts. Fiscal advisors appointed to school districts that are in either negative or going concern status were viewed as supportive.

LACOE provides timely written materials and communications to school district staff, as well as guidance and expectations for developing annual budgets, interim reports, collective bargaining agreements, and review of annual financial reports. Quarterly meetings are held for district CBOs, covering relevant topics and providing pertinent, timely fiscal information. LACOE also hosts an annual workshop on the governor's proposed budget that includes an extensive binder on that budget and related finance legislation. Some districts would also like an advance

summary that prepares them to immediately react to questions from their school boards and community rather than having to wait for the workshop.

LACOE provides numerous other workshops and training, but some school district employees would like even more LACOE-hosted professional development workshops than currently offered.

The SMART-Access system was developed by LACOE for use in trend analysis, revenue limit and cash flow projections, and other financial data. It is a key tool in performing Education Code mandated functions such as state reporting. However, the cash flow module is not available for school district use. Any future fully integrated financial software program should address this ongoing need. LACOE has an extensive written review process for school district adopted budget and interim reports.

## Consultant and Personal Service Contracts

LACOE has extensive board policies covering both goods and services. All relevant staff members should receive the Contracts Section Procurements Service Manual and desk manual. Additional workshops in procurement processes and procedures should be held at school program sites, with attendance mandatory for the appropriate personnel.

The various categories of professional experts, independent contractors and temporary employees should be analyzed to determine their usage and necessity. Categories should be updated, eliminated and added where needed. The LACOE policies on length of service for professional experts should be enforced, with restrictions on the number of extensions granted to professional experts. Every department should send a summary of all contracted work to the Contracts Department either monthly or quarterly to allow adequate monitoring of the effectiveness, efficiency and value of contracted services.

A test sample of contracts for independent contract consultants showed that several had no attachment detailing the scope of work, deliverables or milestones to show that payment was warranted. Several sampled Head Start contracts had similar issues. The lack of a specific scope makes it difficult to evaluate the need for a contract.

Several contracts reviewed were for amounts slightly under \$50,000. Per the Contracts Section desk manual, contracts under \$50,000 are not required to be reported to the board, unless they are consultant contracts. The Report of Contracts does not appear to be included in policy and finance meetings, nor is it posted on the LACOE website in the Board Agendas and Minutes link. This inhibits public accountability with regard to the use and payment of contractors and is in conflict with the desk manual. In addition, this provision in the desk manual may conflict with Education Code Section 1281, which states that consultant agreements of \$25,000 or more that require a budget revisions shall be incorporated into the agency's next interim report.

Amendments to several of the contracts reviewed were approved only a few months after the original contract, often doubling or tripling the contract amount. Best practices would include a full cost estimate of the services in the original contract for proper budgeting and cost monitoring. In addition, multiple concurrent contracts are used for projects that appear similar in nature.

In a three-year period between July 1, 2008 and June 17, 2011, LACOE expended \$1.5 million on contracts with temporary agencies. While this amount is not large compared to the total LACOE payroll, the use of temporary personnel should be analyzed. Typically, permanent employees, substitute pools, retirees and other qualified candidates are less expensive than temporary employment agency personnel. In 2010-11 a temporary clerical support pool was created

and administered by the Personnel Commission, with policy that requires divisions to access this pool before filling a temporary office worker position. Because the pilot program was successful in 2010-11, LACOE plans to expand this program in 2011-12.

LACOE's general counsel is attempting to centralize legal work in-house. Previous practice in several departments was to contract for their own legal counsel. Keeping legal work with LACOE's general counsel and only contracting out when necessary is more efficient and cost effective.

Technology Services oversees annual maintenance contracts for various software and hardware providers, and for supplemental personnel on major projects. These limited-term personnel are well-utilized. However, other departments also have dedicated technology contractors and staff. This poses several concerns that include the lack of system standardization throughout LACOE, inefficiencies in resource management and the inability of Technology Services staff to support systems. Having Technology Services administer all technology purchases and contracts could provide better economies of scale and would allow IT staff to build support for hardware and software into its budget.

Contracts Section staff try not to use the same architect and inspector for all construction projects. However, this does not necessarily produce the best outcome and may be less cost-effective. The contract template is based on the American Institute of Architects standard contract and contains language that educational agencies often change to provide better and more equitable terms and conditions for themselves so they are adequately protected. LACOE should have legal counsel research contract templates and develop an architectural/engineering services contract that better protects LACOE by providing fair terms and conditions for both LACOE and the architects/engineers.

## Leases

Facilities Planning Services is responsible for about 800 leased and owned sites throughout Los Angeles County. A unit within Facilities Planning Services is devoted exclusively to real estate negotiates commercial leases for LACOE's instructional and administrative programs. Program leaders and staff do not always visit the site before it is leased, which can result in a site that does not fulfill all program needs or must be extensively renovated.

Multiple layers of approval are required for real estate leases. Some approvers may change the language and thus inadvertently change the intent of the lease. Finding sites for some alternative education programs causes concern in some communities. Real estate staff save time and money by placing programs in less resistant communities, but should continue to work to develop positive relationships with all communities to best serve students.

The real estate unit continues to rely on outside commercial brokers to negotiate some of its leases, although there appears to be sufficient in-house expertise to handle them.

# Fiscal Management Findings and Recommendations

## Board Fiscal Communications

The Education Code specifies the requirements regarding board review or action for budget and financial reports, including their content and format. LACOE has historically met the legal standards for providing budget adoption, interim and unaudited financial reports to the board of education as prescribed by the Education Code. COE compliance with the Education Code reporting requirements is essential so that all stakeholders, including districts, students and the community, receive required information as well as uninterrupted service. EC Section 42120 states, in part, that if the county board neglects or refuses to make a COE budget or neglects to file an interim report, the state Superintendent of Public Instruction will not apportion state or federal money and will notify the appropriate official not to approve any warrants issued by the county office.

While the formats for the required state budget and financial reports are specified by statute, the problem is that information displayed in the reports is not easy to read and understand. Most educational agencies find that additional or explanatory materials are needed to accompany mandated reports to ensure all parties properly understand budget plans and current financial activity of the organization. The content and format of the components that make up this supplementary information varies by educational agency and can change with time according to the needs of the financial information users. However, typical content includes:

- A budget development calendar that describes the processes including task objectives, related activities and procedures, completion date and responsible position.
- A calendar of significant state budget and financial reporting dates.
- A synopsis of significant results, conclusions and trends contained in the budget and financial reports.
- A list of assumptions for significant revenue and expenditure categories used in preparing the budget. Typical data points include estimates for the COLA and deficit factor on state revenues, student enrollment, full-time equivalents (FTEs) by employee unit, step-and-column costs, health benefit costs per FTE, COLA for operational expenditures such as utilities, and a summary of significant changes regarding categorical programs.
- A list of other budget assumptions for revenue or expenditure categories that are of particular interest to the organization's community and board, such as ADA and total lottery funding.
- Detailed budget and financial information for a particular program, especially if not self-supporting, which is of special interest to the organization's community and board including revenue, expenditure, beginning and ending fund balance all by major object, any encroachment amount and the source of support for the encroachment.
- Budget and financial information by major object code for subsets of programs and services that are logical divisions of the organization. Typically, major divisions of a

county office include business services, human resource services, educational programs, educational services, technology services and administrative services.

- Budget and financial information by major object code for all general fund unrestricted programs, restricted programs, and the total general fund.
- Information identifying county office programs and services that are required by the Education Code (mandatory) and all other programs and services that are optional.

The study team noted that the supplementary information provided to the LACOE Board of Education contains some but not all of the components listed above. During interviews, board members and staff both voiced concerns about the type and quality of current supplementary information as well as the high frequency and time-consuming nature of board requests for new information or information displayed in different formats. The study team noted that supplementary information is provided by LACOE in a variety of contexts and at sporadic intervals. Supplementary information should be thought of as a set of components that in their entirety represent the financial position of an organization. Further, the purpose of such information is to provide a clear and complete picture of the financial position of the organization to all board members, not just to the specific board member making the request. Addressing board members' needs may require staff to provide additional or different information, various formats, and training regarding what information exists, where it can be found and the conclusions that can be drawn from it.

Staff and board should work closely to proactively identify, understand and address the needs of board members. Staff presenting budget and financial information should receive training in effective presentations. The materials used in presentations should conform to an organization-wide standardized format and content. Board members' requests should be routed through the superintendent and should clearly identify and describe the information to be routinely provided and why it is being requested to ensure complete and clear supplementary information. Board members should strive to limit requests to those that represent the interests of the board and not an individual. Board members also should be judicious in independent requests for information, providing adequate background to allow staff to be efficient and effective in responding to the requests and with their other assigned roles and responsibilities. For example, one request for lease information didn't specify the interest in the actual names of individuals holding ownership interests in companies that lease facilities to LACOE. This caused staff to have to go back and do additional research after they thought they had completely answered the question.

According to LACOE's Comprehensive Calendar, budget revisions are typically prepared seven times a year, which is adequate to reflect material changes to the budget plan in a timely fashion and complies with Education Code Section 1280. That section states, in part, that budget revisions over \$25,000 are to be incorporated in the next interim report. During interviews, board members shared concerns about the content and format of the budget revision materials presented to the board. At the time of the study team's visit, staff had already begun work on retooling the document that has been used for some time. Most educational agencies use formats for budget revisions that summarize information by major object and by fund. Additionally, the total general fund is typically subdivided into total restricted and total unrestricted columns, with a total column summarizing the entire general fund. The most effective formats for budget revisions show the budget plan as of the last action taken by the board, changes reflected as increases and decreases in each major object, and the resulting plan with the changes incorporated.

The Finance Committee (which is a committee of the whole board) and the board received budget revision information in a new format beginning in January 2011 that more closely reflects the summary presentation of information described above. The format has since been refined further and was presented to the Finance Committee in July 2011. Additional clarity may be provided by further eliminating extraneous numeric detail and, instead, identifying significant changes in major object categories. A significant change warranting a budget revision should be defined as an amount exceeding threshold criteria that includes both a minimum dollar amount and percent of major object budget amount; for example, \$300,000 and 7%. Once significant changes are identified, the underlying activity causing the budget revision can also be disclosed.

LACOE board members and staff also shared with the study team that board approval of budget revisions has been used (i.e., approval withheld until other requests are fulfilled) to exert pressure over other areas. Board members communicated that this technique was employed only after other avenues to pursue different courses of action had been exhausted.

Education Code Section 1281 states that if a superintendent enters into consultant agreements of \$25,000 or more that require budget revisions, those revisions shall be incorporated into the agency's next interim report. The board does receive a periodic and summarized list containing consultant agreement information, and consultant agreements are included in the interim reports. Therefore, the statutory requirement has been met and is consistent with the law. However, in discussions with board members and staff, the study team determined that a significant difference of opinion exists regarding the approval function. Some board members and some previous superintendents each viewed their roles and responsibilities over consultant contracts to include approval, while others did not. This difference of opinion has led to frustration and loss of staff and board member time while this subject has continued to be discussed. In interpreting and applying Section 1281, the board and staff should be aware that budget revisions, as defined by the California School Accounting Manual, are "Net increases and decreases to the budget. They may include increases due to new grant funds and decreases due to the need to reduce appropriations to keep spending within available resources." (CSAM, Glossary, page 3.) Enough detail must be provided so that the board is comfortable approving budget revisions attributable to consultant contracts.

The study team found that protocols for assessing the financial viability of currently authorized charters and of charters petitioning the board of education have been developed and are regularly used by staff. Further, these protocols are used to prepare appropriate financial information that is shared with the board Finance Committee each quarter. Some petitions have been granted over the staff's reservations regarding lack of going concern. In a review of a recent report to the board Finance Committee, the study team noted that some charters are exhibiting fiscal distress. Two charters had negative cash balances and one of them had long-term debt of \$100,000 as of September 30, 2010. Another charter had short- and long-term outstanding debt of almost \$2 million. More detailed mandatory criteria, especially for cash and debt repayment, should be developed by staff with board member input that clearly represents the board's expectation for going concern. Criteria should provide minimum targets in these areas so that charter school services continue without disruption from cash shortfalls or over-expended resources.

Two standing committees of the board address fiscal issues: the Audit Committee and the Finance Committee. The Audit Committee consists of a subset of board members and lay members; the Finance Committee consists exclusively of the entire board. A committee consisting of the entire board membership is unusual, especially when no action on items other than meeting minutes is generally taken. These two committees normally meet just prior to the

board meeting. The study team found that if the committee communicates its overall support or lack of support for an item during the meeting, it is not reflected in the minutes. Clearly communicating why there is or is not support for an item will assist staff in understanding the needs of the board and preparing materials more effectively. This was evidenced in the board meeting minutes reflecting discussions and actions related to, among other things, budget revisions. The study team also noted that information presented to the standing committees is sometimes discussed again at the board meeting but without the benefit of all previous background information and documentation shared at the committee meeting being available for the public attending the board meeting. A review should be completed of the duties and functions of these two committees as they relate to formal actions by the board during regularly scheduled meetings. The goal of the review is to identify and eliminate processes and procedures that are cumbersome and duplicative for the board and staff and to improve communication with staff and the public.

## Recommendations

*The county office should:*

1. Utilize staff input as well as conduct a board survey to guide staff in developing the content and format of routine supplementary information that accompanies the budget and interim reports. Set a specified period of time during which the format of the supplementary information remains unchanged, thus ensuring familiarity with the information by the users and comparability of information between time periods.
2. Use a consistent format and content throughout the organization for budget presentation materials prepared for the board and delivered by staff. Provide ongoing training by the Communications department on effective presentation styles to the staff that are responsible for making budget presentations. Allocate adequate time during meetings to ensure board members and the public have appropriate access to the information.
3. Provide board members with ongoing training and guidance on reading and assessing financial information on state reports and specially developed supplementary reports so they gain sufficient mastery to make informed decisions. Provide an overall orientation of budget reports and financial statements to all new board members.
4. Continue to refine the format and content of routing budget revisions until these materials clearly present changes in the budget plan, including the underlying reasons for significant changes.
5. Take board action on budget revisions based on the information presented in them.
6. Review the information provided to the board relative to consultant agreements (Report of Contracts) and reach consensus between the board and superintendent as to the appropriate level of detail to be provided. Seek addi-

tional guidance and expertise from the organization's general counsel, staff and by surveying other large county offices of education in California.

7. Identify minimum criteria for cash balances, ongoing deficit size and debt load necessary to ensure the financial viability of charter school operations, and discuss these with the board. Use these criteria in assessing charter school petitions and recommend to the board the approval of only those petitions that meet these standards. Use these criteria to monitor the financial position of authorized charters.
8. Review the purposes of the Audit and Finance committees. Complete a legal review of the duties and functions of these two committees as they relate to formal actions by the board during regularly scheduled meetings. Integrate the activities of both committees more strongly with those of the board of education's meetings to facilitate and expedite decision making. For instance, since the finance committee is a committee of the whole board, an evaluation should be made as to this committee's effectiveness and need because the business could just as easily be discussed and followed through at the regular board meeting.



# Fiscal Management Procedures and Policies

## Internal Control

The study team found that the term “internal control” had different meanings for different managers and board members interviewed at LACOE. While the concept is complex and multidimensional, it is clearly defined by the accounting industry as it applies to organizations, including school agencies, in the following manner:

An organization establishes control over its operations by setting goals, objectives, budgets and performance expectations. Several factors influence the effectiveness of internal controls in an organization including the social environment and how it affects employees’ behavior, the availability and quality of information used to monitor the organization’s operations, and the policies and procedures that guide the organization.

Internal control helps an organization obtain timely feedback on its progress toward operational goals and strategic principles, produce reliable financial reports, and ensure compliance with applicable laws and regulations. Internal control provides the means by which an organization’s assets and resources are directed, monitored and measured, and plays an important role in protecting the organization from fraud, abuse or misappropriation.

Internal control has five components:

- **Control Environment** is the tone of the organization and influences the behavior of its people. It is the foundation for all other components of internal control.
- **Risk Assessment** identifies and analyzes the risks that the organization will face and could cause it to not achieve its objectives. This component forms the basis for how these risks should be managed.
- **Information and Communication** require systems that identify, gather and exchange information in a format and a time frame that enable the people in the organization to successfully perform their duties.
- **Control Activities** help ensure that management directives are carried out. Control activities are also designed to discourage errors or irregularities from occurring or to find them after they have occurred.
- **Monitoring** is used to assess the quality of internal control performance over time.

Each person in an organization has responsibility for internal control in some capacity because virtually everyone either produces information used by the internal control system or takes action to implement organizational control. Further, each individual in the organization should take responsibility for appropriately communicating problems in operations, noncompliance with policies, or illegal actions. Ultimately, internal control should pervade every level of the organization.

Managers, board members and auditors, however, have particular roles to play. The superintendent, as the visionary and chief executive of an organization, has overall responsibility for setting the organizational tone. This tone has a pervasive influence on all decisions and activities of an organization and on the control consciousness of its people. Factors contributing to a positive control environment include integrity, ethical values, management philosophy and operating

style, organizational structure or configuration, assignment of authority and responsibility, and employee expertise and proficiency.

The assistant superintendent of business services oversees the integration of all five internal control components into a cohesive whole. The entire executive team provides leadership and direction to other senior managers and reviews and provides feedback to senior managers on their internal control decisions. In turn, the senior managers assign the responsibility for establishing specific internal control policies and procedures, control activities and monitoring to the staff responsible for unit functions.

The board of education works as a group to provide guidance and oversight in accordance with the roles established for it by statute. Individual board members particularly enhance the control environment when they are informed, free of bias, inquisitive, conduct themselves in a principled and ethical manner and expect the same standard of conduct from everyone in the organization.

Internal and independent auditors assess whether the controls are properly designed and implemented and monitor whether the controls are working effectively. They also make recommendations on how to improve internal control.

The study team found the people interviewed to be generally engaged, thoughtful, open and responsive. Many came to the interviews with recommendations for improving LACOE's systems, processes and efficiency. However, the control environment at LACOE, including Board Policy 3222, which addresses internal control, is not well defined nor does the control environment pervade the layers of the organization. LACOE's control environment would be enhanced with a well-established and effective communication protocol of all written policies and procedures, code of ethics and standards of conduct. Further, LACOE should carefully and deliberately identify and effectively communicate its control environment principles throughout the organization. These principles may include that:

- Personal and professional leadership is based on the highest levels of integrity
- The leadership philosophy and operating style will promote internal control throughout the organization
- All employees are fully aware of their internal control responsibilities
- Assignment of authority and responsibility ensures the highest possible level of accountability
- LACOE policies and procedures reflect the organization's internal control objectives and are strictly followed
- All employees know and understand LACOE policies and procedures as well as those specific to the school sites and departments in which the employee operates
- Fraud (embezzlement, stealing, misuse of equipment, technology or supplies, etc.) and conflicts of interest are not tolerated
- All employees continually self-monitor operations and job performance

## Fraud Prevention and Detection

Occupational fraud is a global problem in today's business and educational environment. A recent study by the Association of Certified Fraud Examiners concluded that organizations lose up to 5% of their annual revenue to fraud. The sectors that were most commonly victimized in the study included government and public administration. The study examined 90 cases in education, which represented 5% of the total cases included in the study. The median annual loss amount for the education organizations studied was \$71,000. Given the high costs of occupational fraud, all organizations should have a strong fraud prevention and detection program in place.

While elements of a fraud prevention program exist at LACOE, such as a hotline and protocol for financial system access and authority, the study team did not find a formal comprehensive fraud prevention program. Additionally, LACOE's control environment does not effectively use the threat of detection as a strong deterrent to fraud and abuse by engaging in activities such as extensive fraud risk assessments and unannounced audits.

LACOE has had a hotline in place for many years. However, based on interviews with LACOE staff, the purpose of the hotline to report potential fraud and abuse may no longer be widely known or accepted. This could partially be attributed to the hotline also being used to also report personnel related issues.

LACOE's hotline could become its most effective tool for fraud detection and should be designed, advertised and marketed for maximum effectiveness as a fraud reporting mechanism for employees, suppliers, third-party service providers and customers, assisting in LACOE's risk assessment and management programs. Procedures should be set up to define reportable events, encourage appropriate reporting, eliminate fear of reprisal and ensure the source of the information remains confidential.

Ongoing employee education, a foundation for preventing and detecting occupational fraud, is not in place at LACOE. In-depth employee training should be provided regularly, including information regarding what constitutes fraud and how it hurts everyone in the organization, widely found fraud schemes and common behavior signs. Employees should have multiple avenues for reporting improprieties and should be encouraged not to ignore red flags. Risk awareness training about situations and suspicions that merit reporting will help create an agencywide culture that supports appropriate reporting.

The risk assessment component of internal control at LACOE has been scaled back in recent years. The Internal Audit and Analysis department was assigned to monitor compliance with United States Department of Justice court related settlements around 2005. These issues are now the department's priority, and staff members spend most of their time addressing them. The number of staff and hours required to complete the compliance monitoring has greatly diminished the unit's ability to conduct internal audits of other LACOE departments or programs. The Internal Audit and Analysis department completes a risk assessment each year; however, the number and scope of the examinations is limited to remaining staff time and department resources. Further, Head Start and State Preschool related grants, totaling more than \$200 million annually, are specifically excluded from the risk assessment process. Annual risk assessment should include all programs and identify all areas of risk that are unacceptable to the organization. Plans that address the audit of these risks, including the use of consultants, should be developed and the work completed in a timely fashion. Appropriate resources should be devoted to these activities.

The Head Start and State Preschool program staff were assigned to perform the program's fiscal monitoring beginning in 2004 so that the cost associated with these activities could be paid with Head Start funding. In the current fiscal year the program experienced difficulty with two of its delegate agencies, which resulted in an increased fiscal exposure to LACOE. An independent forensic audit was also commissioned by LACOE for one of the delegate agencies. While FCMAT understands that Head Start's fiscal monitoring is being done differently because of funding issues, final responsibility for fiscal monitoring for all programs, regardless of the source of funding for the employees performing those specific duties, should be assigned to the Internal Audit and Analysis department. This ensures that consistent standards and objective oversight are applied to all programs and a centralized responsibility for quality control exists.

LACOE's superintendent and executive cabinet select the grants, areas or programs for internal audit in consultation with the internal auditor. Executive Cabinet should be provided with comprehensive, ongoing training to ensure the necessary understanding of internal control so they may properly assess existing controls and select grants and programs effectively.

Payroll is one of the areas selected in LACOE's most recent risk analysis, and a payroll audit of the 2010-2011 fiscal year is planned by the Internal Audit and Analysis department. Findings from the planned audit may support concerns some LACOE staff voiced to the study team, which included security protocols governing storage of older sensitive information, accuracy of absence tracking, and accuracy of dates of service on timesheets. Payroll audits also should include performing unannounced phantom employee testing and reviewing the progress made on recommendations identified in a previous internal audit of payroll.

LACOE's independent auditors annually review internal control as part of their audit process. However, the scope of the review is limited to the consideration of internal control as a basis for designing audit procedures. Consequently, independent auditors do not express an opinion on the effectiveness of LACOE's internal control.

The audit reports for LACOE over the last three years do not identify material weaknesses in internal control over financial statement reporting or compliance with federal or state programs. If present, such weaknesses could result in a material misstatement of the financial statements or in a material noncompliance with a program requirement because the organization's internal control could not prevent, detect and correct problems in a timely manner. Although material weaknesses are not identified, the audit reports do cite instances of significant deficiencies in internal control in all three years. Annual management letters from the independent auditors also provide guidance for enhancing LACOE's internal control environment and operating efficiencies. Some of these findings, recommendations and management comments occur in more than one year, including the ongoing deficit spending pattern of the organization and excessive carry-overs of Title 1 funding. The recommendations and management comments from independent auditors should be re-examined and implemented fully to strengthen LACOE's control activities. Corrective action plans should be developed to ensure that the same findings do not occur in more than one year.

## Charter Schools

LACOE has received numerous charter school petitions over the past year, either on appeal from districts that have previously denied them or to LACOE directly; some of the petitions have been subsequently approved by the LACOE Board of Education. A significant amount of staff time and expertise is required to review the petitions prior to action by the board, as well as significant

time spent to provide appropriate ongoing fiscal oversight once petitions have been granted. LACOE staff and board members voiced strong concerns over potential chartering authority financial liability should the chartering authority not comply with regulations for oversight prescribed by the Education Code. Education Code Section 47604(c) states:

47604(c). An authority that grants a charter to a charter school to be operated by, or as, a nonprofit public benefit corporation is not liable for the debts or obligations of the charter school, or for claims arising from the performance of acts, errors, or omissions by the charter school, if the authority has complied with all oversight responsibilities required by law, including, but not limited to, those required by Section 47604.32 and subdivision (m) of Section 47605.

Education Code Section 47604.32 states that LACOE, as a chartering authority, shall do all of the following:

- Monitor the fiscal condition of each charter school under its authority
- Ensure that each charter school under its authority complies with all reports required of charter schools by law
- Identify at least one staff member as a contact person for the charter school
- Visit each charter school at least annually
- Provide timely notification to the CDE if any of the following circumstances occur or will occur with regard to a charter school for which it is the chartering authority:
  - A renewal of the charter is granted or denied
  - The charter is revoked
  - The charter school will cease operation for any reason

Ensuring that approved charter schools have adequate internal controls is critical to their success. Education Code Section 47613 governs the maximum amount of fees a chartering authority can collect from a charter. Even though most chartering authorities find the allowable fees do not cover the actual costs of oversight, adequate oversight must still occur to protect the chartering authority and the charter school, so other ongoing funding sources must be dedicated to cover the cost of these services. LACOE may need to do the same to ensure that adequate controls exist, because oversight is necessary whether or not sufficient funds are provided for it.

## Technology Services

There is pressure from many LACOE staff and/or departments to decentralize technology services to expedite operations. This has led to the assignment of IT programming and support staff to some specific programs to perform the day-to-day financial recordkeeping functions. LACOE has not established criteria to determine which departments and programs should have dedicated technology support staff. These assignments appear to be inconsistent. During interviews, various program managers with dedicated staff identified issues with the lack of timely progress on IT project development and lack of current financial information from the PeopleSoft financial system. The assignment of dedicated specialized staff to a program may be appropriate in some cases unless it leads to duplication of effort and therefore increased cost, loss of standardization, quality control and economies of scale. A coordinated and organization-wide approach to defining and maintaining appropriate centralization of support is needed.

## Procedural Issues

Some of LACOE's internal control procedures are current and documented in writing; others are documented but not current; and some others are not documented or are incomplete. None of the written procedure documents use a standardized format. A standardized structure for content and format should be developed for all internal control procedures so they are easily recognizable throughout the organization, and can be used as training materials and to comprehensively assess the organization's internal control. FCMAT was notified that this is currently in process.

Board Policy 3262, which governs capital asset physical inventory practices, states that a physical inventory will be conducted annually and reconciled with the accounting records. The Code of Federal Regulations, Title 34, Section 80.32 allows a physical inventory to be completed once every two years. However, LACOE staff confirmed that the last inventory was completed about three years ago. They described the process as prohibitively labor intensive. Bar code readers that were used in the past to automate and expedite the process do not interface with the PeopleSoft asset module, so this work must be completed manually. Additionally, past buy-in by the organization's leadership was not strong enough to compel a complete capital asset listing. A new physical inventory process is under way, as well as updated policies, but staff continues to have the same concerns about organizational buy-in.

Staff assigned to reconcile cash with the county of Los Angeles' cash in County Treasury accounts do so for all school agencies, including LACOE. However, the reconciliations for LACOE cash balances are not validated by LACOE staff in internal operations, more specifically the Accounting and Budget Development (ABD) department. Validation of reconciled cash balances by the department responsible for its accuracy is an important control activity to ensure appropriate control over reported cash balances, particularly since staff members assigned to the reconciliation process do not have access to in-transit transactions.

Annual allocations of some categorical funding, such as Title 1, are not always spent in a timely manner according to funding guidelines. Annual allocations of other categorical funding are overspent, resulting in encroachment and the unplanned use of unrestricted funding to offset overspent funding levels. Ongoing in-service trainings or staff development for program managers and administrators responsible for effective use of program dollars should address the importance and expectation of adherence to internal control principles, good business practices and strategies for appropriate expenditure of categorical or restricted funding.

Based on the study team's review of LACOE's organizational structure and interviews with LACOE staff, and as discussed in another section of this report, the approval processes in some areas are burdensome and time consuming, requiring approvals by too many individuals. The industry standard for most day-to-day financial transactions is two approvals. First, the financial information accuracy, including the dollar amount, payee, budget availability and account code string should be validated. Then approval should be obtained relative to the appropriateness of the transaction to program objectives. A second approval is needed to signify the expenditure is in line with best business practices, the organization's internal control and guiding principles.

## Contracts

Information obtained through interviews with staff and board members suggests that control activities for contracts could be strengthened. Specifically, daily rates listed on contracts for personal services can be misleading and inconsistent. Sometimes the rates include preparation for other deliverables or work products such as training materials that are prepared prior to service

date activities. Daily rates on other contracts for personal services do not include additional deliverables or work products. Without a consistent approach to identify work product components and their costs, the analysis and proper oversight of contract work is challenging.

IT project development is often difficult to properly describe at the time contracts are developed and executed. However, without detailed and precise descriptions of work products, these contracts cannot be administered effectively. Cost overruns in this area are commonplace and are often due to the inability of an organization to monitor weak contract specifications against the vendor's work product.

Lease costs for LACOE facilities vary significantly by square foot. Standardized lease documents should be provided and executed by an administrative department in the organization with staff that has appropriate expertise and training to effectively negotiate leases on behalf of LACOE.

Additional information and related recommendations for contracts and leases can be found in the Consultant and Personal Service Contracts section of this report.

## **Professional Development and Monitoring of Internal Controls**

The following findings indicate a need for staff training and a stronger monitoring component of internal control. Many of these findings, as well as those found earlier in this section of the report, will be addressed in other sections of the FCMAT report.

Manual absence tracking of leave balances produces information that is out of date and cannot always be verified prior to processing payroll. Leave balances must routinely be changed after payroll processing and pay distribution is complete because employees may have unknowingly exhausted their sick or vacation leave and thus coded a subsequent absence to an exhausted leave category. Constant monitoring and after-the-fact corrections, which are time consuming and expensive, are necessary to ensure employees have adequate leave available, that balances in all leave categories are accurate and employees are not under- or overpaid. A new protocol should be developed to track leave balances electronically to ensure accuracy and more effective use of staff time. FCMAT was notified that the county office has developed a requested for proposal (RFP) to refine and automate this process, which is a positive step.

LACOE has no formal protocol or procedures for identifying which new employees are eligible for salary advances or for repayment when they exit LACOE's employ. In fact, Board Policy 3226.1, which covers salary advances, provides for their use only to compensate for errors and lost warrants. Further, state and federal payroll taxing authorities have opined that the payroll tax liability generated from the salary advance is due and payable when the cash is paid to the employee, not when the service is rendered. This salary advance practice is not an industry standard.

Additional information and related recommendations for absence tracking and salary advance can be found in the Payroll section of this report.

Some LACOE staff shared concerns that certain checks and balances were being overridden to achieve business outcomes faster. These concerns included the approval of some purchase orders after the organization had already committed itself and payments for goods and services before documentation of receipt for those goods and services could be obtained from outlying areas. The latter was done to take advantage of early payment discounts. The same justification was given regarding the budget adjustment process, which is overridden on occasion so that payments can be expedited. Isolated instances of management override can quickly create an organizational

culture where override, regardless of the intent, becomes more common and is viewed as an acceptable practice. The monitoring component of internal control should be used to identify and effectively diminish instances of management override at all levels of the organization.

The study team determined that the number of staff assigned to perform accounts payable functions for LACOE may not be adequate staff for proper segregation of duties. New vendors are set up at the direction of two senior accountants. These senior accountants also directly supervise the individuals responsible for the setup of vendors in the financial system. Additional control activities or monitoring procedures would protect employees responsible for this function as well as LACOE assets.

Additional information and related recommendations can be found in the Accounts Payable section of this report.

## Recommendations

*The county office should:*

1. Ensure that each person in the organization understands that they have responsibility for internal control in some capacity and must take responsibility for appropriately communicating problems in operations, noncompliance with policies or illegal actions.
2. Identify internal control principles that represent LACOE's control environment and develop and implement an effective communication protocol for all internal control written policies and procedures, including the internal control principles, code of ethics and standards of conduct to ensure the control environment becomes integrated into LACOE's culture.
3. Update Board Policy 3222, which addresses internal control, to strengthen the internal control culture in all layers of the organization.
4. Develop and implement a formal and comprehensive fraud prevention program including a fraud reporting hotline, unannounced audits, risk assessments and other activities designed to detect fraud, including ongoing employee education programs.
5. Educate stakeholders, including employees and interest groups on what reportable events are related to fraud. Encourage appropriate reporting, eliminate the fear of reprisal and ensure the source of the information remains confidential.
6. Strengthen the risk assessment component of internal controls by devoting additional resources and time to the function.
7. Using the internal control review program, expand proactive audits based on annual risk assessment and planned annual oversight reviews to be conducted by the Internal Audit and Analysis department or independent audit firms.
8. Ensure that the final responsibility for fiscal monitoring for all programs, including Head Start and State Preschool, is assigned to the Internal Audit and Analysis department so that consistent standards and objective oversight

- are applied to all programs and a centralized responsibility for quality control exists.
9. Provide periodic, comprehensive training to the superintendent and executive cabinet on internal controls and appropriate tools for assessing existing controls in their areas of responsibility and so they can better understand the necessary internal controls to assess existing controls throughout the organization.
  10. Implement all independent auditor recommendations and management comments each year.
  11. Assess the resources needed to sufficiently address chartering authority responsibilities defined in the Education Code. Identify and allocate ongoing funding to support these activities so that LACOE and the charter schools are in compliance with requirements.
  12. Define centralized support, especially in the areas of IT and day-to-day financial recordkeeping. Develop consistent, objective criteria to determine when and how individual programs may deviate from using centralized support services.
  13. Improve communication practices between departments by identifying measurable objectives and implementing strategies to achieve those objectives. Begin by soliciting feedback on current communication practices; providing a set of guidelines for effective communications within and between departments; establishing a variety of communication avenues like employee surveys, meetings, or e-mail; implementing regular communication from the superintendent regarding vision, plans, goals, challenges; and providing clear contact points, such as a manager or a group of staff members, for specific issues.
  14. Document all internal control procedures in a standardized format and make them available for training and for monitoring internal controls.
  15. Review approval processes for financial transactions and eliminate all unnecessary layers of approval. Require no less than two approvals for transactions.
  16. Complete an inventory of one-half of LACOE capital assets each year in accordance with the Code of Regulations, Title 34, Section 80.32 and revise Board Policy 3262 to reflect this change. Reconcile the list with the financial records and include all additions and deletions each year. Require staff in programs and sites selected for inventory to be responsible for providing accurate information.
  17. Provide the Inventory Control unit with tools such as bar code scanners that integrate with the PeopleSoft asset program to automate the inventory control process as much as possible. This recommendation should be viewed in light of a multidisciplinary approach to a potential conversion to a single, fully integrated, interactive budget, financial and human resource solution as discussed in the Budget Development and Monitoring section of this report.
  18. Assign staff responsible for LACOE cash balances to validate reconciled cash balances every month.

19. Provide ongoing training on internal control, good business practices, and strategies for categorical or restricted funds management to managers responsible for effective and timely use of program dollars.
20. Provide centralized support and oversight of contracts over a specified dollar amount and covering specific goods and services, such as personal services contracts, facility leases, IT project development and maintenance as defined by the executive leadership team.
21. Provide and execute standardized lease documents, working with general counsel to develop such documents.
22. Automate the process for tracking employee leave balances or change the timesheet due dates to allow for validation of available leave prior to payroll processing.
23. Ensure that checks and balances are not overridden to achieve quicker business outcomes.
24. Train managers to be knowledgeable about LACOE's fiscal policies and procedures, and support them in enforcing those policies and procedures.
25. Increase internal control monitoring in the accounts payable unit to offset limited segregation of duties.

## Budget Development and Monitoring

Good budget development processes and the subsequent monitoring and changes to the financial plan of any educational entity during the year, especially during California's difficult budget periods, are essential to providing responsive and high quality services to students and communities.

The budget should reflect goals and objectives that are developed annually and vetted throughout the organization and its stakeholders. While goals and objectives do exist at LACOE for the 2010-11 fiscal year, the study team found a significant number of LACOE staff was unaware of them, including managers responsible for program budget development and monitoring, business support staff, administrators and board members.

Goals and objectives on which annual budgets are based can change to address community needs or for economic reasons. In contrast, guiding principles are generally unwavering in their dedication to the wise use of taxpayer dollars. Guiding principles provide a framework for decisions and should reflect the financial commitments of the organization. LACOE does not use guiding principles; however, adopting appropriate guiding principles may focus discussions and related activities at all levels of the organization, particularly during annual budget development.

A sampling of guiding principles follows:

- Programs and services are self-supporting within the limits of the federal, state and local funds specifically allocated for those purposes unless the use of other available funds to support these programs is authorized by the superintendent or board
- Ongoing expenses are tied to ongoing revenues; one-time revenues may be used to cover planned excess costs occurring within the budget year
- Restricted or categorical programs are self-sustaining, which includes providing sufficient resources to support all related administrative (direct and indirect) costs unless a specific exemption is made by the superintendent or board, or legal restrictions specify otherwise
- Staffing levels are adjusted within each program/service area to align with changes in anticipated pupil enrollment, level of service demands and available revenues
- To help ensure ongoing fiscal stability, a minimum amount of cash and unrestricted reserve fund balance is specified and maintained
- Reserve funds may be used to support program priorities providing that a plan is developed to restore those reserves in future years

During interviews with the study team, some board members expressed a desire to review aspects of budget development in more detail than is currently provided to more properly perform board fiduciary responsibilities, including approving the organization's budget. Additionally, some board members spoke of an interest in receiving training in a variety of topics such as (1) budget orientation information for new board members, (2) ongoing training on LACOE's budget development process, and (3) how to read and understand the organization's internal and state financial reports.

Redesigned budget study sessions, with board input and led by county office staff, would provide better transparency to budget development and would offer board members the opportunity to understand the county office's budget in more detail. Budget study sessions could begin as early as January with a review of LACOE's first interim report multiyear projection for the budget

year, its assumptions, and the projected results of budget year operations. More current enrollment projections may be available for county-operated student programs, which may result in new staffing considerations and proposals for changes by the superintendent in student programs or categorical program funding. Discussions about changes to preliminary budget assumptions could continue in February once the governor's January budget proposal is available and has been analyzed by staff.

Monthly updates regarding budget development progress during board meetings would continue to provide transparency and should be standardized in format and content. The updates should contain available useful and applicable information, with an emphasis on changes that have occurred since the previous update. Once the design of these reports is developed, their content and format should not be subject to frequent change, thus allowing efficient use of staff time and responsible use of taxpayer dollars.

LACOE is a large and complex entity for which the development and monitoring of a financial plan represents a significant challenge. Although LACOE has historically met the legal standards governing budget adoption, financial statement reporting timelines and accounting standards for reporting financial information, the underlying processes for producing these documents is cumbersome, inefficient and not fully transparent. Further, the quality of the information found in these documents can improve if the systems producing the information become more streamlined, thus allowing staff to be more efficient and effective.

LACOE prints and distributes hard copies of financial reports to a very lengthy list of staff (over 15 pages long) for budget development and monthly reports for budget monitoring during the first week of every month. The process for generating and distributing the printed reports throughout the organization is labor intensive, ties up computer processing resources and uses materials such as paper and printer supplies. In fact, some of the individual reports are up to 300 pages long. Further, the lead time needed to prepare and distribute the printed reports often makes the financial information obsolete by the time the reports reach their final destination. Although the study team was told in many interviews that budget managers have access to financial information online, the information is not accessed. Mandating that budget managers have access to their own financial information and print their own reports would save staff time and the cost of materials, would provide more current data, and would ensure success once the managers are thoroughly trained on how to access and read the reports.

## Financial System

The number and functionality of independent budget, financial and human resource software applications involved in compiling, organizing and reporting financial information significantly limit LACOE's budget development and monitoring processes. While staff has made the best of a difficult challenge, not all systems interface well with each other, requiring manual subsidiary schedules and worksheets to be maintained. Routine tasks like salary analysis, budget development and budget monitoring require access to information in multiple and independent systems, which then must be compiled and summarized before tasks can be completed. This condition was present throughout the organization.

The human resources system (HRS), budget system (PC Budget) and financial system (PeopleSoft) were independently developed and continue to require in-house technical support to maintain them and to allow for partial information sharing among the three. These transaction-based systems are not designed for real-time event processing, which is critical for effective and

efficient financial record analysis and monitoring. In interviews, staff cited specific situations of financial data that is unavailable in these systems. This means that data from individual source documents must be manually compiled, such as for employee leave tracking and extended leave for a specific class of certificated personnel. Additionally, important data is not captured by the system such as requisitioning of classified employees which is currently a manual process. It was also reported to the study team that staff in some divisions don't use a number of system programs because they are too complicated and cumbersome. Instead, work is prepared using independent applications like Excel to capture details on employee travel and conference expenditures. Developing and maintaining these subsidiary systems and integrating the information they generate into the financial records is labor intensive, susceptible to human error and less reliable than information produced by a fully integrated financial software application.

The underlying architecture of PeopleSoft, one of the main financial systems, is obsolete and is no longer supported by its manufacturer, Oracle. Hardware capable of running the software and personnel competent in its computer language are becoming unavailable.

The current business systems also support 80 school districts, a number of charter schools and community colleges. These agencies, along with LACOE, increasingly require sophisticated and complex financial systems that can provide financial data in many different formats. While a decision to change financial accounting software is huge, the practicality of addressing the shortcomings of the existing systems and then maintaining them indefinitely should be assessed and compared to the advantages and disadvantages of migrating to a third-party product that is fully integrated and designed for real-time event processing.

The study team interviewed a leadership executive from San Diego County Office of Education (SDCOE) regarding the status of its Business Services Modernization and Transformation project that began in fall 2009. The process is devoted to studying and implementing a new financial accounting system. A significant portion of the following information was obtained during the interview and review of selected planning documents prepared and used by SDCOE in making decisions regarding the migration to a new software. While LACOE's financial accounting system's needs are unique because of Los Angeles County's large size and makeup, and there is thus no true model or comparison that can be reviewed side by side, the process and decision-making matrix would be similar.

To begin assessing a potential change in financial accounting software systems, a complete budget, financial and human resources software application and hardware system inventory is necessary. An independent assessment of each component should be included in the inventory documentation. The assessment should include the following:

- Age
- Existing replacement schedule
- Whether adequate documentation exists
- The capacity of the Technology Services development and support staff to fully understand and support the existing application and required hardware for an appropriate time period
- The related cost of the support personnel
- The risk of unreliable operations in the existing environment
- Software license cost and expiration dates

- Hardware required to run the applications
- Hardware maintenance agreement availability
- Cost

Current day-to-day business processes surrounding core activities should be examined, documented and understood in detail. These processes drive the work flow and define the various functions performed in multiple departments. They should be studied and documented for LACOE and for all school agencies that ultimately report financial information to or through LACOE. By formally documenting this information, subsequent analysis will reveal opportunities to increase efficiency and effectiveness. It is important to distinguish that the day-to-day processes are business solutions, not technology solutions. Once the day-to-day business processes are re-engineered, new technology solutions can be identified to best accomplish them.

The results of the inventory and the re-engineered day-to-day business processes can then be used to develop a multi-step plan to modernize business technology systems, with the ultimate goal of a single, fully integrated, automated, interactive budget, financial and human resource solution.

The solution should:

- Provide more timely and accurate information
- Increase the system's ability to successfully adapt to organizational and regulatory change
- Streamline budget development and budget update processes
- Perform budget modeling
- Improve financial monitoring, forecasting and data analysis
- Improve business processes through automation
- Improve access to and use of human resources information
- Develop new work force competencies
- Address other specific LACOE, school agency and customer needs

Staff whose time is currently consumed by manual data collection can shift to provide customer-focused analysis and support.

Implementation of the solution will require significant investment in money, people, process and technology over many years. The amount of time necessary to complete the inventory and preliminary assessment, develop a plan and re-engineer day-to-day business processes can take two years or longer, depending on the number and qualification of the personnel assigned. Such a wide-reaching transition could require between five and seven years before the organizational focus shifts from transition to maintenance of a new system. However, once financial system deployment begins, the core financial management components should be operational within three years. These include the general ledger, budgets, accounts payable, contracts and purchasing, and the user access interfaces. Because core human resource management components are unique and complex, transition is generally scheduled independently after the core financial management component transition has been completed.

Key objectives, their benefits, measurable outcomes and critical dates should be identified in the planning process. The key objectives describe the steps necessary to fulfill the plan. The plan and key objectives, including the associated timelines, must become an integral part of LACOE's

culture. The vision and key objectives should be regarded as an ongoing business activity rather than an isolated project with an end date.

A transition team should be identified that will be solely involved in assessing different systems and ensuring that the selection and implementation of new systems is done thoroughly and correctly. LACOE employees who instinctively and routinely identify ways to improve processes are ideally suited to be assigned to the transition team. While it may be tempting to simply add these duties to existing positions, the size and complexity of the transition requires dedicated staff with appropriate background, expertise and commitment. This will add significant cost in the short term, but the team will save LACOE money in the long term and help produce a better solution. Perhaps some of the positions FCMAT has recommended for elimination or consolidation in other parts of this report could be utilized to work on the transition team, supporting the efforts of outside experts. The team's lead position should possess a pragmatic business services management background, report directly to the assistant superintendent of business services, and act as a liaison to the executive leadership team.

School agencies typically find it necessary to employ outside experts and consultants to assist in development, implementation and management of a financial package transition. While LACOE's executive leadership, business services and technology services staff should identify effective day-to-day business processes and the appropriate technology solutions, these outside experts and consultants can collect and display the large amount of required data for easy analysis against standardized criteria. Additionally, many county offices and school districts around the state are involved in the same type of transition and may provide valuable insight. Remaining in contact with these school agencies to gain from their experiences is advisable. Industry standards and best practices should also be reviewed and incorporated in the process.

Individual involvement at all levels in the organization, from clerical to managerial personnel, is a critical factor in this type of endeavor. This decision will change the way the staff thinks about their assigned responsibilities and performs their functions. Consideration should be given to creating new roles in the organization and developing new skills in some staff. Resistance to such a far-reaching change should be anticipated. Strong leadership throughout the organization is crucial. Putting some type of transition knowledge center on the LACOE website that provides regular updates and answers frequently asked questions can help, as can today's social networking tools.

User training is also a fundamental element of success. The users should have access to a variety of tools including mobile or Web-based modules, other computer-based training, classroom labs, trainers, online reference documents and help-desk support. All training tools should be designed to provide easy access to consistent, high-quality, user-friendly materials. This training component should be thought of as an ongoing business activity to ensure that the users of the system continue to take full advantage of it.

Some school agencies have sequestered funds over the years to help offset the cost of upcoming financial system upgrades while other school agencies financed those improvements when the time came. Some county offices have developed formal relationships with the school agencies in their counties to co-manage the services and share costs. LACOE may choose to do one or some combination of the options, but a formal plan to address funding the transition is necessary.

Staff provided the study team with many examples in which automating existing manual processes would increase the efficiency and effectiveness of the organization. Because there are significant costs involved in automating existing manual processes, the decision should balance

the cost savings in staff time and increased accuracy of financial information with the cost of product development, implementation and staff training, given that these applications will likely be viable until the transition to a new, integrated solution is complete. The following manual processes were identified during interviews with LACOE staff as significant processes requiring automation:

- Requisition process for staff
- Employee leave tracking
- Staff costs that are temporarily assigned to other or additional cost centers (resources)
- Comprehensive position control reports
- Budget adjustment/budget increase form
- Tracking (sequential numbering) and approval for budget adjustments and increases
- Object 57xx offset accounts
- The IRS-required 7% withholding on out-of-state independent contractor payments
- Monthly hard copy financial reports to managers for budget monitoring
- Routing of completed general vouchers in Accounts Receivable, ABD – Accounting section
- Approval of budget development information from managers
- Journal voucher or general voucher form
- Budget revision reports for the board of education
- Predesigned online financial reports that specifically meet the needs of program staff relative to program management
- An audit trail by resource for full-time equivalency changes (additions or deletions) to facilitate quality control of budgeted staff costs
- Notification and subsequent approval of required budget transfers

## Budget Development

Another practice that significantly limits effective and efficient budget development is the decentralized process for development of program budgets by resource. Further, the process does not support an organization-wide balanced budget culture because the revenue and expenditure portions of program budgets are treated independently.

At the beginning of the calendar year, managers receive information from several different departments to use for budget development. This information includes revenue projections, current costs for staff and current costs for some of the various operating expenditures. The managers are then responsible for summarizing the information, which includes only some of the projected expenditures for the budget year. Ensuing costs due to changes in FTE, costs for direct services, indirect costs and other costs related to personnel are added at a later time by other departments. In April the program budgets coalesce into complete plans that project total revenues and total expenditures, which is too late for managers to make substantive changes to program budgets that either over-expend or under-expend projected program revenues.

Expenditure plans should always be developed in context with revenue expectations. Programs requiring revenues in excess of what they will earn should be individually assessed by the executive leadership team against a set of consistently applied criteria. The executive leadership team should approve encroachments of specified amounts as well as the source of additional revenue, by resource, prior to budget adoption.

Fundamental to an effective budget development and monitoring process is an office-wide culture in which administrators at all levels of the organization understand every critical budget component and strive to maintain programs in the context of a balanced budget.

The study team found that not all site administrators in juvenile court, community and community day schools have a comprehensive understanding of the relationship between enrollment, attendance, and staffing levels for purposes of budget development and budget monitoring. During interviews with the study team, site administrators indicated that budgeted expenditures that did not equal budgeted revenues were not concerns that they typically addressed. In most school organizations site administrators are typically held responsible for running efficient program operations that are fiscally stable.

The site administrators and directors in juvenile court, community and community day school programs also do not closely monitor the program budget during the year. Therefore, significant revenues are lost. Although the Controller's Office has an effective process to track enrollment and attendance in these programs and adjusts revenue estimates and staffing level projections accordingly, no structure exists to ensure the most recent information is used for necessary adjustments in program services or to monitor and update the working budget. Enrollment, and therefore revenues, for these types of county office programs are very fluid. The objective of budget monitoring should always be to identify potential favorable and unfavorable changes in revenues and expenditures and provide the catalyst for timely program changes necessary for effective use of financial resources.

Balanced budgets are required, both unrestricted and restricted, during the budget development process. However, administrators do not always have all necessary information to accomplish this while they are developing the budget, which can cause a budget to become out of balance during the process. This can be especially true for categorical programs because required information comes from many sources. For example, if the county office's indirect or direct charges change during the budget development process but after the categorical budgets have been developed, that budget will no longer be balanced and will require adjusting. This could also occur with costs related to personnel (e.g., benefit rates). If such a change results in an unbalanced budget, it is imperative that adjustments take place prior to the budget being finalized and adopted.

Prior year budgeted revenues and expenditures in categorical programs are used as the baseline for projecting the upcoming year's budget. This practice simply continues whatever current trend exists and can be problematic if categorical program baseline budgets were not balanced. Because a significant percentage of funding in any county office of education is categorical, allowing unexamined overspending in restricted programs can have a considerable negative effect on the office's unrestricted reserves.

Managers, and the business office staff that support them, should know and use all approved budget assumptions. These include guiding principles, projected attendance in student programs, assumptions for revenues and expenditures, priorities for resource allocation and an approved list of priorities for budget reductions, if necessary.

Currently, classrooms and schools delivering special education services are organized geographically into principal administrative units (PAU) to facilitate management of operations. Not all PAUs have the same number of sites within them. Rather than continuing with the current practice of budgets reflecting the financial plans of the entire PAU, budgets should be developed and monitored for each site in the PAU to be effective. This more detailed level of financial information, including revenue, which is based on site enrollment, staffing and other operational expenditures, is necessary for good program management decisions.

Every effort should be made to create budget development and monitoring tools that will allow managers to become more accountable for their programs' fiscal performance. These tools should include:

- A standard enrollment projection and monitoring protocol to ensure the resulting revenue projections and staffing levels are reasonable and that monitoring will provide timely information on changing conditions.
- Ongoing training programs for managers relative to reading and understanding financial information, effective use of categorical funding and the indirect cost rate calculation.
- Online access to PeopleSoft financial information. By automating and combining reports that Accounting and Budget Development (ABD) budget staff and ABD accounting staff currently send out in hard copy, the information provided will be more current, and staff time and paper costs will decrease.
- A standardized online report format that gives managers all appropriate information for budget development in one report and allows the staff in ABD who are responsible for assisting managers to view the same information in the same format.
- Actual financial information by resource for the past three years and the current year to date.
- Budget development worksheets by resource that are the responsibility of the appropriate manager and reflect the goals and objectives for those funds. Completed worksheets should include total projected revenues, expenditures and the source of funding for any encroachment.
  - Revenue estimates provided by the business office
  - All expenditures including salaries, payroll related expenses and operating expenses, including indirect costs provided by the manager
  - Salary related expenditures including full-time equivalent positions, accurate estimate of the current cost of salaries, hourly pay and stipends for all positions

## Budget Monitoring

All stakeholders should be aware that budgets are not static. Projected revenues, expenditures and ending fund balances will change during the year for many reasons including changes in state and federal funding levels, changes in personnel needs, subsequent negotiated settlements or other unanticipated operating expenditures. Budget monitoring will invariably lead to budget adjustments. Maintaining a working budget that accurately reflects the current situation will provide decision makers at all levels of the organization the information they need to take appropriate action to ensure program quality and fiscal stability throughout the year. The study team found that LACOE's working budget is, for the most part, not kept current for a variety of reasons.

A significant amount of staff time is devoted to periodic analysis of actual financial transactions, leading to updated projections of revenues, expenditures and fund balances for the current year. While the update information is included in LACOE's interim reports, it is not generally incorporated into the financial system's working budget. Thus the working budget and the reports submitted to the state often do not match.

In a few cases, the study team also noted that the working budget was not updated to reflect the receipt of unanticipated categorical revenue in a timely fashion. The team confirmed that some revenue, though received prior to January 31, was not reflected in the working budget of the organization's second interim report.

Another reason the working budget does not accurately reflect LACOE's financial position is that the office maintains the cost for vacant personnel positions in its working budget. This generates "salary savings" when the related encumbrances are released. In the past, the subsequent use of salary savings for other purposes required approval from the county superintendent and/or executive leadership team. If salary savings are identified too late in the fiscal year, this results in unanticipated differences in ending fund balances. Further, it reduces the amount of support available for centralized services funded from indirect cost allocation as compared to budget projections. This practice produces a working budget that cannot provide accurate information at any given point in time without the subsidiary information on vacant positions.

Interviews with staff indicated that leaving vacant positions in the working budget is a long-standing practice at LACOE and part of the context in which information generated by the financial system is analyzed and understood. Additionally, the PeopleSoft system requires the use of a placeholder until the vacant position is filled. Once filled, a new position is created specifically for the new employee, but the placeholder continues to exist until it is removed by staff. Staff interviewed indicated concern over the length of time positions remain vacant. These conditions suggest that maintaining vacant positions or generating salary savings may be unintentional in some cases.

Various managers expressed the concern that if they eliminated vacant positions from the budget for budget monitoring purposes, the positions might be permanently eliminated from the budget and thus could never be filled. Therefore, managers were reluctant to update the budget reflecting the cost savings because they might later need to advocate for the positions' return.

A working budget that is not accurate cannot be used as a tool to assess the organization's progress toward its annual goals and objectives or to determine whether the organization is complying with its guiding principles. Such a budget cannot effectively perform its control function in the current year or be used as an accurate base year for multiyear financial projections. Every effort should be made to strengthen processes to ensure the working budget accurately reflects the organization's financial position, including all changes in assumptions and any known substantive changes as of the first and second interim report periods and as of June 1.

## Other Fiscal Findings

LACOE is well aware of its propensity to carry over large amounts of federal Title 1 funding from year to year in excess of what the program allows. This practice has resulted in requests for extensions, as well as staff submitting requisitions to spend the funds late in the year. Pragmatically, every opportunity to meet needs of the students generating this funding should be taken because if these extensions are not granted, the money must be returned to the federal government and the students will not benefit. Further, it is unusual to find a school agency that has ongoing difficulty spending these funds. Budget development and monitoring practices can help ensure the timely expenditure of funds for allowable purposes.

Since these Title 1 funds are for specific students, plans for services to this population should be completed during the summer months for the upcoming school year, and whenever possible, expenditures made prior to the beginning of the school year. A high percentage of these budgeted expenditures should be made well before the end of the calendar year, rather than the current practice of spending them at the end or not spending them at all. Any concerns relative to whether certain expenditures are allowable can be reviewed with any number of internal and external experts such as LACOE's Internal Audit and Analysis team, independent audit firm representatives, CDE staff or DOE staff during the summer months so that expenditures for supplies and services to students are not postponed.

LACOE's practice is to invoice school districts for the costs of services such as special education, which is provided to district students in excess of funding earned from the federal and state government. Early estimates of these excess costs for each district are prepared and communicated during the year. However, the study team learned from interviews with district staff that the final costs can be quite different, and districts remain unaware of possible changes until they are billed at the end of the year. Updated estimates of excess costs should be given to school district staff more regularly.

Staff reductions result in those with the highest seniority ranking displacing other less senior staff within the same position classification. Contract language allows incoming staff with higher seniority to continue to be compensated at their current rate. Budgets developed using costs for specific position classifications can be significantly compromised, and effective planning for the financial effects of this practice is not possible. Unintended operational strategies may result, such as developing and maintaining numerous and specialized position classifications. The more specialized the position classifications, the less flexibility the organization has with placing its employees.

## Recommendations

*The county office should:*

1. Communicate the annual budget goals and objectives more widely to the organization's interest groups and within the organization.
2. Implement a set of guiding principles stating the financial commitments of the organization, and use those principles as a framework for decision making.
3. Provide all board members with school finance training from a county board member's perspective from the California County Boards of Education

program or similar program. Supplement this course work with orientation information for new board members and ongoing training from county office staff members to ensure the board's effectiveness with its local issues and circumstances.

4. Clarify the content and format required for reports prepared for the board and the finance committee, including linking the guiding principles with current budget allocations, future funding augmentations or expenditure reductions.
5. Create opportunities for inclusion and transparency in the budget development process with revamped budget study sessions and monthly budget updates at board meetings.
6. Ensure that all staff responsible for budget development and monitoring have access to online financial information.
7. Eliminate production and distribution of printed financial reports for budget development and budget monitoring and require budget managers to use their online access to run their own financial information.
8. Evaluate the advantages and disadvantages of migrating to a third party product that is a single, fully integrated, automated, interactive budget, financial and human resource solution with real-time event processing capability over the next several years.
9. Inventory all budget, financial and human resources software applications and related hardware requirements.
10. Examine and formally document all current LACOE and school district day-to-day business processes for core activities.
11. Re-engineer all current day-to-day business processes for maximum effectiveness and efficiency.
12. Develop a multi-step plan to modernize business technology systems with the ultimate goal of a single, fully integrated, automated, interactive budget, financial and human resource solution.
13. Identify key objectives, their benefits, measurable outcomes and critical dates in the planning process.
14. Identify LACOE employees who routinely identify ways to improve processes and assign them, full-time, to a transition team. Identify a team leader with pragmatic business services management background who will report directly to the chief business officer and act as a liaison to the executive leadership team.
15. Implement a Transition Knowledge Center that provides regular updates and answers frequently asked questions.

16. Develop and implement an ongoing user-training program to ensure that the users of the system continue to take full advantage of it.
17. Develop and implement a formal plan to fund the transition.
18. Automate manual processes that can be quickly accomplished with resources that are not currently assigned as defined in the previous recommendation.
19. Hold managers accountable for their performance in budget development by providing all budget assumptions for revenues and expenditures, guiding principles, fiscal stability standards and expectations, projected attendance in student programs, priorities for resource allocation and an approved list of priorities for budget reductions, if necessary.
20. Prohibit encroachment and the budgeted expenditure of carryovers during budget development without prior approval from the county superintendent of schools and assistant superintendent of business services.
21. Budget the expenditure of any actual carryover after the prior year's unaudited actuals report has been approved by the board.
22. Include the amount of and priority use for unrestricted reserves to be used in support of one-time or ongoing operations as part of the discussion and approval of the guiding principles.
23. Revise budget development and monitoring processes for student programs to reflect revenue and expenditure projections based on program needs and adjusted for current enrollment and ADA projections. Revise budget development processes for categorical programs to reflect program operations that will produce balanced budgets.
24. Develop budgets by site instead of principal administrative units to provide financial information for decision makers at the appropriate level of detail.
25. Require review and approval of budget development worksheets by an appropriate administrator.
26. Require the business office to:
  - Train school site, department and program staff in the proper use of budgeting tools and projection techniques.
  - Be available to provide technical support as the managers develop their budgets.
  - Review the approved budget development worksheets for technical accuracy and reasonableness before uploading them into the financial system.
27. Ensure that the working budget reflects all changes in assumptions and any known substantive changes as of the first and second interim report periods and as of June 1.
28. Ensure that the annual allocation of federal Title 1 funds is spent each year. Planning ahead in the summer months for the upcoming year can assist in this area.

29. Provide school agencies with updated estimated costs for county-provided services based on the working budget as of the first and second interim report periods and as of June 1.
30. Work with employee units to agree to pay only salary amounts assigned and authorized for position classifications within employee contracts.

## Position Control

Accurate projection of employee salary and benefit costs is one of the most critical elements in budgeting expenditures.

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 county office-approved positions. In addition, it 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 step-and-column changes.

To be effective, a single position control system should integrate with other financial modules such as budget and payroll. Position control functions must be separated to ensure proper internal controls. The controls should ensure that only superintendent-authorized positions are entered into the system, that human resources hires employees for authorized positions only, and that payroll 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 should be part of any position control system. These controls help ensure efficient operations, reliable financial information and legal compliance. They also help protect the district from material weaknesses, serious errors and fraud.

LACOE's position control system does contain many of the critical components listed above. As described in interviews and substantiated by documentation, LACOE's standalone position control system tracks established full-time equivalent (FTE) positions and all other positions as would be expected from a reliable and accountable position control system. It allows positions to be altered, added and closed, which are also expected and important actions. However, it is difficult to retrieve information from the system in a form that completely accounts for total costs related to budgets, which causes a lot of extra work to ensure that the data makes sense and reconciles.

The rollover of position control data from the current fiscal year to the budget year provides a starting point for development of the county office's budget and should be completed early in the cycle, which LACOE does, as staff rolls the position control system over in December as a base for the subsequent year's system. Position control files for the budget year are then updated to eliminate positions that will not exist in the next fiscal year, adds newly approved positions, makes known or anticipated 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 entities maintain accurate budget projections, employee demographic data and salary and benefit information. LACOE's position control system was developed by staff programmers. It uploads into the financial accounting software each night; the budget does not adjust automatically. Whenever possible, position control systems should be fully integrated with payroll and budget modules and used to update the budget at each reporting period. It is common throughout the state for staff to manually reconcile the position control system to the budget, because many position control systems do not update budgets automatically. At LACOE, staff members are assigned in each division to adjust their budgets to reflect the information in position control. The study team reviewed several reconciliations. It became apparent that each staff member had developed a unique way to accomplish this rather than following a standardized method, which is not an effective use of time. There are staff members that are referred to as "position control," but in reality, they are not position control staff. Rather, they are ABD staff members. Staff members have developed and

keep their own profiles on spreadsheets for the programs that are their responsibility. They meet with staff and review the staffing profiles. They then make adjustments to the lists and prepare adjustment forms to be processed for the position control system. The staffing profile spreadsheet was not reconciled with the position control system.

It became apparent that no staff members are specifically assigned to verify that the budget is reconciled with the position control system. This is a concern because position control is the source for verifying the ability to fund positions, both regular and temporary.

LACOE'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 are also included. While the system contains this information, the reports provided monthly to staff do not capture a complete picture of the associated costs.

The study team reviewed the two position control reports available to agency staff. The F-26 report captures the account code, position, gross costs and salary of the position. It does not provide information on any non-FTE positions. It also does not provide information on the salary-driven benefit costs. The F-26 is run monthly and provided to agency staff for their use. The F-36 report offers a more complete picture, including vacancies and salary-driven benefit costs. However, it also does not show the non-FTE positions. The F-36 is distributed twice a year: once at the beginning of the fiscal year, and once in December to begin to build the next year's program. Providing training to appropriate staff to run position control reports as needed would allow more ready access to timely information.

Staff members in some divisions have developed spreadsheets to calculate the necessary information to keep their budgets up-to-date. This is not consistent across the organization. Reports that capture all salary and benefit information for all types of existing positions in the agency are essential. The study team was unable to obtain reports given to staff that provided all the necessary information. Based on interviews with staff, these reports do not exist.

When FCMAT reviewed division reconciliations of budget to position control, it was noted that the salary lines were adjusted to the budget. Often, it was only the FTE salary lines. There was no consistent system to monitor the additional pay (the positions that begin with a 9), additional earnings, and substitutes. The salary-driven benefit and health and welfare benefits were not adjusted to reflect the changes to salaries. This creates a significant section of the budget that does not accurately reflect the expected charges.

LACOE has developed manuals containing procedures to assist staff in navigating their way through position creation, changes and terminations. A new position goes through approximately five to eight approvals before the hiring process can begin. The superintendent must approve all new positions. It is commonly accepted that the process can take up to eight weeks. As a result, divisions do not want to close or delete vacant or obsolete positions. This results in overbudgeting. In addition, these timelines prohibit the organization from being able to respond quickly to personnel needs. The Special Education division has worked out an alternate system to fast-track the hiring of paraeducators to comply with individualized education programs.

A Personnel Requisition form is required for any action to a position. This form is prepared by staff along with the appropriate budget adjustment; then it is reviewed by a supervisor. It may take more than one review and supervisory approval depending on the division and its structure. At this point, the budget adjustment is keyed in and the Personnel Requisition is forwarded to the principal systems specialist. One person holds this position, with a backup for absences.

This staff member's role as the gatekeeper for position control is essential. The position is then given a number in the numbering hierarchy, and the Personnel Requisition is audited to ensure all the information is correct and follows LACOE protocols. This position works closely with the human resources staff in completing those tasks. When the employee is out, work sits unless critical and then the staff covering the absent employee will address the need. Depending on the length of the absence, this can add to the time it takes to establish or make a change to a position. Next, the request for a position or for position changes continues up the organizational ladder to the assistant superintendent or, in the event of a new position, the superintendent. This authority is commonly delegated to other cabinet level staff to expedite processing.

Interviews indicated that prior to completion of each interim report, all position control information is downloaded into Excel and sent out to divisions for updates. When the updated information comes back in, it is uploaded into a separate module for the interim report. The position control system and the budget are not updated to reflect this information. The separate database exists solely to prepare the interim report. Industry standard is for the current budget to be updated to reflect all changes at each interim reporting period.

## Recommendations

*The county office should:*

1. Reconcile the position control system to the budget at regular intervals during the year.
2. Ensure that staff members receive all position control data they need to reconcile the budget by updating the content of the position control reports. This recommendation should be viewed in light of a multi-disciplinary approach to the potential conversion to a single, fully integrated, interactive budget, financial and human resource solution as discussed in the Budget Development and Monitoring section of this report.
3. Provide training for and allow access by appropriate staff to run their own position control reports.
4. Review and streamline the approval processes to shorten the hiring process timeline.
5. Use position control to produce the working budget for use in preparing interim reports.

## Payroll

Seven staff members handle the payroll function at LACOE: a payroll supervisor, two employees to process certificated payroll, three employees to process classified payroll and one employee to process hourly pay for all employees. The payroll supervisor is an interim, and four of the six other payroll employees are provisional and can be bumped as the positions are filled with permanent employees. Hiring had been on hold while reclassification of department positions was considered. This issue was recently settled and the positions will now be filled.

Payroll is generated on the HRS system, which is separate from the position control system. Although it is computerized, the process is very manual. A number of data entry screens do not have some necessary automated checks and balances. Pay information can be entered with incorrect retirement and tax codes. The system does not run the reports needed to do the job quickly and accurately.

Once a position is established in position control, a master record is set up in the payroll system so the employee can be paid. Each month, the pay records must be manually checked off to generate a pay warrant. The employee continues to receive regular pay until an event occurs that changes their pay.

If a change occurs in position control, payroll is often not updated in a timely manner. This results in numerous cases of employees not getting paid correctly. The study team found many instances of this in the payroll/position control reconciliation that was prepared as part of this study. Position control should automatically feed information to the payroll system when adjustments occur to provide timely, accurate payrolls that comply with legal pay and reporting guidelines.

LACOE offers an unusual pay cycle. Paychecks are issued on the 20<sup>th</sup> of the month and again on the 5<sup>th</sup> of the following month. On the 20<sup>th</sup>, 50% of the net monthly pay, net associated payroll taxes, is disbursed as an earned salary advance. On the 5<sup>th</sup>, the other half of the monthly pay is issued, as well as associated taxes and deductions taken into consideration. Until three years ago, taxes were not taken from the payment on the 20<sup>th</sup> of the month, but the IRS ruled that the payment on the 20<sup>th</sup> was a payroll, not an advance, and therefore taxes were due at that time. After the IRS ruling was issued, department staff worked with technology services staff to develop a system that takes 50% of a monthly net and does a reverse calculation to compute the taxes due and satisfy the IRS reporting requirement. This is a complicated methodology.

The industry standard for regular certificated or classified employee payroll is to issue paychecks once a month in 10, 11 or 12 equal increments at the end of the month. Processing payroll once a month minimizes related costs because it is less complex, decreases the opportunities for errors, and is not as time consuming for staff. An additional mid-month payroll at either the 10<sup>th</sup> or the 15<sup>th</sup> is typically used to pay for time sheets, extra hires and substitutes. This allows adjustments for late starts or employment terminations and reduces the need for manual payroll warrants. The county office should consider negotiating with employee unions to revise the pay cycle and issue monthly pay on the last working day of the month rather than the 5<sup>th</sup> of the following month to align salary expenditures to the month in which the activity occurs.

The Human Resource Services division uses a sub-finder system to obtain substitutes for many positions. Employees call the sub-finder system when they will be absent, and the sub-finder system calls eligible and available substitutes. These substitutes turn in a timesheet for the hours worked. A sub-finder report is generated, which is the basis for paying substitute teachers. Substitutes are automatically charged to object code 1960 for certificated and object code 2960

for classified, even though these are not the correct “charge to” accounts. Rather, these two object codes are a holding account that then must be cleared. To correct the general ledger, staff obtains supporting information each month to determine the account to which the substitute should be charged, and makes journal entries to the correct account code. While it may take additional manpower to properly identify the person being substituted for and which account should pay for the substitute at the time the substitute is paid, it is industry practice to do this when the payroll is processed rather than using a clearing account and then correcting the entry after the fact. The opportunity for error increases with each financial transaction. The substitute’s pay should be charged to the correct account when the payroll is processed so the transaction posts both timely and accurately to the appropriate account.

The payroll staff tracks employee leaves manually onto cards for each employee each month before payroll is processed. Then, the leave is entered into the employee absence tracking system. Annual reports are run for employees to verify their leave. Leave balances do not print on the pay stub, which results in numerous calls from employees asking for their balance during the year since they are only notified annually. An in-house project to electronically provide this information either on the employee’s pay stub or another electronic method is in the early stages of development.

As discussed in the Internal Controls section of this report, because LACOE staff enters the leave manually onto cards to calculate balances and make adjustments, there is a risk of entering incorrect information. Whenever information is manually input, the risk of errors is high. No quality control check exists to verify the leave is entered correctly. If errors occur with leave balances, employees could be given more paid time off than they have earned, which can be costly in unearned payout of wages and substitute costs. Even if errors are later found, recovery of overpayments is difficult at best. Industry standard is to electronically post leave information once into an absence tracking system before the payroll is processed. This allows payroll to take any necessary actions, such as notifying the employee or their supervisor, if an employee is running out of leave.

It is also industry practice to send absence reports to the supervising managers to review and actively manage employees’ leave. Staff confirmed that managers are not informed of the leave activity/balances of the employees they supervise. They should receive a report at least once a quarter. If a supervisor has allowed leave to be taken that has not posted to the employee’s leave record, then the employee could get paid for leave that has already been taken or was not earned.

The study team observed during visits and interviews that LACOE utilizes several different software packages to execute the personnel, payroll, position control, leave tracking, and general ledger systems. Staff members often develop spreadsheets at their work stations to get the information they need to perform their job because they cannot obtain the information they need from one system. This causes additional work, doesn’t allow staff to review the same data as their colleagues if they don’t have the same spreadsheets, increases the potential for errors, and means that information is not getting captured in the main financial system data source, which results in inaccurate tracking and reporting.

## Recommendations

*The county office should:*

1. Explore new software systems that fully integrate the position control system to the payroll system so that adjustments are electronically updated in both systems when they occur, thus streamlining the payroll function, eliminating manual adjustments and increasing accuracy and timeliness. This recommendation should be viewed in light of a multidisciplinary approach to a potential conversion to a single, fully integrated, interactive budget, financial and human resource solution as discussed in the Budget Development and Monitoring section of this report.
2. Consider negotiating with employee unions to revise the pay cycle so that employees receive their monthly pay on the last working day of the month rather than the 5th of the following month to align salary expenditures to the month in which the activity occurs.
3. Modify the sub-finder reporting so that additional information is input, such as name and position substituted for, so the costs for the substitute can be charged to the correct financial code.
4. Implement an absence tracking system that integrates with the payroll system, eliminating manual entry and allowing timely and accurate information to be shared regularly with employees and supervisors, including notifying the employee and supervisor when an employee is running out of leave time. This recommendation should be viewed in light of a multidisciplinary approach to a potential conversion to a single, fully integrated, interactive budget, financial and human resource solution as discussed in the Budget Development and Monitoring section of this report.
5. Establish a process to share leave information with supervisors quarterly so they may confirm information and supervise employees' leaves with knowledge of employees' available balances. Once the process is automated, this will be an easier task.

## Accounts Receivable

The study team interviewed all staff members that handle the accounts receivable function at LACOE, and reviewed various documents that explained and outlined the processes performed. The Accounts Receivable department staff consists of a principal accountant, an accountant, two account specialists and an accounting technician. One position has been vacant since November 2010. This department is responsible for invoicing third parties, receiving and depositing funds, and processing all deposits. While other departments throughout LACOE prepare invoices, all invoices are funneled through Accounts Receivable to record in the financial system and track payment progress. The department also reconciles the special education and transportation programs at year end to ensure that services have been fully billed to the participating parties, and prepares and files the child nutrition claims.

Items for deposit are received by mail, by courier, or are walked into the department. Upon receipt, the accounting technician counts the items for deposit (which are normally checks), identifies which program or department the deposit is associated with, and issues a receipt for the amount. If any receipts in the deposit cannot be matched to a specific department or program, they are set aside after a reasonable effort is made to ascertain where they should be routed. Unidentified receipts are not logged anywhere, but are sent to the department where they appear to have originated or where the program is located. Once the deposit is returned to the Accounts Receivable department with appropriate coding, it can be properly accounted for in the financial records. No formal process exists to track what deposits have been received without appropriate identification, where the deposits were sent for additional information to assist with coding, or how long it took for identification to occur after it was sent to the appropriate department or program. The lack of a process means that staff is not being held accountable to identify the deposit in a timely manner.

Once a deposit is properly identified and a receipt issued, it is taken to the Accounting and Budget Development department (ABD), logged into the deposit log, endorsed, and locked up in the safe for the night. The next morning, the deposit comes back to ABD, where the processing is completed so it can be delivered to the Treasurer at 10 a.m. via a LACOE courier. When the deposit confirmation comes back from the Treasurer, the deposit is recorded in the financial system via an accounting batch. A supervisor reviews and approves all work prior to approving the batch in the system. This process is done daily.

The deposit process provides for appropriate internal controls for segregation of duties. Two account specialists share the work of preparing and making deposits. They alternate days and can provide coverage when one of them is out of the office. The process appears to work well, without delays or work stoppage when staff is absent.

The deposits are logged and checks are endorsed when they are received by ABD and are ready to be sent to the Treasurer's office for deposit. This does not account for the deposits from the time they are received via the mail or courier, returned or routed to other departments or programs for identification, and then routed to ABD for deposit to the Treasurer. This could allow checks to be fraudulently negotiated while waiting to be identified for deposit and result in lost interest dividends during the time the deposits are still at LACOE waiting for identification. Rather than sending out the actual check for identification, distributing only copies of the check in question would allow for follow-up while the actual check could be immediately sent to the Treasurer for deposit. In addition, marking the checks "for deposit only" as soon as they are received would help to prevent unauthorized negotiation of checks prior to deposit.

All departments in the organization can prepare their own invoice detail, but the information/detail is sent to the Accounts Receivable department to validate it, generate the invoice in the LACOE format, record the invoice in the LACOE financial system, and mail it to the client for payment.

Staff also monitors the invoice aging reports for timely payment. A process is in place to regularly send late notices or “dunning letters” to delinquent accounts. Various department staff members are responsible for monitoring the aging reports. Segregating duties prevents an employee who receives a deposit from misappropriating those funds by not clearing the invoice for that deposit.

Accounts Receivable tracks the late invoices but does not interact with the party being billed. Balances on outstanding or late invoices are turned back to the originating departments to work with the party being invoiced to ask for collection. Some of the delayed payments received have been identified as district cash flow issues, such as SELPA billings. The SELPA works closely with the districts to ensure payment.

The Accounts Receivable department invoices districts for services such as Advancement via Individual Determination (AVID) and then subsequently cancels the invoices midway through the year because the LACOE program manager does not know if districts have contracted with LACOE for the program. Based on staff reports, roughly 50% of the AVID invoices issued are cancelled. These agreements should be confirmed prior to issuing a bill for the service because it is a poor use of staff time.

In addition to many other programs, Accounts Receivable prepares and sends the invoices to the SELPA, food nutrition programs and transportation clients based on the information provided by the SELPA and transportation staff during the year. At year end, Accounts Receivable reconciles to make sure the correct amount was billed in full. Although these practices have been in place for the SELPA and child nutrition for many years, staff stated that the transportation reconciliation was done for the first time in 2009-10, and it greatly helped to ensure accurate invoices and revenue recording as a whole. It is essential to implement these practices for all programs to ensure that all entities receiving LACOE services are billed in full so that the general fund does not supplement these programs. This department is not charged with analyzing the budgeted income against the collected income. This would help ensure the accuracy of the budget during the year versus only doing so at year end.

The department provides an annual training for LACOE staff on the process and procedures for billing third parties and making deposits.

The staff reported feeling the effects of an open accounting technician position that has remained vacant since November. The daily work has been distributed among the remaining staff members.

## Recommendations

*The county office should:*

1. Develop and initiate a formal process to log all incoming deposits prior to conducting any research needed to identify the issuing department or program. Include deposits that cannot readily be attributed to a department or program.
2. Send out copies of checks to departments and programs when determining the issuing department or program. This will serve to expedite the timeline

necessary to complete the deposit process, strengthen internal controls, and earn additional interest. Confirm agreements before issuing invoices (e.g., AVID) so that invoices are not unnecessarily prepared.

3. Mark all checks “for deposit only” as soon as they are received to prevent unauthorized negotiation of checks prior to deposit.
4. Reconcile all invoiced services (in addition to SELPA, child nutrition and transportation) monthly and annually to ensure all amounts due from third parties have been collected.

## Accounts Payable

LACOE's Accounts Payable (AP) unit is part of the Accounting and Budget Development department. The department responsibilities are overseen by the department's assistant director followed by its general accounting officer. The AP unit is comprised of a principal accountant, two senior accountants, two accounting technicians, eight senior accounting clerks, one intermediate accounting clerk and two intermediate typist clerks. Transaction processing is divided between two teams – one handling vendors whose names start with A-L and the other handling M-Z. Vendors with large accounts, such as utility companies or programs such as Head Start, are assigned to an individual accounting technician or senior accounting clerk for processing.

The procedure for paying an invoice at LACOE begins with receipt of the invoice by the intermediate typist clerk. The invoice is stamped with the date it was received and logged into the PeopleSoft system, which assigns a voucher number to the invoice. The invoice is then distributed to the appropriate accounting technician or senior accounting clerk based on the vendor requesting payment. The technician or clerk analyzes the invoice received against the online purchase order to determine compliance in such areas as product, quantity, pricing, sales tax and shipping terms and also determines that there are sufficient funds to pay the invoice. The next step is the "match process," which involves the Purchasing or Warehouse units in the Business Operations Division and is either a two-way or three-way match.

The two-way match compares the invoice to the purchase order but there is no receiving documentation, while the three-way matches the invoice to the receiver documentation and the purchase order. The two-way match is more common with vendors providing contractual services, and the three-way match is primarily used with tangible goods received. In a two-way match, the invoice is compared to the contract/purchase order and the invoice is approved for payment by the program manager/director. The three-way match requires receipt of the goods to be acknowledged in the PeopleSoft system, and no signature is required from the program manager/director. Primarily, the receiving function occurs in the LACOE warehouse; however, if the vendor has drop shipped the item directly to the site, delivery is to be reported to the Purchasing unit, and Purchasing staff record the receipt in PeopleSoft. The receiving process is essential in moving the invoice toward payment and was consistently identified in employee interviews to be an impediment in prompt payment of invoices in two ways.

The first and largest bottleneck in the invoice payment process is that some programs/sites/departments wait until the end of each fiscal year to spend their budgets. This creates large numbers of deliveries in a short period of time, which overwhelms the warehouse's ability to process the deliveries in a timely manner. The warehouse has devised a system whereby deliveries are palletized for processing at a future date; however, this system stalls the recording of receipt by months, which then delays the payment of invoices. The second issue with the receiving process involves receipt of goods at the sites. Site employees do not have access to the warehouse system of receivers and must rely on e-mail or a phone call to report deliveries to Purchasing. This has been a very unreliable method because sites do not report the receipt or delay reporting, and AP does not know who to contact at the site for information. Any of these causes results in additional time spent by the AP unit tracking down the receiving information.

Delays in the match process impede LACOE's ability to take advantage of prompt payment discounts. These are normally stated as "2/10, n30" on an invoice, which means if payment is received within 10 days, a discount of 2% is available. If not paid within 10 days, the full amount is due within 30 days. Interviews with LACOE staff showed varying levels of awareness of these

discounts. Some were not aware the discounts existed, some took advantage of the discount when offered, and others reported knowing about the discounts but being unable to take advantage of them due to the delays experienced in waiting for the receiver document to make the three-way match. Some LACOE staff reported that in June they still had invoices from April waiting for the three-way match to occur in the PeopleSoft system.

Once the match process is completed, PeopleSoft moves the invoice to the approval screen and invoices are forwarded to the appropriate accounting technician. Accounting technicians forward the invoices they process to the senior accountant supervising their team, or the accounting technician may have the other team's accounting technician review for approval. The transaction is then moved overnight in PeopleSoft to the Division of School Financial Services (SFS) for printing of the warrants.

Warrants are printed in the Warrant Room within the Data Center. This is a windowless room with its own separate power, fire suppression and ventilation systems as well as battery and generator backups in case of emergency. Key card access is required to enter the Data Center, and further key card access and a PIN code are needed to enter the Warrant Room. Warrant stock is ordered with preprinted control numbers and maintained in a locked cage in the Warrant Room. When the file comes up on the print queue, the warrant stock is removed from the cage and loaded on the printer. The employee accesses a secure terminal in the Warrant Room by logging on, entering identification information and entering the starting warrant number. The print file is then loaded and the warrants, including signatures, are printed automatically. Printing functions are carried out from midnight to 5 a.m. daily. Once warrants are finished printing, the Warrant Room is shut down, both printed warrants and warrant stock are returned to the cage, and both the cage and the Warrant Room are locked. The warrants are then picked up the next day by an SFS employee. The employee checks the reconciliation log attached to the warrants, initials the log and delivers the warrants to the AP unit. Both the Data Center containing the Warrant Room and the AP unit are in the same building, and the main entrances are monitored by electronic surveillance and a receptionist. However, a single employee takes possession of the warrants. That person has access to the side doors, which are only monitored by electronic surveillance, with one side entrance having a designated and reserved parking space marked "Reserved AP/Check Desk" that provides easy, quick access to the outside.

## Communication

The purchasing and accounts payable functions are interdependent. However, interviews with staff revealed that these departments do not hold joint meetings to learn how their duties relate or to share ideas for resolving problems or issues as they arise.

Communication between the Accounts Payable unit and Facilities Planning also could be improved. This is especially important given the large progress payments that must be processed for LACOE's facilities projects. During the course of a facilities project, LACOE may receive preliminary lien and stop notices, which are normally filed by subcontractors if payment has not been made in whole or in part for their work on a construction project. Upon receipt of an effective stop notice, 125% of the claim must be withheld to cover the amount of the claim as well as any litigation costs attendant to that claim (Public Contract Code 7107). If the contractor is paid in full by LACOE but fails to pay his subcontractor and the subcontractor has filed a proper stop notice, LACOE would then be obligated to pay the subcontractor – in essence paying for the work twice. To avoid such a situation, both the AP unit and Facilities Planning must have equal knowledge of any and all preliminary lien and stop notices received by LACOE. In the study team's interviews

with LACOE employees, the procedure regarding stop notices is that they are sent to the facilities side, the status of the vendor is changed to inactive to prevent further payment and the AP unit is to be provided with copies of these notices. However, the AP unit has not received proper training in the stop notice process. It was reported that 125% of one of the last stop notices received was more than the remainder of the payments owed the contractor. The stop notice had been received late and payments encroaching on the 125% had already been submitted to the contractor.

Communication issues also exist within the AP unit. As stated above, the AP unit is divided into the A-L team and the M-Z team. FCMAT's inquiries of LACOE personnel as to how AP unit meetings are conducted revealed that while supervisors attend meetings to provide departmental guidance and each team conducts staff meetings, meetings of the whole unit are sporadic. This results in different instructions/parameters being applied in each unit.

## Travel

LACOE uses a Travel Request (Form No. 501-011) for employees wishing to attend conferences, trainings and workshops. The Travel Request form authorizes the employee to attend and estimates the costs associated with the event. After the conference, the employee completes a Travel Expense Claim (Form No. 501-010) requesting reimbursement for expenses incurred. Actual expenses are itemized and the form indicates that original receipts must be attached for all expenses. LACOE Regulation 3970.5R.E requires original, itemized receipts to be submitted for all travel meal reimbursement requests and sets forth guidelines for meal reimbursements at the rate of \$41 per day: \$8 for breakfast, \$12 for lunch and \$21 for dinner. This regulation further states "(p)rudent judgment is expected of the traveler when incurring meal expenses, as well as by the individual authorized by the Division signing and authorizing travel reimbursement.... (t)he approving authority may request additional explanation for meal costs exceeding the above guideline amounts and may limit reimbursements to guideline amounts."

In FCMAT's inquiries regarding this policy, staff reported that application of this regulation is inconsistent – one AP unit employee may process the travel reimbursement claims strictly by the guideline amounts and another may reimburse the actual expenses incurred. Staff also reported that the flexibility provided in LACOE's regulations has led to some employees submitting excessive claims for their travel expenses. Examples were given to FCMAT of claims of as much as \$40 for lunch and \$75 for dinner.

Meals at conferences can be included in the registration fees paid for the employee attending, and this information is normally included in the conference flyer. Staff reported to the study team that not every travel claim includes a copy of the flyer and travelers may be reimbursed for meals even though paid via the registration fee, which is prohibited per LACOE regulation 3970.5R.G.

LACOE's 3970.5R.F allows reimbursement of incidental expenses for housekeeping and portage gratuities up to \$5 per day, which implies an overnight stay. However, in FCMAT's interviews with LACOE personnel, some reported that the \$5 per day incidental expenses were claimed and paid on same day travel.

Mileage reimbursement also needs to be standardized. While attending a workshop or conference, an employee may need to leave the hotel to take meals. Staff reported to the study team that some travel claims are processed to only allow mileage from the LACOE work site to the event, while others allow mileage driven to restaurants, etc. Employees are not required to submit a map from a website such as Google maps or MapQuest, and divisions are responsible to ensure that commuter mileage has been removed from the Travel Expense Claim although the form does not provide

space to confirm that this step has been followed. Additionally, the computerized reimbursement system for employees submitting claims for driving between school sites is separate from the travel reimbursement process, so mileage could be claimed through both systems. Employees need to know which system to use for claiming miles, and monitoring is essential to ensure that miles are not double charged.

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 can be substantial. Additionally, because LACOE'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 (Form No. 501-532) should be faxed to the hotel or taken with the employee for use at the time of arrival. While this form was established by LACOE many years ago and shows a last revision date of 1995, in interviews with LACOE personnel it was not widely known that a waiver could be obtained nor was it common knowledge that employees could request state government rates for travel. LACOE should also consider encouraging employees of the same gender to share hotel rooms where the employees are willing and the circumstance is appropriate. This would provide additional savings in travel expenditures.

LACOE should also consider printing its conference attendance policies and procedures on the back of the Travel Request form to help employees comply with the policies and complete the form accurately.

## Utilities

LACOE expends over \$2 million per year for utilities. As a governmental entity, LACOE is exempt from some taxes, tariffs and/or fees applicable to non-governmental entities. In FCMAT's inquiries to LACOE staff regarding oversight of its utility bills, it was unclear as to whether LACOE has subjected its billings to outside review for such things as inappropriate taxes, tariffs, fees, overcharges, unused telephone lines, rate structures, etc. or whether it has the internal expertise to accurately evaluate these items.

Telephone billings not only reflect charges for LACOE business calls but can also reflect charges for employees' personal calls. Telephone bills are processed by having the Telephone Services unit review the bill for errors or inclusion of other entities' bills. Telephone Services then forwards copies of the appropriate sections to division heads for review of personal charges and after completion of its review, forwards the original bill to the AP unit. However, each division head has discretion as to how to handle identifying employee personal calls (i.e., not all departments have employees reimburse for their personal calls), which can result in LACOE bearing the cost of employee charges. Additionally, the current telephone bill review process takes approximately two weeks to complete, incurring late charges that can amount to hundreds of dollars in one billing cycle. To avoid late fees, the AP unit uses an overnight service to deliver payments to the telephone utilities. Policies and procedures regarding telephone bills could be revised so that a copy of the bill is used by the Telephone Services unit while the AP unit receives the original to avoid both late fees and overnight delivery charges.

## Other Findings

Desk procedure manuals are important to ensure proper internal controls and provide a better understanding of position responsibilities. The AP unit does not have manuals that include step-by-step procedures for departmental job duties. This becomes particularly important in light of the reductions in force that have occurred and are occurring in the organization. Without a desk manual, employees who return to positions they held long ago have struggled with their new duties, often relying on fellow employees for assistance. This reduces productivity for both employees. In some cases, there is no other employee to rely on.

Like desk procedure manuals, a department's policies and procedures handbooks provide an opportunity to plan and diagram proper internal controls as well as a written set of standards regarding transaction processes for the business department, school sites and other departments to follow. Regular updates of these handbooks ensure that the most current practices are being followed. The Accounts Payable Handbook reflects that it was last revised on January 22, 2007.

The issues of establishing new vendors as well as changes to vendor information are not addressed in the Accounts Payable Handbook or the Procurement Handbook and have resulted in each AP unit developing its own form for processing such information and determining different levels of approval for the tasks. Additionally, the task of inputting changes to vendor information has been assigned to the intermediate typist clerk, who is also responsible for logging invoices as they are received to begin the process for payment. This could allow one person to divert payment of a valid invoice to an address not associated with that vendor. Vendor lists should be periodically reviewed for old or outdated information as well as vendors who have not been used within a prescribed period. The study team's inquiries show that this has not occurred in many years.

As described above, LACOE utilizes a computerized system of approvals for processing and payment of vendor invoices. Accounting technicians approve the invoices processed by the senior accounting clerks, and invoices processed by the accounting technicians are approved by either the senior accountant supervising their team or the accounting technician from the other AP unit's team. However, all invoices are available for approval at the accounting technician level or above, providing the opportunity for an employee to process an invoice and approve it for payment without proper review. This is because the PeopleSoft does not currently have the capability to limit approval authorizations.

Physical control of assets is as important as controls related to processes. Currently, revolving check stock is kept in a locked overhead cubicle cabinet because the payroll safe has insufficient capacity.

LACOE has utilized the PeopleSoft accounting software for approximately the last nine to 10 years. During that period of time, the software has been customized many times to address necessary changes. However, some issues still exist with regard to processing accounts payable transactions:

- PeopleSoft encumbers purchases at the requisition level. Unfortunately, the computerized requisition form does not include items such as sales tax, recycling fees, shipping and handling at this phase of the transaction. Instead, a stamp is placed at the end of the requisition; amounts are handwritten on the stamped lines, and are then incorporated into the purchase order upon computer entry. Thus, the requisition shows one amount and the purchase order shows another. The purchase order will be processed without difficulty if the account line has sufficient budget to handle the increase. However, if the

addition of shipping, handling, or sales tax charges produces a larger amount than the remaining budget available, the order cannot proceed until a budget transfer is processed.

- Minor budget code changes/errors cause the purchase order packet to be redirected through the entire approval process, which delays the receipt of materials and requires employees to spend additional time on already completed transactions. For example, if an item was originally thought to be less than \$500 in total cost, it would be coded to object 4310. In the event that the price changes to \$501 – possibly due to the increased cost of shipping – the appropriate coding would change to object 4410. This change would cause the packet to be sent back to its originator and the approval process to begin anew.
- Accrual of use tax or application of sales/use tax on freight requires the application of that tax line by line instead of allowing tax to be applied on the purchase order as a whole. Some purchase orders can be several pages long, and PeopleSoft's inability to apply tax to the entire purchase order creates inefficiencies in the AP unit.
- FCMAT's review of the Accounts Payable Aging Report for Team A-L revealed several vendor invoices from prior fiscal years, the oldest of which dated back to January 19, 2005. Most of these invoices had no amounts remaining to be paid, which raised the question as to why they remained on the aging report. Inquiries to LACOE staff revealed that the problem lies in a lack of communication between the log-in of the invoice and the voucher side of the invoice in PeopleSoft. The invoice is entered into the system when it is received. As that invoice moves through the payment side, it becomes a voucher and the amount may change due to such items as errors in the invoice or failure to receive all the items ordered. The receiver in the three-way match agrees to the voucher, and it is the voucher that is paid and exits the system. In the case related above, the invoice has not been completely cleared, so the item is still reflected on the aging report.
- On rare occasions, manual warrants are needed due to time constraints that will not allow for the warrant to go through the standard, computerized system. Normally, the warrants appear in the warrant registers a short while after the manual issuance; however, in the last few months, they have had to be handwritten into the warrant register to provide a complete document. This discrepancy should be addressed because handwritten records are not as reliable as system generated records.
- Employees who are required to utilize their personal auto for LACOE business can enter their mileage for processing and payment in a system that is part of the accounts payable system. This system contains the employee's address and other personal information necessary to make the payment. Employees are required to report a change of address to Human Resource Services, which then sends the update to the AP unit. In some instances this communication does not occur, resulting in a payment going to the wrong address.

In any large entity, not every employee will have the same equipment or the very latest equipment. However, in interviews with LACOE staff, it was reported that some employees' computers utilize Word 95, which was released in 1995. Having such an antiquated version of the software can affect the employee's ability to perform their duties.

PeopleSoft is not capable of updating its information in real time; rather, information updates are performed each evening. The system is available to districts Monday through Friday from 6:30 a.m. to 6:30 p.m. and Saturdays from 8 a.m. to 3 p.m. Staff also stated that the system

significantly impedes employee productivity. Staff reported that the slowness often leads them to abandon any tasks associated with the PeopleSoft accounts payable system and instead answer e-mail, file papers, etc.

LACOE employees also believe that end users could benefit from additional training in the purchase order system through additional group training, webinars, online manuals, online tips or access to frequently asked questions. The AP unit staff members feel that further training would reduce problems with processing invoices and lessen the burden on the unit in answering user questions.

## Records Retention

California Education Code, California Administrative Code - Title 5, Commercial Code and Government Code provide the records retention guidelines for California educational institutions. In the California Administrative Code - Title 5, Division 1, Chapter 16, Subchapter 2, Article 1, Sections 16020-16027, records are categorized as permanent, optional or disposable based on the following criteria:

- **Class 1 - Permanent Records:** The original, or one exact copy, unless microfilmed, shall be retained indefinitely. These records are specified in 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 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 vary for destruction or transfer of records as specified in Section 16025 and include such items as purchase orders, requisitions, and garnishments.

Interviews with LACOE staff indicated that its accounts payable records are maintained for five years. Title 5, California Code of Regulations (CCR) Section 16026 defines these items as Class 3 records requiring a four-year retention period. However, accounts payable records may contain items relating to the district's payments/reimbursements for special education programs. Because some educational agencies experience a higher than normal level of litigation in this area, LACOE should review its records retention policies and procedures and consider keeping special education records longer than the required four years.

LACOE's primary records storage area is in the warehouse at Education Center East and houses approximately 30,000 boxes and pallets containing paper records dating back to the late 1800s and early 1900s. The pallets that contain the oldest handwritten student and accounting records have been shrink-wrapped to help protect them from the elements, and all boxes have lids for the same reason. Both the pallets and boxes are placed on steel shelving units to raise them from the floor and for easy retrieval; however, the building shelving units containing those pallets sit directly under a water-based fire suppression system. Student and accounting records are considered Class 1 records, requiring that they be preserved indefinitely.

The study team's inquiries regarding LACOE's program for digitizing these records reveals that documents from 1988 to present are routinely transferred to electronic media, as are older records when they are requested to be pulled from storage. However, the oldest, most fragile

records have not undergone digitization due to the cost and length of time necessary for that process and the concern that the age of the records prevents them from being handled further.

## Recommendations

*The county office should:*

1. Review and adjust the spending patterns of programs/departments so that purchases benefit the program during the fiscal year and do not substantially fall within the last 60 days of the end of the fiscal year.
2. Review and revise site delivery receiving procedures to identify a single person responsible for verifying and reporting all deliveries to the Purchasing unit.
3. Provide training to employees so that they look for invoice discounts and take advantage of them whenever possible.
4. Consider modifying procedures related to the delivery of warrants from the SFS Warrant Room to the AP unit to include two employees, one from each unit.
5. Provide increased opportunities for communications between the Purchasing and Accounts Payable units to allow for better information flow and problem solving.
6. Provide training to the Facilities and Accounts Payable units to ensure proper understanding of issues related to processing payments for construction projects.
7. Provide increased opportunities for communication within the AP unit to provide consistent instruction and ensure consistent implementation of policies/procedures.
8. Modify policies, procedures and regulations to standardize reimbursement procedures as they relate to reimbursement amounts for travel meals, meals paid within registration fees, incidental expenses, and mileage.
9. Review state and federal guidelines for per diem amounts on meals and hotels to ensure reimbursement amounts are closer to industry standard.
10. Review and revise procedures to ensure that travel mileage is correctly claimed since there are two types of reimbursements: travel claims and computerized mileage reimbursement when traveling between school sites.
11. Provide training to employees responsible for making hotel reservations to request all available state government discount rates and waiver of the transient occupancy tax.
12. Consider encouraging employees of the same gender to share hotel rooms where the employees are willing and the circumstance is appropriate to provide additional savings in travel expenditures.

13. Provide conference attendance policies and procedures on the back of the Travel Request form.
14. Consider contracting with an outside company to review LACOE's utility bills for savings and efficiencies.
15. Review and revise policies and procedures to provide consistency in the identification and reimbursement of personal telephone charges between divisions and departments.
16. Provide a copy of the telephone bill to Telephone Services unit immediately upon receipt of the bill and maintain the original bill in the Accounts Payable unit to provide additional time for payment processing, thus avoiding late fees and overnight delivery charges.
17. Ensure that each A/P employee prepares and maintains a current desk manual including step-by-step procedures for all assigned duties.
18. Ensure that policies and procedures manuals/handbooks are regularly reviewed and updated.
19. Review and institute policies and procedures regarding new vendors and change of vendor information to provide for strong internal controls.
20. Review vendor lists periodically and eliminate old, outdated information and vendors who have not been used in the last three years.
21. Review invoice approval protocols to eliminate the ability for one employee to both process and approve a vendor invoice.
22. Purchase a larger fireproof safe to store payroll warrants and revolving check stock.
23. Revise the requisition form to include miscellaneous items such as tax, shipping, handling, and recycling fees to avoid budget issues in processing purchase orders.
24. Review and revise policies, procedures and protocols to allow minor coding changes to be approved without returning the purchase order package to the originator.
25. Revise PeopleSoft to allow application of sales/use tax to the entire purchase order. This recommendation should be viewed in light of a multidisciplinary approach to the potential conversion to a single, fully integrated, interactive budget, financial and human resource solution as discussed in the Budget Development and Monitoring section of this report.
26. Reconcile and correct accounts payable aging reports annually to ensure under- or overpayment to vendors is corrected in a timely fashion.
27. Enter manual warrants each day into PeopleSoft so that the warrant register is more accurate.

28. Require employee address changes to be communicated to Accounts Payable each month through an automated process to avoid human error and protect sensitive employee information. This recommendation should be viewed in light of a multidisciplinary approach to the potential conversion to a single, fully integrated, interactive budget, financial and human resource solution as discussed in the Budget Development and Monitoring section of this report.
29. Ensure that employee workstations are maintained with the most recent versions of software as defined by the Technology Services Division.
30. Provide additional training to purchase order end users, which could reduce problems with processing invoices and lessen the burden on the unit in answering user questions.
31. Review its records retention policies and procedures and consider keeping special education records longer than the required four-year period for Class 3 records due to potential litigation in future years.
32. Consider either digitizing all Class 1 records or placing the older, more fragile records in an area with less direct exposure to a water-based fire suppression system.

## Purchasing

The Division of Procurement Services is overseen by a director of operations and administrative services, an assistant director of operations and administrative services, a procurement services officer and a procurement services manager. The Procurement unit includes warehouse services, purchasing, and inventory control. Purchasing is comprised of a supervising buyer, five buyers, three senior account clerks, and one assistant buyer. The purchasing tasks of each buyer are based on the commodity to be obtained. Commodities are assigned based on their levels of transaction volume and complexity, with the intent of providing an equal workload to all buyers.

The procurement functions at LACOE are also available to all 80 school districts in the county.

LACOE has an extensive set of board policies that establish the framework for procuring both goods and services. These policies provide guidance on everything including the administration of the purchasing function, the use of different purchasing methods, and prohibitions against self-dealing, discrimination and conflict of interest. LACOE Board Policy 3310 specifically states that the general purpose of the purchasing function “shall be to serve and support LACOE programs by obtaining the materials and services required while receiving the maximum value for each dollar expended. All procurement transactions shall comply with the applicable provisions of county, state, and federal law and the dictates of sound business practice and judgment.”

## Purchasing Process

Most LACOE purchases are initiated with an electronic requisition that may be generated at any computer station with access to the PeopleSoft automated purchasing system. It is then routed electronically through the system using a predetermined approval hierarchy that promotes the request to Purchasing. There it is converted into a purchase order that will be transmitted to the vendor via hard copy or electronically. The purchase order data integrates with receiving data and accounts payable data to ensure that authorized and accurate purchases, receipts and payments of invoices are made.

The PeopleSoft system needs several other systems that have been implemented over time to augment its functions and adequately address LACOE’s substantial procurement demands. A new system with current functionality will be necessary within the next two to four years to allow LACOE to fulfill its procurement needs. Adequate lead time will be required to properly evaluate and implement such a system.

In general, a purchase request is initiated in PeopleSoft by completing either a requisition or a material stock request (MSR). PeopleSoft routes these requests to staff members who are authorized to approve them. Approvals are sometimes delayed due to minor changes that ensure the accuracy of the request. For example, if tax and/or shipping costs must be added, this may trigger another round of approvals. Once the requisition or MSR is approved, it is assigned to a buyer for procurement; or in the case of the MSR, to the LACOE warehouse for fulfillment. For requisitions, the method of procurement varies depending on the estimated combined cost of the order. LACOE functions under Public Contract Code 20111 and has internal dollar limitations that meet and/or exceed this code in financial prudence. Purchases for materials, supplies, and services costing less than \$75 are made using revolving cash. Procurement cards currently have limited use at LACOE but are a recommended tool for low-dollar, high-activity purchases.

- Requisitions that do not exceed \$10,000 can be filled without soliciting bids

- Requisitions between \$10,001 and \$21,000 are awarded to the lowest of three bidders offering either oral or written quotes
- Requisitions between \$21,001 and \$78,899 are awarded to the lowest of three bidders offering written quotes. Requisitions exceeding \$50,000 are reported to the board based on information in the current Contracts desk manual
- Requisitions exceeding \$78,900 undergo a formal bid process (as specified in PCC 20111) and are reported to the board

The above purchases (excluding the MSR) are made using either a LACOE purchase order or a contract to meet the legal requirements of the transaction.

Once a supplier is issued a purchase order and/or contract, it should be the buyer's responsibility to follow up on LACOE's receipt of the deliverables. This seemed less than consistent based on interviews with the AP unit. Purchasing primarily uses the weekly Requisition Report to gauge buyer performance. This report is distributed each Monday and lists all unprocessed requisitions by buyer. The goal is to process all requisitions in two weeks or less. The study team found no other ongoing quantifiable performance measures. The Requisition Report can be supplemented with information from additional reports that measure other criteria important to organizational performance. Reports that quantify the number of days a delivery (or receiver) is overdue will allow an expeditor to accurately focus their effort while alerting Purchasing to potentially problematic vendors and/or receiving processes. Outstanding purchase orders, documented bid savings, and segmented lead times for processing, bidding, ordering, and delivery are a few of the report examples that provide valuable information to evaluate and shape Purchasing performance.

LACOE issues blanket purchase orders (BPOs) to make purchases. BPOs are used primarily for reoccurring purchases with specific vendors. The purchases may be for one or a variety of items and/or commodities and usually take place regularly over the fiscal year. Purchases for small hardware supplies (nuts, bolts, nails, etc.) from hardware stores or building supply centers based on geographically advantageous locations are one example of a wise use of the BPO.

LACOE also makes limited use of procurement cards for purchases. Procurement cards can reduce paperwork and provide programs greater convenience, flexibility and responsiveness while protecting the county office via predetermined usage controls.

Except for standard school supply purchases, LACOE does not aggressively utilize piggyback contract opportunities. LACOE's use of EdBuy.org, hosted by the California County Superintendents Educational Services Association (CCSESA), is an excellent example of the piggyback process. This process provides economies of scale to multiple agencies purchasing the same commodities, and is especially desirable for a county office that can share these savings with so many districts. In interviews with purchasing personnel, there was little mention of this procurement method or of a desire to expand its use.

## Bidding Process

The California Public Contract Code (PCC) was established by the state Legislature as a guideline and authority for the procurement of products used by publicly funded agencies.

While the PCC requires school districts to publicly bid purchases based on specific criteria and dollar thresholds, a county office of education is not bound by Section 20111 of the code. Rather, Education Code Section 14050 authorizes the Superintendent of Public Instruction to adopt regulations for COEs that "...prescribe procedures relating to budgeting, purchasing and

replacing capital outlay items ... and to the purchase, replacement, operation and maintenance of automotive equipment.” Title 5 of the California Code of Regulations states that COEs must obtain estimates from three vendors and award to the vendor with the lowest estimate.

Although LACOE is not bound by Section 20111 for its public bids, most COEs utilize the criteria specified to ensure fairness and consistency in their bidding practices and to avoid any appearance of favoritism. The study team examined the bidding process at LACOE and found both its materials, services and supply acquisition and its public works construction bidding procedures were based on the requirements of PCC Sections 20111 and 20651. PCC Section 20111 applies to K-12 districts and 20651 applies to community college districts.

LACOE Board Policy 3321 meets and/or exceeds the requirements set forth in PCC Sections 20111 and 20651. In this sense, LACOE appears to follow the above-stated code requirements. The single exception noted is that the current purchasing process does not allow for quotes (verbal or written) on purchases under \$10,000 while Title 5 (5 CCR Section 17291) indicates that three formal written quotes are required for any capital outlay item exceeding \$2,500.

During interviews it became apparent that some LACOE purchasing staff members (and most accounts payable staff) do not fully understand the reasoning behind the bidding thresholds. Some staff offered conflicting information regarding the thresholds themselves. Training regarding the Public Contract Code and how purchasing procurement thresholds relate and support these requirements would help staff comprehend those concepts.

Public Contract Code Section 20111 applies to the bidding of construction projects commonly referred to as public works projects. Public works projects are defined by PCC Section 22002 as follows:

- (c) “Public project” means any of the following: (1) Construction, reconstruction, erection, alteration, renovation, improvement, demolition, and repair work involving any publicly owned, leased, or operated facility. (2) Painting or repainting of any publicly owned, leased, or operated facility. (3) In the case of a publicly owned utility system, “public project” shall include only the construction, erection, improvement, or repair of dams, reservoirs, powerplants, and electrical transmission lines of 230,000 volts and higher. (d) “Public project” does not include maintenance work. For purposes of this section, “maintenance work” includes all of the following: (1) Routine, recurring, and usual work for the preservation or protection of any publicly owned or publicly operated facility for its intended purposes. (2) Minor repainting. (3) Resurfacing of streets and highways at less than one inch. (4) Landscape maintenance, including mowing, watering, trimming, pruning, planting, replacement of plants, and servicing of irrigation and sprinkler systems. (5) Work performed to keep, operate, and maintain publicly owned water, power, or waste disposal systems, including, but not limited to, dams, reservoirs, powerplants, and electrical transmission lines of 230,000 volts and higher.
- (e) For purposes of this chapter, “facility” means any plant, building, structure, ground facility, utility system, subject to the limitation found in paragraph (3) of subdivision (c), real property, streets and highways, or other public work improvement.

For public works construction projects the public bidding requirement is set forth in the Public Contract Code as follows:

“... [Districts and Community Colleges] shall let any contract for a public project, as defined in subdivision (c) of Section 22002, involving an expenditure of \$15,000 or more, to the lowest responsible bidder...”. No inflationary adjustment factor is

provided in this code section similar to that provided for bidding requirements for materials, etc.

LACOE Board Policy 3321 requires all work to be done over \$15,000 to be subject to a public bidding process. While this threshold again mirrors the requirements set forth in PCC Section 20111, it reduces LACOE's ability to address smaller construction related projects, which are numerous in a county office this size. It also increases the lead time to address and deliver these projects.

Facility planning staff reported that LACOE conducts formal advertising of public works project bids when the estimated cost of a project exceeds \$15,000. While not currently utilized by LACOE, PCC Section 22000 now allows informal bid awards up to \$175,000, with a \$192,500 cap should the low bid be higher than the \$175,000 estimate. Titled the California Uniform Public Construction Cost Accounting Act, or CUPCCAA, advantages include:

- Public projects of \$30,000 or less may be performed by the employees of a public agency by force account (for definition see Appendix K), by negotiated contract, or by purchase order (PCC Section 22032(a)). At the time of this report, AB 720 (Hall) was proposing that this amount be increased to \$45,000.
- Public projects of \$175,000 or less may be awarded by informal procedures. Public projects of more than \$175,000 are, with some exceptions, required to contract by formal bidding procedures (PCC Section 22032(c)).
- Agencies may disqualify contractors from the Qualified Contractors List required pursuant to PCC 22034(a).
- Agencies may use these increased amounts to purchase materials as long as they are consumed on a public contract subject to and defined by the policies and procedures manual.
- An agency may elect to withdraw from the act at any time by filing a resolution with the State Controller's Office.

Every five years, the California Uniform Construction Cost Accounting Commission reviews the informal bid limits for inflation and other factors to determine whether adjustments should be made. If an adjustment is made, the State Controller notifies the affected public agencies. The adjustment may become effective before it appears as a formal change in the Public Contract Code. The most recent informal bid limits can be found at [www.sco.ca.gov/ard/local/index.shtml](http://www.sco.ca.gov/ard/local/index.shtml). Any local agency can voluntarily elect to become a participating agency of the act. Local agencies include cities, counties, redevelopment agencies, special districts, school districts, and community college districts. As of July 18, 2011, 779 state agencies had adopted CUPCCAA for implementing their public works projects: 32 were community college districts and 244 were K-12 school districts, nine of which were county offices of education (see Appendix L for a list of these agencies).

LACOE uses purchase order contracts for the vast majority of its transactions. A review of LACOE's Purchase Order Form No. 501-512A (revised 03-26-2003) showed several items in need of revision. Since the terms and conditions of the purchase are listed on the back of the purchase order and the front is often the only part faxed to the vendor, a clear notification on the front should inform the vendor where to access the terms and conditions. These terms and conditions should also be posted on the LACOE website (there is a current link but at the time of this report it was non-operational). The notification could read as follows: "This order

is subject to the terms and conditions on the back of this document and is viewable at [www.LACOEpurchase/terms.edu](http://www.LACOEpurchase/terms.edu). By accepting this order, or any part thereof, the seller agrees to accept said terms and conditions.” It should be printed in a prominent spot on the purchase order.

The LACOE Contracts Section receives contract requests, prepares contract documents, executes contracts, and reports them to the board of education. This division also acts as the official repository for contract files at LACOE. The Contract or Amendment Request Form 501-509 (revised 1-1-06) is widely used to initiate a binding agreement at LACOE. It acts as a requisition for services over \$10,000 and as a contract for services up to \$10,000.

The Contracts Section of Procurement Services has published a desk manual that provides easily accessible direction to staff. Staff members have some confusion regarding bid requirements for purchases between \$10,000 and \$21,000. While some literature states these purchases must be validated with three written and oral quotes, ensuring award to the lowest quoting vendor (see Board Policy 3321R), other LACOE documents such as the Visio flow chart entitled Requisition Processing states that the three required quotes are to be “oral or written,” thus leading to inconsistent staff interpretation.

LACOE recently moved its primary warehouse (Stores division) from Santa Fe Springs to Downey. The new warehouse facility is in Ed Center West at 12830 Columbia Way. It has a loading bay that can service up to five trucks concurrently, four receiving stations, floor to ceiling storage racks with overhead capacity and accessible aisles throughout, a security cage area, and security monitoring (cameras and alarms).

## Warehouse Inventory

The study team visited the facility during its peak receiving period (July 1, 2011) and found the warehouse to be crowded but not undersized. The process used to receive freight requires double handling. The study team observed that the load was removed from the truck and the merchandise counts verified, then the load was palletized and transferred to one of four receiving stations for input into PeopleSoft. Freight was labeled with the date delivered to the consignee along with other tracking information. Some of the freight had been staged for receipt some two weeks following its delivery. The pace seemed quite slow considering the concerns expressed in previous discussions with other departments regarding delayed receipt and warehouse bottlenecks during the end of fiscal year period. Warehouse staff members estimated that employee overtime incurred at this time of the year is in the hundreds of hours, indicating a need to review the ordering and processing strategies.

The study team also visited LACOE’s surplus inventory warehouse, which was exceptionally neat and well organized. This warehouse did not have a monitored security system but did have a fire suppression (sprinkler) system. At the far end of the warehouse were floor to ceiling shelves containing archived books, ledgers, and files from the beginning of LACOE’s existence. These legacy documents were stored in open air cardboard boxes with no protection from the water sprinklers located directly above them. The warehouse contained many computers and computer parts for surplus sale or disposal. The warehouse staff did not know if the hard drives, or other data containing components, had been properly removed to ensure that any confidential information remained so. The cost associated with the storage (even temporarily) and sale of surplus items needs to be evaluated to ensure it is the best alternative. Solutions such as InterSchola and direct Internet auctions can reduce cost while complying with Education Code Sections 17545

and 17546. Purchasing should also endeavor to utilize trade-in privileges pursuant to Education Code Section 17548 whenever possible.

## Jet Mail

Jet mail (sometimes referred to as interoffice mail at other entities) is used to transport documents and small packages utilizing nine drivers and six vans. Jet mail vehicles do not have global positioning systems (GPS) installed. An administrator stated that union resistance was the reason. Lack of GPS makes it difficult to monitor the progress and safety of Jet mail drivers. The drivers are not bonded yet are entrusted to deliver documents and parcels of significant value. Jet mail drivers leave the central warehouse at 7:30 a.m., 2:30 p.m., and 3:30 p.m. Little consideration seems to be given to the cost of personnel time and fuel expended during these peak hour commutes throughout the county. Consolidating deliveries with the warehouse and using GPS coupled with trip planning technologies to plan and monitor deliveries could greatly increase efficiency. Off-hour (graveyard) deliveries to lockbox locations could significantly reduce peak business hour travel while onboard navigation systems could provide timely traffic updates to and from drivers.

## Recommendations

*The county office should:*

1. Provide a more robust and easily modifiable automated financial system that will benefit Purchasing by allowing greater efficiencies. This recommendation should be viewed in light of a multidisciplinary approach to the potential conversion to a single, fully integrated, interactive budget, financial and human resource solution as discussed in the Budget Development and Monitoring section of this report.
2. Implement additional procedures to better evaluate purchasing performance.
3. Modify its quotation process from under \$10,000 to comply with Title 5 (5 CCR Section 17291) and require three written quotes for any capital outlay items exceeding \$2,500.
4. Train key staff in the requirements of the Public Contract Code and how it relates to LACOE procurement. To ensure staff's complete comprehension and compliance, adopt these requirements in LACOE policies, procedures, and practices.
5. Review the purchase order form and all purchasing and contracting processes and policies for consistency and accuracy.
6. Evaluate end of year purchase cut-off periods and warehouse procedures to reduce costly end of year bottlenecks and excessive overtime in the warehouse.
7. Ensure that all technology equipment disposed of is wiped clean of any LACOE data.
8. Consider alternative surplus disposal strategies to reduce overall storage costs and the unnecessary handling of obsolete materials and equipment.

9. Consider grouping Jet mail and warehouse deliveries and installing on-board GPS tracking devices, computerized routing, and off-hour driving and delivery times.

## AB 1200 and Fiscal Oversight

Assembly Bill 1200 (Chapter 1213), Statutes of 1991, laid the foundation for fiscal oversight. Numerous bills have added to or modified the original provisions, usually in response to subsequent emergency appropriations to school districts. The goal of fiscal oversight continues to be to assist school districts in maintaining fiscal stability through a proactive, early warning process. AB 1200 and subsequent legislation have provided for a variety of elements designed to meet this goal, some of which are as follows:

- Creation of the Fiscal Crisis and Management Assistance Team (FCMAT) with authority and responsibility to provide fiscal crisis intervention and management assistance
- State Board of Education adopted criteria and standards for measuring fiscal solvency
- Fiscal oversight authority and responsibility of the California Department of Education (CDE)
- Fiscal oversight authority and responsibility of county offices of education (COE)
- School district interventions by the county superintendent, and if necessary, the CDE to avoid legislative intervention (an emergency apportionment and placement of a trustee)
- Fiscal oversight authority and responsibility of local school districts including:
  - Systematic financial information reporting throughout the fiscal year
  - Multiyear projections (MYPs) for the current and subsequent two fiscal years
  - Public disclosure of a collective bargaining agreement's major provisions and costs prior to board ratification of the agreement
  - Certification of the affordability of a collective bargaining agreement by the district superintendent and chief business official (CBO)

The legislation has been successful in focusing the attention of school districts and county offices of education on fiscal management and oversight responsibilities. The first line of responsibility for the district's fiscal solvency resides with the district's elected board of education and administration. The COE is an intermediate agency between the state and the local school district and provides management assistance and progressive intervention on behalf of the state to the school districts in the county. County superintendents of schools play an especially critical role in the fiscal health of the school districts in their county as prescribed by Education Code (EC) 1240 (b), which delegates the fiscal oversight roles and responsibilities to the county superintendent of schools and not to the county board of education.

Fiscal oversight legislation has prescribed specific financial report formats and timelines as benchmarks for COEs to use in their oversight reviews. The following table describes the financial information and the general division of responsibilities related to fiscal oversight activities:

| Category   | District              | County Superintendent   |
|--|-----------------------|---|
| Adopted Budget   | Adopt                 | Review/approve, conditionally approve, disapprove                               |
| Annual Financial Report  | Approve               | Review  |
| Interim Report   | Approve/certify       | Review/change the certification if necessary                                    |
| Collective Bargaining Agreement  | Certify/revise budget | Review  |
| Independent Audit  | Review                | Review/approve audit contracts (if qualified or negative district)              |
| District Expenditures  | Approve               | Review/approve  |
| Audit of a District for Fraud, Misappropriation of Funds or Other Illegal Practices (AB 139) | Not applicable        | Investigate/report to school district board of education, others as appropriate |
| Charter Oversight  | Review                | Review  |
| Non-Voter-Approved Debt  | Approve               | Review/approve (if qualified or negative district)                              |

Assembly Bill 2756 (Chapter 52), Statutes of 2004 continued to broaden the county superintendents' responsibilities in assisting with school district fiscal stability.

The bill added EC Section 42127.6, which says if at any time during the fiscal year the county superintendent determines that a school district may not meet its financial obligations for the current or subsequent two fiscal years, the "going concern" provisions may be invoked as an immediate intervention in an attempt to sustain the fiscal stability of the district. Going concern provisions include a menu of possible interventions and actions including the assignment of either a fiscal expert or a fiscal advisor to a troubled school district.

Additionally, the bill requires school districts to submit all studies, reports, evaluations, or audits that show the school district's fiscal distress level or show that the district has at least four of the 11 FCMAT Predictors of School Agencies Needing Intervention to the county superintendent. The county superintendent is now required to include this information in the fiscal assessment of the district.

Finally, the bill provides for a rigorous review and assessment of the conduct of the county superintendent should any district in the county require an emergency appropriation. The state Superintendent of Public Instruction (SPI) and FCMAT must review the COE's fiscal oversight of the district and report their findings to the Legislature and Department of Finance (DOF). If the review finds that the county superintendent failed to appropriately carry out these fiscal oversight duties, the SPI shall investigate whether the county superintendent also failed in the fiscal oversight of other districts with qualified or negative interim report certifications. Another report of the county superintendent's fiscal oversight practices is prepared for the Legislature and DOF.

Since the passage of AB 1200, COEs have developed numerous resources and best practices to meet both the letter and the intent of oversight legislation. Each COE fulfills its fiscal oversight responsibilities by using the law, resources and best practices, and by tailoring them to address the unique needs of each school district in the county. Some examples of these resources and best practices are as follows:

**Resources:**

- Education Code (EC)
- School Financial Services Division, state Department of Education staff and advisories
- FCMAT staff and advisories, specifically the Predictors of School Agencies Needing Intervention and Fiscal Health Risk Analysis
- Assembly Bill 1200 Legislation – Impact of County Office Oversight of School District Solvency, a document prepared by the Los Angeles County Office of Education
- Related reports and studies of the district
- School district prepared financial information including the adopted budget, interim reports, multiyear projections (MYPs), monthly financial statements and periodic cash flow statements
- State Board of Education Criteria and Standards for adopted budgets and interim reports
- Trend analysis of various data points such as cash position, enrollment and attendance and deficit spending patterns
- Independent audit reports
- California County Superintendents Educational Services Association (CCSESA) Common Message

**COE Fiscal Oversight Best Practices:**

- Proactive early intervention strategies and activities
- Reasonable standards and expectations of fiscal oversight
- Consistently applied fiscal oversight practices among school districts
- Trained, knowledgeable COE staff that understand school district operations
- Strong relationships with school districts built on positive communications, trust and respect
- Customer service attitude
- Protocols to monitor changes affecting school district financial stability
- Protocols for professional development including workshops, advisories and meetings for district staff
- Correspondence to school district governing boards and administrative teams in response to major financial reports such as adopted budgets, interim reports and collective bargaining agreements
- Protocols for the distribution of timely and accurate financial data and analysis including presentations to the school districts' governing boards on district related financial issues
- Protocols to partner with school districts to solve problems
- Protocols to make and enforce tough decisions

The study team found that LACOE has historically met the legal standards governing fiscal oversight and served as a model to many by contributing to the inventory of best practices available to other county offices in the state. The sheer number of school districts, along with the wide

variation in their sizes and operations, has provided LACOE staff with opportunities and experiences not readily available in all counties. LACOE has traditionally played an important role in providing valuable information on the application of fiscal oversight practices statewide.

LACOE is the largest county office in California and serves 93 school agencies, including school districts, regional occupational programs, joint powers agreements, and community college districts, as well as serving the students attending LACOE programs. The Business Advisory Services department has primary responsibility for oversight and advisory services in all areas of school business, finance and regionalized business services. Staff assists districts with budgeting and financial planning and approves budgets, monitors financial solvency, reviews state reports, distributes apportionments, and performs mandated functions for school district organization, school elections and unemployment insurance services. Staff also provides regionalized business program support in areas like school facilities planning, funding and maintenance, and public finance programs. Within the Business Advisory Services department, the Financial Management Services sub-department deals exclusively with the fiscal oversight of school districts. There are two major units in this sub-department. One unit houses the business services consultants (BSCs) who function as the fiscal oversight advisors and are assigned to specific school districts. The other unit houses the financial operations consultants (FOCs) and related staff who are the subject matter/technical experts.

Overall, the school district staff members interviewed by the study team have a positive working relationship with the Business Advisory Services staff and greatly appreciate the customer service attitude, the availability of staff, their knowledge and expertise, the workshops, communications, bulletins, and other materials developed to provide information and guidance to the school districts. Some district staff indicated that LACOE staff is always available to provide needed support at board meetings and public meetings, especially when intervention assistance is needed.

BSCs routinely update their knowledge and skills relative to new data and information that pertain to district oversight. However, some district staff expressed a concern that not all BSCs have the same level of knowledge or communication skills. LACOE should develop evaluation and training protocols for new BSCs to ensure they are knowledgeable and possess all requisite skills. Since the inception of AB 1200, LACOE has appointed several fiscal advisors to school districts either as a result of negative interim certifications or in accordance with the going concern provisions of EC 42127.6. Outside consultants were appointed as a fiscal advisor in some situations and LACOE staff functioned as the fiscal advisor in others. Regardless, district staff told the study team that they viewed the fiscal advisors as supportive. Fiscal advisors routinely attended community and board meetings and addressed fiscal solvency issues. LACOE and/or the fiscal advisor specified the total amount of necessary reductions, but never mandated the type of expenditures to be reduced, stating this was a district decision. LACOE has fiscal advisors assigned to two school districts for the 2010-11 fiscal year.

The study team found that LACOE periodically reviewed assignments of BSCs to school districts to ensure an equitable distribution of workload and that no single BSC had an excessive number of districts with financial issues. The BSCs collaborate very well, with the intent of providing high quality services to their school districts geared toward problem solving, support and early intervention, and for the purposes of avoiding fiscal solvency issues. BSCs work closely with the FOCs, who are the subject matter/technical experts. These individuals are responsible for areas such as cash flow and revenue limit calculations. They research, develop and maintain systems for projecting school district data and provide this information to BSCs and district personnel. The BSCs interviewed by the study team stated that this allows for detailed support in a specialized subject area, which is then uniformly made available to all BSCs. The BSCs also shared that this allows them to devote more time to the school districts.

The BSCs interact with and obtain support from LACOE's Regionalized Business Services sub-department and the School Financial Services department and meet regularly with their supervisors to ensure the integrity of the fiscal oversight process and its uniform application.

BSCs also request and review a variety of reports, studies and other information, including school district board meeting minutes supplied by school district personnel. Attendance data is reported by each school district and reviewed by LACOE staff for each major reporting period.

Districts sometimes meet separately within a geographical region to exchange information, so a BSC is assigned to all school districts within a specific region whenever possible. The BSCs and the districts prefer this assignment strategy because districts within the same regions exhibit certain similarities. BSCs are also assigned to school districts for long periods of time whenever possible. Both BSCs and districts believe this fosters better communication, builds trust and credibility, allows more personalized services, and provides a more in-depth understanding of the district, its personnel, its history and its related financial situation. Some district staff told the study team that they felt they could contact their BSC at any time, including non-work hours, and would receive needed support and or assistance.

There have been many reductions in force at LACOE, as there have been at many other county offices around the state, as funding reductions have occurred. The BSC job description is not unique to the sub-department. Therefore, it would be possible for an employee without the requisite skills and experience to displace a successful and trained BSC.

A review of documentation and interviews conducted by the study team showed that LACOE does an excellent job of providing timely written materials and communications to assist school district staff. LACOE also provides guidance and expectations in the development of the annual budgets, interim reports, collective bargaining agreements, and review of annual financial reports. Following are some specific materials that the study team reviewed to support this finding:

- BSCs regularly send routine e-mails and communications
- Information bulletins developed by the Business Advisory Services department and transmitted to school districts indicate that LACOE routinely provides advice, guidance and direction to districts on a variety of topics relating to school finance.

Examples are:

- Information Bulletin #2 detailing the Public Disclosure of Collective Bargaining Agreements and the school district reporting and certification requirements
- Information Bulletin #51 detailing the 2010-11 Financial Reporting Calendar that lists the reports due from school districts
- Information Bulletin #244 detailing a workshop on "GASB Statement 54 – How it Affects You and How to Prepare"
- Information Bulletin #257 detailing LACOE Districts 2009-10 Annual Financial Report, with Selected 2010-11 Data

Document review showed that LACOE does an excellent job of providing information bulletins for the annual budgets, interim reports, and May Revision that clearly detail the assumptions, expectations for school districts, district reporting requirements and the county office recommendations and guidance for developing the data used for each of those reports. An example is found in a document titled, "2010-11 Second Interim Financial Reporting – Information Bulletin #201."

LACOE provides letters to school district governing boards in response to district-submitted annual budget and interim report documents that contain the results of the county office's review and analysis, including extensive data to support any recommendations or specific actions that are required by the school district.

LACOE hosts quarterly meetings for district CBOs, and holds one regional meeting each year on several dates at different locations with a similar agenda, tailoring some items on the agenda to the uniqueness of the districts at each location. A review of the CBO agendas and minutes showed that the topics were relevant and provided appropriate and timely fiscal information. The regional meetings work well for districts that are geographically distant from the county office. Some district staff commented to the study team that given the current environment and the amount and significance of new information, they would like the county office to consider holding additional CBO meetings, including more regional meetings.

LACOE annually hosts a workshop on the governor's proposed budget. An extensive binder is produced on the proposed state budget and related finance legislation. The binder includes a budget overview, detailed analysis of specific components, planning considerations for the development of the school districts' upcoming budget and other related topics.

Some school district staff interviewed by the study team indicated that at the major reporting periods for the annual budget and interim reports, they would like LACOE to consider issuing a brief summary of the county office expectations for the preparation of those reports. Districts appreciate the workshop materials for the annual budget and bulletins for the interim reports but would like an advance summary, with detailed information to follow, so they can immediately react to questions from their school boards and community.

Materials and staff interviews showed that LACOE provides numerous other workshops and training, but some school district employees interviewed by the study team would like LACOE to consider hosting even more professional development workshops. LACOE could provide or host professional development workshops that would provide needed training for district staff, or they could coordinate workshops given by third parties that would be more cost effective for the districts.

LACOE developed and continues to update the document titled, "Assembly Bill 1200 Legislation – Impact on County Office Oversight of School District Solvency." This document is used as a resource by most California COEs.

Many of the school districts in Los Angeles County use the PeopleSoft financial/HR system. If a district does not use PeopleSoft, it must provide its financial data to LACOE. The BSCs use the data to help monitor the districts.

LACOE has developed the SMART-Access system for use in trend analysis, revenue limit projections, cash flow projections and other financial data. The module was developed independently from other financial system software by LACOE's division of Business Advisory Services and Hess & Associates, Inc. and is also independently maintained by them. It is a financial management database system that provides data, reports, projections, calculations and analyses in support of school district and JPA solvency review and analysis. Business Advisory Services uses the SMART-Access system as a key tool in performing LACOE Education Code mandated functions including school district fiscal solvency monitoring, revenue projections, and state reporting. Several years of data are available to the BSCs for historical trend analysis. BSCs are notified by the system when a district enters a data change into the system, which assists them in

the regular review and analysis of district data. The reports and analysis are internal documents, and are not shared with the districts.

Cash projections are increasingly more essential and more difficult to project, and LACOE also uses SMART-Access to project and monitor cash flow for school districts. Research of materials by the study team showed that the School Financial Services department provides cash balances for school districts to the BSCs and the FOCs, which are used with the SMART-Access cash flow module to continually update cash flows. However, the cash flow module is not available for school district use. Updating the system for district use could make it more effective for both the districts and LACOE because dual data entry would be minimized and the creation and monitoring of cash flows would be more efficient and a joint effort. LACOE should ensure that any future fully integrated financial software program addresses this ongoing need.

The Financial Advisory Services staff meets prior to any major reporting period to establish the criteria for review and evaluation of the school district adopted budget and interim reports. The study team reviewed documentation showing that LACOE has an extensive written review process, including a communication structure for reporting to upper management, a detailed summary of recommendations and rationale and a detailed Fiscal Solvency Evaluation Work Program analysis and checklist for the adopted budgets, interim reports, collective bargaining agreements, non-voter-approved debt, annual financial reports, independent audits, and charter schools. An example is the document entitled, "Division of Business Advisory Services, Financial Management Services, Fiscal Solvency Evaluation Work Program, 2010-11 Second Interim Report Review, Executive Summary and Approvals." This document incorporates a review of all reports that the district is supposed to include, such as all technical details of the SACS criteria and standards and a checklist showing whether corrections were made. It includes the components of a financial statement (deficit spending, cash balance issues, etc.) and encompasses all analysis of the district's reports at budget and interim reporting times so that an assessment can be made.

## Recommendations

*The county office should:*

1. Meet periodically with district CBOs who have been assigned new BSC advisors to obtain confidential feedback about the BSC's knowledge, skills, and communication styles. Tailor subsequent BSC professional development protocols to address significant shortcomings.
2. Consider reviewing job descriptions to allow for the BSCs and FOCs to have job descriptions unique to that department based on the specialized knowledge necessary to successfully perform fiscal oversight functions.
3. Periodically review fiscal oversight staffing levels to determine if staffing is adequate to ensure quality assistance and effective early intervention and support.
4. Consider sending out a summary bulletin at the major reporting periods (budget, first interim, and second interim) to give general guidance to the school districts that can be used to effectively communicate LACOE's budget and interim report expectations to their boards and communities.

5. Review the approval levels required for issuing information bulletins to determine if the process can be streamlined to transmit the information more quickly to districts.
6. Consider surveying districts to see what training and support the fiscal staff and administration are interested in and whether they would consider paying for those activities on a cost recovery basis.
7. Consider hosting more professional development trainings in fiscal, budget, and payroll/personnel areas based on the results of the survey.
8. Consider holding more CBO meetings, including regional meetings, which would include time for information sharing and discussion among the school districts. Investigate the advantages and disadvantages of updating the cash flow module for use by school districts.



# Consultant and Personal Service Contracts

## Policies and Procedures

The procurement of consultant and personal services in school agencies is regulated by a variety of authorities including the Education Code (EC), Government Code (GC), Public Contract Code (PCC) and Board of Education policies, as well as industry best practices. Additionally, consultant and personal services can be an integral part of procuring certain goods, materials and products, such as leased equipment and facilities, new construction of facilities, the maintenance and upgrades of existing facilities and software.

School agencies use a purchase order process to document a request for services or goods sent to a supplier. Purchase orders standardize and control the purchase of less expensive services, materials, goods and equipment.

General provisions describing purchasing are contained in PCC 20111 and include the activities required in the formal bid process as well as the minimum dollar amount over which a formal bid process is required. The formal bid limit is increased by the Superintendent of Public Instruction on January 1 of each fiscal year to reflect the change in the implicit price deflator. The statutory bid limit for 2011 is \$78,900 and is applicable to services, except construction services and public projects, as well as equipment, materials and supplies.

A formal bid process is required for public works projects, such as new construction, renovation (excluding routine maintenance), improvement, or demolition of publicly owned, leased or operated facilities in excess of \$15,000. However, PCC 22000-22032 provides some flexibility to a public agency by allowing it to adopt an alternative bidding procedure for public works contracts called the California Uniform Construction Cost Accounting Act (CUPCCAA).

The CUPCCAA raises the bid limit from \$15,000 to \$30,000 for public works projects. Public projects can be performed by the employees of a public agency (with certain limitations), negotiated contract or purchase order. Public projects less than \$125,000 may be awarded by informal bidding procedures subject to all of the provisions in PCC 22033. Public projects over \$125,000 must be awarded by contract using the formal bidding procedures (PCC 20115, 22000-22032(a) (b), and 22033).

Several categories of expenditures are exempt from the competitive bidding process as defined in the PCC, EC, GC and/or PCC. These include the following:

- **Emergencies:** Repairs or purchases that are necessary to prevent discontinuance of classes or avoid danger to life or property (PCC 20113).
- **Data Processing Equipment:** Computers, telecommunications equipment, microwave equipment, and other related electronic equipment and apparatus. However, this exemption does not apply to technology contracts that are part of a construction project or for procuring any product that is available in substantial quantities to the general public (PCC 20118.1).
- **Instructional Materials:** Textbooks, library books, educational films, audiovisual materials, test materials, workbooks, instructional computer software packages, or periodicals (PCC 20118.3).

- The State List: Any item purchased from the Department of General Services or through the California Multiple Award Schedule (CMAS) for materials, equipment, or supplies (EC 17595 and PCC 10298).
- Federal Surplus Property: Competitive bidding is not required to purchase certain federal surplus property; however, some restrictions apply.
- Piggyback Bids: Utilizing another public entity's formal bid award or request for proposal (RFP). The formal bid documents or RFP must state that the vendor agrees to allow other public agencies to purchase at the same terms and conditions as the original bid while the bid is in effect. However, this option does not apply to public works projects (PCC 20118).
- Insurance: This includes the purchase of insurance policies for property, liability, group and life coverage (GC 989-990; EC 35208).
- Energy Service and Energy Management Contracts: An RFP process for energy conservation contracts may be used and competitive bidding is not required (GC 4217.12).
- Professional Expert: a person who is trained, experienced and competent to perform specialized services. This includes financial, economic, accounting, engineering, environmental, landscape architect, land surveying, construction project management, legal, or administrative matters (GC 4529.10 - 4529.12).
- Other Professional Services and Advice: Attorneys, accountants and architects. However, all architectural and engineering services must be procured using a fair, competitive selection process. Other regulations may require competitive bidding as is the case when securing state funding for a facility project from the State Allocation Board. Depending on the nature of the services involved, other types of services may include security alarm monitoring, administration of a campus bookstore, or sewage disposal service (GC 4529.10 and 4529.12; 53060).

LACOE's departments of Business Operations, Procurement Services, and Contracts Section procure consultant and personal service contracts. The Contracts Section bids services using the competitive bid limits established by the PCC and issues requests for proposals for services prescribed under the GC. Expenditures in categorical programs for consultant and personal services must also be approved by Grants Project Management (GPM). Purchase orders that exceed \$50,000 must be approved by senior administration.

The Contracts Section ensures that language is included in each contract that protects LACOE from a risk management perspective, such as hold harmless clauses, appropriate dollar thresholds for liability insurance, and provisions in software contracts to ensure that proprietary agreements are not violated. Contracts over \$50,000 require a \$1 million per occurrence liability insurance.

The Contracts Section processed 2,500 contracts last year. The largest contracts (other than for capital facilities) were for supplemental educational services (mostly from Title 1 funding), development of EPIC computer software, and the various student transportation contracts.

The Contracts Section has developed an extensive Procurement Services Manual and a smaller desk manual. The manuals describe processes, forms, required approval and other information needed to procure consultant and personal service contracts.

The Contracts Section provides budget and account code verification services for each contract, encumbers the proper funds as specified by the contract requestor, and maintains the official contract files of LACOE. A separate database for all contracts is accessible electronically from the LACOE website.

The Contracts Section also is responsible for preparing and executing contracts with school districts and other educational agencies, including, per the desk manual, such programs as special education local plan areas, facilities for special education, alternative education, participation in the telecommunications network, and other programs. The Contracts Section also prepares contracts for related services to be provided by private firms or individuals who are independent contractors.

The Contracts Section develops and prepares invitations for bid (IFB) and requests for proposals (RFP), which generally include services such as food services, public works, studies, audits, construction, information systems, and the equipment to run the systems.

Large numbers of acronyms, flowcharts, forms and information are included in the manuals, which staff must learn and understand to effectively perform their duties. Regular training is important to ensure that the staff continues to follow policies and procedures. The Contracts Section should ensure that each relevant employee is trained in these areas and that employees receive information on county office policies and procedures so that appropriate steps are taken regarding who is authorized to initiate and approve contracts.

The Contracts Section holds annual trainings on the procurement processes and procedures. Contracts Section staff report that training at one time was twice a year. Training is provided at the LACOE central offices and at certain sites, including Head Start and the Division of School Improvement. Holding training sessions at more program sites, at more convenient times for site staff, and making the trainings mandatory would increase staff participation and increase their understanding of contract procedures and policies.

There is no requirement for general liability insurance for contracts under \$50,000, including consultant and personal service contracts. Contractors and vendors without general liability insurance expose LACOE to significant financial risk should incidents occur. LACOE may also want to require professional liability coverage for protection from professional service errors and omissions. However, this will preclude some smaller vendors from contracting with LACOE, so the Contracts Section may need to consider each type of contract and level of liability exposure.

## Use of Outside Consultants

LACOE has assigned duties and responsibilities throughout the organization that are designed to use existing employees to fulfill staffing needs and minimize the need for outside consultants and temporary employees. However, the study team found areas where outside consultants and temporary employees may be overutilized and are therefore costly to the office.

LACOE is a merit system county office of education, pursuant to Education Code Section 45240 et seq. There is a Personnel Commission consisting of three commissioners independent of the county superintendent. The three commissioners are appointed: one by the board of education, one by labor and one jointly by both management and labor. LACOE classified employees are represented either by CSEA or SEIU depending on their job classification. The Personnel Commission meets once a month and also meets with labor three times a year. Human Resource Services serves as staff to the Personnel Commission and is charged with implementing

the commission rules and Education Code with respect to the management of LACOE's classified employees. Human Resource Services is also charged with ensuring that the use of outside consultants, professional experts and limited-term employees does not infringe on bargaining unit work.

Personnel Commission staff consider the reclassification of positions if a change in job duties so warrants. Most reclassification requests are handled on a case-by-case basis.

LACOE has a number of different categories of contract personnel, each with its own process and procedures for approval and each used for different purposes:

- Professional experts (PE) are considered to be temporary staff members that are brought in for short periods to provide specialized service that requires subject matter expertise not found in the classified service. They may use LACOE office resources, including office space and computers. They are paid on payroll. PEs are processed by the Personnel Commission. Because they are not considered to be contractors, a Personnel Requisition form is used instead of a CAR form.
- Independent contract consultants (IC or ICC) meet the IRS definition of an independent contractor and should not use LACOE office resources, according to the Contracts Division desk manual. The Contracts Section processes ICC contracts, except that when the contract exceeds \$2,000, the Personnel Commission also reviews them. ICs are not paid through payroll.
- Temporary employees are a category of personnel that does not fit into either of the above categories. They appear to be used for clerical and administrative positions when short of staff. These include personnel from temporary employment agencies and limited-term staff.
- Certificated contract consultants (CCC) are temporary certificated employees, hired on an hourly basis. Travel expenses are paid by LACOE. They are hired using a Personnel Requisition, which is accompanied by resumes and other documents. Management staff approves the requisition and it is reported to the board. Timesheets are submitted at set intervals and reviewed by the unit manager.

The number of categories can be confusing to staff and may contribute to the overall perception that LACOE outsources or contracts for services inappropriately rather than hiring in-house staff. In addition, documents show different acronyms and names for these categories, which can also create confusion. Well-thought-out policies and procedures, adherence to those policies, procedures and to state law, and regular evaluation and revisions are necessary to ensure effective and efficient use of these positions.

A process map describing actual LACOE processes entitled "Professional Expert Assignment" shows the Human Resource Services involvement in the approval/assignment of PEs, but does not show Personnel Commission involvement. Another process map titled "Contractor" also shows that HR handles those approvals and the Personnel Commission is listed as handling the recruitment and hiring of regular classified employees. These process maps conflict with what the Personnel Commission staff reports is their current practice as well as with parts of the Contract Section Procurement Services Manual and desk manual. Current practices and procedures described in training and resource materials should be the same.

Unlike the Contracts Section desk manual, which provides the detailed processes and procedures for hiring contracted services, there does not appear to be a similar manual for hiring professional

experts. However, there are forms and summary guidance documents available for staff use when procuring PEs such as the “Request to Employ Professional Expert”, “How to Process Professional Expert Requests” and “Personnel Requisition – Request to Extend Employment of Professional Expert.”

Professional experts can be hired for the limited term of 90 working days (720 hours) or five months per year, based on LACOE current procedures and applicable Education Code sections. Successive 90-day extension can be granted using the same or different employees for a total of 1,440 hours or 180 working days if continuous recruitment and examination procedures are in effect (EC 45289). It is the supervisor’s responsibility to monitor hours and to give sufficient lead time to ensure process completion when requesting a new PE or extending the term of an existing PE.

Staff shared with the study team that some PEs are retained for extensive periods of time. After one or two extensions are given, Personnel Commission staff investigates but the guidelines do not provide a maximum number of extensions or maximum term length.

The study team reviewed a sample of attendance reports for PEs in a number of different programs, including Parent and Community Services, Migrant Education, Technology Services, Student Support Services and Williams Legislation. These reports are considered to be the timesheet documentation for PEs. Of the 42 PEs reviewed for the months of April and May 2011, approximately 10 (about 25%) appeared to be working 7-8 hours a day, four or five days a week. If this extended to the end of the fiscal year, it would exceed the 90 working days stated in the procedures document.

A partial list of PEs shows the department, job classification, individual’s name, “duration,” “days,” and “remaining.” In a significant number of cases, contract duration was for a fiscal year. In the Parent and Community Services department, the duration was listed as from 7/1/2010 to 6/30/2011, a full year, and days shown were 244.9. This contract exceeds the 90-working-day limit and also exceeds the extension of 180 days, if one was obtained. It was explained to FCMAT that most of these contracts were for parent mentors, and those positions did not actually work the entire year; rather, they would work days at any time during the year (up to a total of 90 or 280 days, if applicable). For those cases, information will need to be much clearer on the forms and listings so that the information is accurate as to the actual number of days worked. The current method does not reflect how many days were worked, giving the impression that the procedure was not followed.

A formal analysis by the Personnel Commission or by Human Resource Services of the number and purpose of PE positions that exceeded 90 or 180 days may help the organization determine if practices need to change.

There are three classifications of professional expert: administrative specialist, education specialist and technical specialist. There are five levels of minimum qualifications for each type of specialist depending on educational achievement and experience in the field. For example, a Specialist V is a “recognized leader, published author, speaker, etc. in a specific field.”

The pay for PEs is based on their classification and minimum qualifications, and the department director requesting the PE sets the pay. Interpretation of the qualifications criteria for PEs by the department director and between department directors may not be consistent for a variety of reasons. The responsibility of setting the pay for PEs should be centralized with the Personnel Commission or Human Resource Services staff, thus providing a more objective pay-rate standard.

Completed PE request forms are sent to the Personnel Commission, which is tasked with ensuring that PEs do not supplant currently employed staff. In interviews with the study team, Personnel Commission staff confirmed that the Contracts Office determines whether a requested person is an independent contractor or a professional expert, based on their qualifications and IRS definitions.

No documentation was provided that showed a deliberate decision-making process regarding whether a contractor should be hired instead of assigning the work to an employee. A comparison of the requested services to the capabilities of existing employees would likely delay the procurement process but could also decrease the use of outside consultants and increase accountability to the county board of education and administration. Determining whether current LACOE employees could perform the duties of the PEs listed on sample PE timesheets would require analysis of the workload capacity and job description of every employee. Each department director or supervisor should put together an annual report explaining why the PEs they employ are needed. A decision will need to be made regarding who will then need to analyze this information.

The study team was provided with a list titled, "Independent Consultants FY 2008-2011." According to this list, LACOE contracted for nearly \$4.5 million in independent consultant contracts from 2008-09 to 2010-11 (as of June 17, 2011). This included \$597,563 for independent consultant contracts in 2008-09, \$1,480,549 in 2009-10 and \$1,956,345 in 2010-11.

This partial list of 621 contracts does not include contracts from the Facilities Planning department, the Controller's Office and others. Because this list does not include all LACOE services contracts, it is difficult to ascertain the level of total contracted services. Some contracted services not on this list include those for legal, construction project budget tracking, and moving services.

A summary of all contracted work from every department could help LACOE adequately monitor whether contracted services are effective, efficient and provide appropriate alternatives. This is typically not provided automatically in a school district or county office of education because of distinct sources of funding, but if there is a concern about the level of contracted services, a comprehensive list could be developed and managed by one department, perhaps the Personnel Commission or Human Resource Services.

In addition, because invoices were not obtained, it is unknown whether actual costs were lower or higher than this total. However, a sample of contracts reviewed from this list showed that amendments to increase the contracts were not uncommon.

A review of the contracts shows that many of them are for project-specific services that would not merit a full-time position. Many contracts are for small amounts, with significant numbers under \$5,000 for various purposes, including essay reader for Academic Decathlon, musical instrument playing in various drama and musical productions at LACHSA, assisting in the development and delivery of professional development services related to preschool-age English learners; attending the State Parent Advisory Council meetings, and myriad other functions.

## Test Sample

A sample of 19 ICC contracts was reviewed from the list of "Independent Consultants FY 2008-2011." The contract and CAR were reviewed for several of them. On all sampled contracts, the CAR forms appeared to be appropriately filled out and signed, but the copies of contracts and contract amendments often were not signed. Several service contracts had no attachment

or exhibit detailing the scope of work, deliverables and milestones, if appropriate, to ensure that payment was warranted. Several sampled contracts related to the Head Start program. The scope of work was not defined, and no deliverables or milestones were included in the contract provisions. The scope of one Head Start-related contract was that “technical assistance is required in the areas of Head Start regulations, governance and fiscal allowances.” The contract was for \$30,000, for 20 workdays at \$1,000 per day plus \$10,000 for travel, meals and lodging (\$6,000 for travel, \$3,000 for lodging and \$1,000 for car expenses), which appears to be a large amount of overhead for this type of contract. Further, the lack of a specific scope makes it difficult to determine the specific type of work needed, the project it relates to and other specifics that would allow a more accurate evaluation of the need for this contract.

Two contracts, funded by the American Reinvestment and Recovery Act (ARRA) funds, were for Head Start-related services. One contract was for data collection and evaluation services for Head Start, Early Head Start expansion and Family Child Care Phase III projects. The contract was for six months of full-time equivalent work (1,056 hours) at \$25/hour. It is unclear why LACOE technology services staff could not perform these duties.

Another contract was for Head Start training and technical assistance and was also ARRA-funded. Services were to develop policies and procedures for delegates, evaluate Early Head Start and Head Start educational environments for compliance, and provide training to staff. This is for the 2011-12 school year for \$15,000 at a rate of \$75 per hour, not to exceed 200 hours. As this is funded by one-time ARRA moneys it may not be prudent to hire permanent new staff, but it is reasonable to analyze whether existing staff could perform these duties.

The study team also reviewed a set of contracts related to the EPIC student data program. Ten contracts related to EPIC were to monitor for adequate contract administration, including compliance with state law, LACOE policies and best practices. The review showed a trend of original contract approval, followed shortly by one or more amendments increasing the contract amounts substantially. It is important to provide the full cost estimate of a contract at the time of the original contract for better cost containment, project or program budgeting and cost monitoring.

According to the Contracts Section desk manual, contracts under \$50,000 are not required to be reported to the board. Several of the contracts reviewed were approved with amounts often slightly under \$50,000, therefore not requiring board reporting. However, the CAR form does list board dates. The study team could not determine whether reporting actually occurred, because the Report of Contracts is not included in the board minutes or agendas on the website. FCMAT believes the confusion in this area is due to the Education Code requirement in Section 1280 that states consultant agreements of \$25,000 or more that require budget revisions shall be incorporated into the agency’s next interim report. Because the desk manual has a requirement that contracts over \$50,000 must be reported to the board, while Education Code states that contracts over \$25,000 that require a budget revision must be reported at interim reporting time, the two provisions can be in conflict and must be brought into alignment to eliminate future confusion.

Staff reported that posted public standing committees of the board meet prior to the board meetings for which staff summarizes each contract in the Report of Contracts. The website shows policy meetings and finance meetings, but it does not appear that the Report of Contracts is included in those meetings, nor is it posted on the website in the Board Agendas and Minutes link. The lack of the public’s ability to view and monitor the use of outside contractors and expenditure of funds on contractors inhibits public accountability for the organization.

The Report of Contracts for April 2011 was reviewed by the study team listed the amendment as reported at the time, stated that it increased an existing contract and gave the total amount of the contract. This provides more complete information to the board regarding contract costs. However, that report did not include enough detail on each contract to give the board adequate information to assess whether management is effective.

On several contracts reviewed, amendments were approved only a few months after the original contract, often doubling or tripling the contract amount. Best practices would include a full cost estimate of the services in the original contract to provide proper budgeting and cost monitoring. Contractors are used on multiple concurrent contracts, on projects that appear similar in nature. This may impede adequate monitoring of true project costs.

For example, Contract No. 080538:10:11 with Outsource Technical, LLC for temporary staffing in the Controller's Office on September 30, 2010 was for \$49,980 at \$60 per hour, not to exceed 833 hours. The scope is listed as: development of web-based application to provide school sites, group homes and foster family agencies information regarding Title I Program; development of reports for preparation of consolidated applications; and development of message boards for LACOE Title I announcements.

Contract No. 079690:10:11 with the same vendor also was executed on September 30, 2010, to provide temporary qualified personnel to work on the student information system integration and reporting projects for LACOE's educational programs.

The original contract was not to exceed 1,050 hours at \$60 per hour, for a total of \$63,000. The scope of work was: student information systems for schools providing special education services for students; laser fiche and student record interface; CALPADS and other student data interfaces; textbook inventory.

Within three months Amendment #1 was approved, which increased the original contract of \$63,000 by an additional \$99,000 for a new total for \$162,000. It covered an additional 1,650 hours at \$60 per hour, an increase of 150%. This was approved in December 2010, three months after the original contract. Amendment #1 was signed through the assistant superintendent level. The board date of December 7, 2010 is listed on the CAR form.

Amendment #2 was then approved to increase the contract by another \$54,000 for a new total of \$216,000, or 342% of the original contract. This was signed through the assistant superintendent level. No board date is listed on the CAR.

Finally, Amendment #3 was approved in May 2011, only five months after the original contract. This is for an additional \$147,060 for a new total of \$363,060 to cover the additional 1,650 hours needed to complete the student information systems integration projects. The CAR is signed through the assistant superintendent level. The board date is listed on the CAR as May 17, 2011. The total contract is now \$300,060, a 476% increase to the original contract.

Scopes of work for these contracts include temporary staffing in the Controller's Office for student information systems integration projects; fiscal services working with the Head Start assistant director of fiscal operations; student information systems for Head Start, IDEA and disaster recovery programs through the Controller's Office; and Web-based application system development for Head Start federal reporting in the Controller's Office.

The table below shows several contracts that were sampled, their original contract amounts and dates, amendments and increase totals. The table includes the contracts included in the narrative above.

| Contractor                            | Original Contract Amount | Date Approved /Listed Board Date                    | Amendment  | Date Listed as Reported to Board           | New Contract Amount | Percent Increase from Original |
|---------------------------------------|--------------------------|---|--|--|---------------------|--------------------------------|
| Outsource Technical                   | \$63,000                 | 10/19/10  | #1 – \$99,000  | 12/7/10                                    | \$162,000           | 157%                           |
|                                       |                          |   | #2 – \$54,000  | None listed                                | \$216,000           | 242%                           |
|                                       |                          |   | #3 – \$147,060   | 5/17/11                                    | \$363,060           | 476%                           |
| Robert Half Technology                | \$58,980                 | 7/1/10  | #1 – \$60,000 – no CAR attached                              | 2/24/11                                    | \$119,980           | 101%                           |
|                                       |                          |   | #2 – \$88,620  | 5/18/11                                    | \$207,600           | 251%                           |
| Robert Half Technology                | \$41,280                 | 6/09 (no date on CAR)                               | #1 – \$41,520  | 11/17/09                                   | \$82,800            | 100.5%                         |
|                                       |                          |   | #2 – \$62,400  | 2/2/10                                     | \$145,200           | 252%                           |
| Robert Half Technology                | \$46,720                 | 9/7/10  | #1 – \$704.00 (rate of pay increase)                         | 4/28/11                                    | \$47,424            | 1.5%                           |
|                                       |                          |   | #2 – \$59,280  | 2/15/11                                    | \$106,704           | 128%                           |
| Software Management Consultants, Inc. | \$49,980                 | 12/7/10   | No amendments found  |  |                     |                                |
| Software Management Consultants, Inc. | \$70,000                 | Entered into contract 7/1/09; Board report 12/15/09 | #1 – term increased; no dollar increase                      | 9/30/10<br>No CAR attached                 | \$70,000            | 0%                             |
| Software Management Consultants, Inc. | \$298,980                | 7/1/10; board report 8/17/10                        | #1 – \$95,760 – no contract amendment attached               | 5/17/11                                    | \$394,740           | 32%                            |
| Software Management Consultants Inc.  | \$44,160                 | 10/21/09; no CAR attached. No Board date listed     | #1 – Missing – from Amend. #2 below, can tell it is \$33,120 | Unknown – documents not provided           | \$77,280            | 75%                            |
|                                       |                          |   | #2 – \$20,100  | No CAR Attached                            | \$97,380            | 123%                           |
| Software Management Consultants Inc.  | \$82,560                 | 7/21/09; no CAR attached                            | #1 – \$133,440   | Amendment signed 10/28/09. No CAR attached | \$216,000           | 162%                           |

## Other Findings

LACOE currently has active contracts with at least six temporary employment agencies for which the study team was provided contract documents. These contracts describe the scope of work as “a supplement to its permanent work force. From time to time [LACOE] requires temporary agency personnel to perform specialized tasks, limited-term work assignments, overflow work and other labor [that] otherwise cannot be performed by the regular employees of LACOE.”

In the three-year period between July 1, 2008 and June 17, 2011, LACOE expended \$1,552,962.57 on contracts with temporary employment agencies. Of that, \$1,442,030.32 or 92% of the payments were to Howroyd-Wright Employment Agency DBA Apple One.

While the total amount paid to temporary employment agencies is not large compared to the total LACOE payroll, this issue deserves analysis to determine whether this approach is the most efficient one.

It is not typical for a school district or county office of education to regularly use temporary employment agency services. Instead, a school district or county office will seek to manage

its labor costs and efficiently perform the required tasks with a combination of permanent employees and substitute pools made up of recently laid-off personnel, retirees and other qualified candidates. Temporary employment agency personnel typically cost more because of the agency fees.

Prior to two years ago the practice in several departments was to contract for their own legal counsel. The current general counsel is in the process of bringing all the legal work for LACOE in-house to save money and, in addition, to transfer authority to the Office of General Counsel (OGC) for finding, hiring and overseeing any outside counsel that is determined necessary.

Staff reported a general overuse of legal counsel by LACOE departments to answer questions that could be addressed more efficiently and at lower cost by the OGC. In some cases, outside legal counsel is asked to perform work that is not legal in nature and that a department should do. The general counsel reported that staff members have developed a system and new policies limiting the use of outside legal counsel and providing a process for LACOE employees to follow. At the time of this review, no formal proposal or draft policy was prepared.

The study team's review of the general counsel's office showed that many processes in the office were manual or outdated. The department is in the process of automating those processes and become paperless wherever possible. The use of technology in the legal system is vital for everything from file management to the use of computer forensics and courtroom animations, and to protect the interests of the office.

The Contracts Section has overall responsibility for administering LACOE's student transportation program, including contracts with outside transportation carriers on behalf of school districts, for home to school and special education transportation. The 13 staff members in the Transportation department are responsible for creating and assigning routes, monitoring transportation carrier performance, paying the carriers, and, if necessary, imposing liquidation damages on the carriers, as specified in the contract language. The department is also tasked with determining the amount of indirect and direct costs to be charged to the districts. ABD produces the invoices that are sent to the districts. LACOE has operated its transportation program in this manner for more than 30 years and recently responded to requests for proposals for contract transportation from the Compton Unified, Lowell and Garvey school districts. The Transportation department is also responsible for crossing guards, who are provided through a contract with Los Angeles County. LACOE charges the county for crossing guards, but the county determines where the guards will be located.

LACOE's transportation function appears to be unique and well managed. In 2009-10 all contracts with transportation providers were renegotiated for a five-year period. LACOE should continue its outreach to school districts that are in search of cost effective home to school and special education transportation providers.

The Technology Services division uses consultants and personal services contractors when fulfilling its mission to provide technical support to LACOE's operations. Technology Services is responsible for maintaining the financial system for LACOE, which is also used by most of the school districts in Los Angeles County. The department also administers annual maintenance contracts with various software and hardware providers and acts as a hub for Internet service, provides Internet filtering and multi-media services, provides access to the PeopleSoft financial system and manages e-rate applications for participating school districts.

Although the Technology Services division uses professional experts and outside contracts for large projects, these employees and/or independent contractors provide services for a limited

term through completion of a project. In this respect, the study team found that the use of these limited-term employees and/or independent contractors is appropriate.

While the Technology Services division has assigned responsibilities and tasks, other departments also have dedicated technology contractors and staff. The study team found that some original contracts for licenses and software purchases are executed and managed through individual departments. For example, the EPIC student data system project is managed and operated through the Controller's Office, with no formal support or assistance by the Technology Services division.

This poses several concerns which include the lack of standardized systems throughout the organization and its numerous programs, the possible lack of accountability for performance of deliverables, inefficiencies in resource management and an inability by the Technology Services division staff to support systems when they have not assisted with system specifications, assessed user needs, installed software or configured hardware.

The lack of standardization in technology can create serious vulnerabilities. In addition, systemwide purchases and contracts administered by the Technology Services division could provide economies of scale that may not be achieved with individual department purchases and contracts. Because one-time funding is often used to acquire systems, departments may have difficulty maintaining hardware and software once the funding has been expended. Further, the Technology Services division will not have built support for the system into its operating budget.

Specialized procurement of consultant and personal services related to facility construction, renovation and maintenance projects has been delegated to the Contracts Section, and requests are documented on a CAR form. Contracts Section staff members work with the Facilities Planning department staff, which helps ensure more effective and efficient contracting and avoid problems during design and construction.

The Contracts Section staff meets with Facilities Planning department staff, the project architect, and the construction managers to become familiar with the project and ensure that contract language is correct and appropriate, including bonding and insurance, bid times, and bid conference. Staff reported more effective project coordination now that communication has improved and regular meetings are held.

The study team found that the Contracts Section and the Facilities Planning department staff understand and appropriately use PCC codes related to bid processes. The Contracts Section staff is responsible for the advertising, general conditions, and supplemental general conditions and will review the specifications for contract compliance issues such as insurance and bonding. The Contracts Section staff also performs the vendor evaluation.

According to Board Regulation 3630.1, the director, Division of Business Operations has the approval authority for all construction project-related documents, including: architect's contracts, preliminary plans and specifications, final working drawings and specifications, bid documents, award of bid, agreements with contractors, change orders to agreements, acceptance and completion of construction projects, and lease-with-option-to-purchase agreements.

Board Regulation 3630.2R states that the responsibility for coordinating construction projects is assigned to the assistant director, facilities and construction. The assistant director, Division of Business Operations is responsible for coordinating all phases of construction.

LACOE has not adopted the Uniform Construction Cost Accounting Procedure. Adopting these provisions may provide a greater level of flexibility and should be analyzed.

## Construction Project Management

The last two major capital facilities projects LACOE bid were the I-Poly project (Science and Technology facility located on the Cal Poly Pomona campus) and LACHSA project (the Los Angeles County High School for the Arts on the California State University, Los Angeles campus). Both are new construction projects and are being built using the multi-prime method of construction management.

In multi-prime management, the owner enters into separate contracts with different trade contractors instead of contracting with one general construction contractor.

In theory, multi-prime management can result in lower cost to the owner because it avoids the compounded profit and overhead margins that are common to using a single contract with a general contractor. It may also permit the owner to divide the work into smaller packages, thereby allowing more firms to bid for the work. This increased competition may result in lower prices.

However, significant disadvantages are associated with multi-prime management as well. It requires more time and expense by the owner to bid and administer the contracts for multiple trade contractors. It also will normally result in additional expense associated with hiring an outside construction manager to coordinate the work of the various trade contractors. LACOE currently contracts with outside construction management firms for both new construction projects.

Perhaps most importantly, the lines of responsibility and accountability under multi-prime management contracts are often unclear as compared to a single contract with a general contractor. For example, a trade contractor who performs his work late may assert that this delay was caused by another contractor. If there is defective work, a trade contractor may claim that his work was proper when he performed it, but that another trade contractor's work caused the problem. Under a single contract system, the general contractor is responsible for the work of all subcontractors.

LACOE currently administers 22 contracts on the I-Poly project and 20 contracts on the LACHSA project for building trades. At the time of bid, more than 200 trade contractors submitted bids to be analyzed. Because multi-prime management may or may not be cost effective, LACOE should explore other construction contracting methods, including design-bid-build and lease-leaseback as alternatives for future school construction projects.

A construction project manual that was reviewed included a checklist sheet for bidding and other related documents for that project. Not every document listed on the checklist was included in the binder. Completing the binders would provide a strong file management and archival history. A review of the documents in the binder by the study team shows a relatively strong bidding process and adherence to procedures. Project bid information is also made available online for all potential bidders and the public.

As mentioned earlier in this report, county boards of education have the power to lease, lease-purchase, hold and convey real property for the purpose of housing the offices and services of the county superintendent of schools (EC 1042(c)). Authority for purchases and contracts for personal property resides with the county superintendent. In many county offices, the contractual matters associated with construction, including the hiring of contractors and design professionals, is handled by the county superintendent and title to the property is held in the name of the county board. If the county board approves major construction projects associated with the acquisition of real property or long-term property leases, it should authorize the county superin-

tendent to approve change orders and other related contract matters to ensure that the projects are completed in a timely manner.

Contracts Section staff reported to the study team that they try not to use the same architect and inspector for all projects to encourage competition and obtain better prices and products. However, this does not necessarily produce the best outcome and may hinder effectiveness and efficiency because each new architect and inspector must learn the LACOE procedures, staff, design and construction standards, and facilities for each new project. It also is not necessarily cost-effective to change design services and inspectors for change's sake alone. Effective management by LACOE staff of architects, inspectors, testing specialists, construction managers and project managers on facilities projects will produce high quality results at a reasonable cost. However, without internal expertise, an outside project or program manager familiar with effective management techniques and best practices may be required for school construction projects. These responsibilities can be reassigned to LACOE staff after appropriate training has been provided. The extra cost of a skilled and expert project manager adept at managing architects and other consultants ultimately will save money by limiting change order costs and other construction problems.

A request for qualifications (RFQ) process was competed for the construction managers and project inspectors on the I-Poly and LACHSA projects. However, it was unclear to the study team whether all services related to these projects, such as testing services, special engineers and other consultants were selected through RFQs. The RFQ process results in an approved pool of qualified consultants that can be called upon for future projects.

The Contracts Section staff reported that the contract template is based on the American Institute of Architects (AIA) standard contract. The AIA architectural/engineering (A/E) services contract contains language that local educational agencies often change to provide better terms and conditions for the owner. LACOE should strongly consider having legal counsel research what other local educational agencies in the state are using and develop an A/E services contract that provides fair terms and conditions for both LACOE and the architect/engineers. LACOE staff also reported using a percentage of project cost basis for its architect compensation rate. While this was a requirement many years ago with state funding programs, a lump sum basis (based somewhat on cost estimate of the project, not the bid) should be used for all future A/E services contracts. Progress payments should be based on deliverables, with no up-front payments so that LACOE can ensure it obtains services or goods before paying for them. LACOE staff should closely monitor architects' work using outside project managers as needed to conduct timeline, budget and cost estimate reviews. In addition, the contract should withhold at least the final 3% to 5% of the architect payment until complete close-out of the project, including delivery of as-builts, warranties and systems manuals, completion of all punch list items, and receipt of the final certification letter from the Division of the State Architect.

## Recommendations

*The county office should:*

1. Ensure that all relevant staff members receive the Contracts section Procurement Service Manual and the smaller desk manual.
2. Increase the number of training workshops in procurements processes and procedures. Set aside adequate time for Contracts Section staff to prepare, develop, schedule and hold the workshops. Evaluate workshop effectiveness.

3. Schedule procurements training workshops at school program sites and work with appropriate administrators to make the workshop attendance mandatory.
4. Require general liability insurance for contracts under \$50,000, as well as professional liability coverage in appropriate cases. To allow smaller vendors to participate, consider a lower minimum contract level such as \$20,000.
5. Analyze each category of contract and temporary employee used by each department to determine if existing categories appropriately address work assigned. Update existing categories, eliminate categories that are no longer needed and add any new categories that are needed.
6. Update the training and resource materials to reflect Personnel Commission roles and responsibilities with PEs including process maps or flowcharts, Procurement Services Manual and desk manual.
7. Develop desk manuals providing the detailed processes and procedures for hiring professional experts, similar to the one on hiring contracted services.
8. Restrict the number of extensions granted to individual PEs to LACOE policies on length of service. Identify specific criteria necessary to extend a term of service and assign extension approval to executive management.
9. Centralize the responsibility for setting the pay levels for individual PEs by assigning it to the Personnel Commission or Human Resource Services staff.
10. Revise procedures to include a comparison of the requested services needed to the existing employees and their capabilities at LACOE, including consulting with the supervisor and employee on workload capability and skill sets of the actual employee.
11. Develop and maintain a summary of all contracted work from every department by requiring submittal of a same-formatted report monthly or quarterly from each department to the Contracts Section. This will allow adequate monitoring of the effectiveness, efficiency and value of contracted services.
12. Enforce existing policies and procedures by requiring scopes of work in exhibits attached to independent contractors' contracts.
13. Ensure that travel, food and lodging expenditures follow policies and procedures and are reasonable in amount.
14. Provide the full Report of Contracts with more detailed information and descriptions of contracts and scopes of work and other information on the LACOE website as part of board agendas and minutes.
15. Update and clarify the Contracts desk manual so the reporting requirement for contracts over \$50,000 is clear and consistent with Education Code Section 1281, which has requirements in place for contracts over \$25,000 requiring a budget revision.

16. Manage program budgets more effectively by ascertaining a more realistic price in the original contracts for consultant and personal services.
17. Evaluate the use of temporary employment agencies, decreasing their use if tasks can be performed by current employees or by the substitute pool.
18. Analyze the cost and nature of legal services needed and develop a new system, formal policies and procedures on the use of outside legal counsel. Institute this system if it will save costs and provide adequate legal services.
19. Determine whether the use of outside messenger and delivery services would be more cost effective than using clerical staff for these tasks.
20. Evaluate any conflicts of interest of legal representation and determine whether outside counsel for the Personnel Commission and other LACOE entities or departments would be cost-efficient and provide adequate legal coverage in those instances.
21. Ensure that the general counsel's office has access to the technological resources it needs to protect the interests of the office.
22. Continue its outreach to school districts that are in search of alternative home to school and special education transportation providers.
23. Ensure that the Technology Services division is included in the approval process for new systems and contractors, and can support the maintenance of new hardware and software purchases.
24. Research the advantages and disadvantages of adoption the California Uniform Construction Cost Accounting Act (CUPCCAA). Adopt the procedure if warranted.
25. Analyze the experience with multi-prime construction management on the two current new construction projects with the parties involved, and generate a lessons learned report.
26. Explore alternatives to multi-prime contracts for future construction projects, including design-bid-build and lease-leaseback
27. Complete all construction project manuals so that copies of all documents listed on the checklist sheet are included.
28. Develop a board policy stating that if the LACOE Board approves major construction projects associated with the acquisition of real property or long-term property leases, it authorizes the county superintendent to approve change orders and other related contract matters to insure that the projects are completed in a timely manner.
29. Discontinue the practice of changing architects and design team professionals on every project. Consider utilizing an RFQ process to select outside project managers, with staff taking over once they are familiar with these techniques and practices.

30. Use the RFQ process to develop a pool of qualified consultants that can be called upon for future facility projects.
31. Work with legal counsel skilled in architect services agreements on school construction projects to formulate a contract template that provides equitable terms and conditions for both LACOE and the architect.
32. Utilize lump sum contracts for architect/engineering and other types of services.

## Leases

The Facilities Planning Services department is responsible for about 800 leased and owned sites spread throughout Los Angeles County. These sites include administrative offices and school sites for the divisions of Juvenile Courts, Alternative Education, Special Education, and Head Start, along with Greater Avenues for Independence (GAIN) and LACOE-sponsored charter schools. The department oversees facilities planning, construction management and building services and analyzes potential properties to lease. The department also administers a labor compliance program as prescribed by state Department of Industrial Relations and Office of Public School Construction and is responsible for LACOE's emergency operations center.

Facilities Planning Services has a unit dedicated exclusively to real estate, consisting of a senior real estate specialist who possesses a California real estate broker's license and two real estate specialists who have real estate licenses. This unit primarily negotiates commercial leases for LACOE's instructional and administrative programs and administers roughly 300 leases, 200 of which are between LACOE and county school districts.

The Real Estate unit staff members collaborate with Facilities Planning Services, city staffs and end users to obtain appropriate sites at cost-effective lease rates and terms. Staff members largely came from the private sector and thus brought their knowledge of the real estate business to LACOE. They have modified this knowledge to fit the public agency requirements while striving to make the process efficient.

LACOE uses four different types of lease agreements:

- Commercial lease with third party
- Facilities use agreements
- Five-year ground leases
- Forty-year ground leases for projects with state funding

Staff described a set of procedures for securing a site for lease as follows. The initiator contacts Facilities Planning Services first and completes a Building and Facilities Request (BFR) form, which is basically a work order for a property. On the BFR, the requestor provides the name of the program, number of students, estimated space requirements, geographical service area and other specialty issues such as safety for students and staff. A facilities analyst assesses the square footage needs, Americans with Disabilities Act (ADA) requirements and California Department of Education requirements, such as Field Act compliance. After the square footage, features, geographic needs and type of facility are determined by Facilities Planning, the information is communicated to the Real Estate unit staff. The senior real estate specialist assigns the request to a staff real estate specialist, or contracts with a real estate broker.

Once the program's facility needs have been determined, the Real Estate unit staff investigates potential facilities for lease with a visit to analyze it for safety features, public transit needs, freeway access, and adjacency restrictions to inappropriate business activities such as adult stores, bars, etc. Next, they ask the program principal (the requestor), and possibly a teacher and director, to accompany them on another visit. Sometimes the program staff visits the site but sometimes they do not.

Tenant improvements, including future expansion costs, are negotiated along with rental rates. Funding may not include the up-front facilities funding needed for tenant improvements, so the improvement and expansion costs are amortized into the rent. This can increase the cost of the

rent unnecessarily from interest as well as the premium, unless the leases are negotiated carefully. The Real Estate unit staff state that they work to get most tenant improvements done by the landlord, which is faster and less costly.

Past leases did not include annual cancellation rights, but the Real Estate unit staff report that they now know they need to request this because programs may experience funding cuts or could be cancelled unexpectedly. This may prompt landlords to increase the lease costs to compensate for that flexibility.

Staff stated that multiple and unnecessary layers of approval are required for real estate leases. Some approvers may change the language and thus inadvertently change the intent of the lease. For example, an educational program financial operations consultant reviews the costs and assigns an account code. Next, the facility planning officer re-reviews it; then a facilities planning supervisor, an educational program director and the assistant superintendent for business services all review the lease. If the lease is over \$50,000 it also goes to the superintendent for review. Reducing the number of reviews and approvals may result in timelier lease execution with reduced changes to lease language.

Finding sites for alternative education programs that serve hard-to-serve or high-risk students with behavioral problems can cause concerns in some communities, but students are served best in their own communities and with the support of that community. Because of past experience with community concerns, the Real Estate unit staff can identify the communities that more readily accept alternative education programs and can save time and money by placing programs there. However, LACOE staff should continue to work to provide services to students in their own communities through continued attempts to develop positive relationships with other agencies and neighborhoods.

LACOE has 26 delegate Head Start agencies. There are 464 Head Start sites. Staff members assigned to find a property and negotiate a lease are not given budget parameters. Although the BFR may contain a price per square foot, the dollar amount listed doesn't consistently include all related costs such as tenant improvements, utility and maintenance costs. Providing specific budget information about the resources available for facility expenses could expedite the property search.

The real estate specialists have an internal checklist of items and information needed during the leasing process, but do not normally share the information contained in it with other departments when the BFR is submitted. Distributing a copy of the checklist to each department leasing property with the BFR would increase efficiency.

As LACOE continues to have declining enrollment in its court/community schools or as more school districts take back LACOE-operated special education programs, it is anticipated that several of these leases will be terminated. The unit still relies on outside commercial brokers to negotiate some of its leases, although there appears to be sufficient in-house expertise to handle them.

## Recommendations

*The county office should:*

1. Consult with facilities and real estate staff before applying for grants or negotiating the state or federal funds for programs that require facilities so that total facility related costs are considered, including any tenant improvements.
2. Require program administrators to visit potential lease sites to ensure the site fulfills program needs and thus avoid costly renovations.
3. Involve all departments earlier in the discussion of lease terms and conditions to increase morale, expedite negotiations and serve students in a timelier manner.
4. Develop standards or a template of terms and conditions for leases to increase efficiency. Include annual cancellation rights language in case funding is reduced or eliminated.
5. Streamline the review and approval of new leases. Distribute final versions of leases to all appropriate staff such as program administrators, site administrators, budget/accounting personnel, facilities personnel and others.
6. Continue to collaborate with cities, the county and school districts to develop a model and a positive relationship to provide services to hard-to-serve alternative education students in their own communities whenever possible as students are served best in their own communities and with the support of that community.
7. Provide a budget for facility-related expenditures and time frame for process completion to the real estate specialist when the BFR is submitted.
8. Reduce the use of outside commercial brokers by utilizing in-house real estate staff whenever possible.



# Financial Analysis Overview

An independent reconciliation of position control to budget and payroll also was performed as part of this section. An external and independent review of the LACOE 2010-11 general fund budget was prepared, and a multiyear financial projection (MYFP) developed for the current and two subsequent fiscal years. A cash flow analysis for 2010-11 and 2011-12 also was prepared.

## Reconciliation of Position Control to Budget and Payroll

FCMAT performed a detailed reconciliation comparing the data from three databases: position control, budget, and payroll. Overall, in comparing the second interim report to position control, the total variance was \$4,041,525. In addition, the position control to payroll variance was determined to be \$1,798,340. These discrepancies need to be researched and adjusted so future data will be more accurate.

Using March 2011 payroll, the study team determined that of 3,431 employees with a monthly earnings ID and a regular pay basis, 35 employees were categorized as in a limited-term position. Limited-term positions are not included in the position control database and are not encumbered in the payroll processing system, a potential annual cost of more than \$3 million in salaries/benefits based on March 2011 data that are not included in the position control database. These positions and internal policies should be reviewed to ensure that the positions are correctly classified as limited in nature, do not cross fiscal years and do not continue without the proper administrative approval, and that the staff updates budgets in a timely manner to reflect the projected employee costs.

FCMAT's review of position control dated April 28, 2011 found that costs for active vacant positions were not adjusted at interim reporting periods, but allowed to show the full annual budgeted cost of salaries and benefits. The total salary and benefit costs reflected in the general fund in position control for those vacant positions during this time period was \$6.2 million for unrestricted resources, and an additional \$17.7 million for restricted resources, for a total cost of more than \$24 million in salaries/benefits in vacant positions with active status. A fully automated financial system would allow position control data to generate budget amounts year round, eliminating the need for manual adjustments.

## Multiyear Projection and Cash Flow Analysis

FCMAT used LACOE's 2010-11 second interim financial report and the corresponding SACS data file, as submitted to the state Superintendent of Public Instruction, as the starting point to conduct an external and independent review of the LACOE general fund budget and prepare a multiyear financial projection and cash flow analysis. FCMAT also used budget assumptions based on the 2010-11 State Budget Act, the 2011-12 enacted budget and School Services of California's (SSC's) Financial Dartboard assumptions updated in July 2011. FCMAT's MYFP excludes any salary increase in the current or projection years beyond the negotiated commitments as of June 3, 2011.

This review is not an audit or an opinion on how LACOE presents its financial statements, and should not be directly compared to any other reporting period or reports that LACOE has produced, such as year-end actuals. This is because the budget is a snapshot in time and should be balanced by resource, and does not include activity and decisions made subsequent to

FCMAT's fieldwork. Revenue projections are based on amounts the LEA is entitled to or has been awarded for the budget year and reflects the amounts available for expenditure. However, Generally Accepted Accounting Principles (GAAP) require that some revenue sources be recognized only when earned or expended. As such, the actual receipt of revenue amounts reported by FCMAT may cross fiscal years.

During this review, the study team found an overall lack of understanding by LACOE staff regarding the concepts of revenue recognition. FCMAT's review of LACOE-prepared revenue projections and independent validation including review of award letters, apportionment schedules and calculations showed a significant understatement of the revenue awarded to the county office. This understatement of revenue primarily resulted from not recognizing unexpended award balances carried over from prior year awards and only recognizing a portion of federal awards based upon the federal fiscal year.

Salary and benefit budgets were another area of considerable discrepancy. LACOE builds its expenditure budget for salary and benefits based on both open and unstaffed positions that are included and tracked in position control, which has a significant effect on the budget and related multiyear financial projections (MYFPs), especially if there is little to no intention to fill the vacant positions during the budget year. Even if these funds may be reallocated to other areas in the budget at a later date, the reallocation process is time consuming and cumbersome. Including these amounts in the budget contributes to excess carryover amounts in restricted programs and considerable variances in budget-to-actuals comparisons.

FCMAT's review of LACOE's current and historical budgets revealed the practice of reporting negative ending fund balances in restricted program resources. The county office operates numerous restricted federal, state and local programs, 23 of which require a contribution from the county office's unrestricted general fund in the 2010-11 MYFP prepared by FCMAT to cover excess expenditures over revenue and other sources. LACOE's prepared financial statements reflect several resources with significant shortfalls over multiple years, compounding the negative balances reported at the end of each subsequent fiscal year.

The practice of rolling negative ending fund balances into subsequent years, as opposed to making a contribution from the unrestricted general fund as part of the year end closing process, distorts LACOE's fiscal health portrayed in the unrestricted ending fund balance. Failure to incorporate LACOE's dependency on unrestricted resources to truly balance the budget presents a misleading portrayal of available unrestricted resources at year end.

FCMAT reviewed LACOE's financial information and prepared an independent financial analysis of the COE's fiscal health by producing an independent multiyear financial projection. The following factors have been identified as contributing to LACOE's fiscal issues:

- Program dependency on general fund unrestricted resources
- Prior year program deficit balances
- Declining enrollment
- State education funding deficits
- State education funding payment deferrals

FCMAT's analysis, based on current financial information, indicates that the COE *will* be able to meet its current obligations in the current and first subsequent fiscal year (2010-11 and 2011-12) and will not require an emergency state appropriation for these two fiscal years. However, this is

based on the 2011-12 state budget as enacted and does not take into consideration any mid-year reductions or additional cash deferrals that may occur.

FCMAT's projection indicates that the COE's reserve balance, including balances in fund 17, will decrease to 3.65 percent at the end of the 2011-12 fiscal year and will be completely depleted by 2012-13. Further, the analysis indicates that in the absence of significant revenue enhancements or significant expenditure reductions, LACOE will have a negative general fund balance, will be unable to meet its financial commitments, and will be unable to meet its reserve requirements during the 2012-13 fiscal year. FCMAT's analysis of LACOE's unrestricted budget reveals an ongoing deficit spending cycle in both restricted and unrestricted resources that erodes the county office's fiscal health on an ongoing basis each year.

To retain its going-concern status and avoid the need for outside assistance or intervention in future years, LACOE will still need to make significant budget adjustments (i.e., expenditure decreases and/or revenue enhancements). More specifically, LACOE should address the ongoing structural deficits in those programs where expenditures significantly exceed the provided funding to offset deficit spending, declining enrollment and reduced state funding. Further, reliance on one-time revenue sources from the ARRA and Federal Education Jobs funding will require the COE to revisit staffing levels to ensure operational levels are in line with revenue projections. In the absence of significant budget adjustments, LACOE will be in severe financial distress and require outside assistance during the 2012-13 fiscal year.



# Financial Analysis Findings and Recommendations

## Reconciliation of Position Control to Budget and Payroll

### Current Procedures

To reconcile position control to the budget and payroll to determine variances, the study team first tested the March 2011 payroll earnings coded as “regular pay” to the employee’s monthly pay data in the position control database for positions classified as being in “active status.” This data was also compared to LACOE’s budget by utilizing the COE’s 2010-11 second interim SACS budgets reported to CDE for salaries and benefits.

Overall, when comparing the second interim report to position control, the total variance was \$4,041,525. In addition, the position control to payroll variance was determined to be \$1,798,340. Although the reasons behind the entire discrepancy were not able to be determined, FCMAT was able to identify many of the reasons, which are further explained below. Appendix M includes tables reflecting these totals.

LACOE files utilized during the reconciliation were:

- Position control for fiscal year 2010-11, Report F38 Salaries and Benefits, file dated 4/28/2011
- Actual payroll transaction detail for the months of January, February and March 2011
- Financial Summary Report LAGL502S, reporting actual amounts charged to the general ledger from July 1, 2010 to January 31, 2011 (second interim reporting period)

The study team compared position control active positions as of April 28, 2011 to regular employee earnings paid on the March 2011 payroll. Any calculated discrepancy was used as the basis for further review to determine the type and/or reason for the variance. FCMAT prepared an exception report listing the discrepancies between the monthly salaries reported in the two databases and provided it to LACOE staff for their review and comments. Some of the discrepancies were attributable to timing differences between the dates of the position control download (4/28/11) and the March 2011 payroll. These valid timing differences were due to classified employees’ step increases as well as some items paid on the supplemental payroll (on the 5<sup>th</sup> of the following month) because of early/late hiring, terminations, leave of absence and miscellaneous prior pay period adjustments.

A separate exception report was created listing employees that were paid in the March 2011 payroll but had either inactive employment codes in position control (i.e., leave of absence or terminated) or were not listed in position control at all.

The study team requested a copy of the April 2011 payroll activity, which cleared up many of the step movement discrepancies that were the result of the effective date of updates to the position control database. The April 2011 payroll was also used to verify explanations provided by LACOE staff for the discrepancies listed on the exception reports.

Codes were developed and used to categorize the variances between position control and the March 2011 payroll. Listed below are the salary variance categories that were selected for further review as well as the reason for the variance based on either LACOE staff explanations or as a result of FCMAT finding additional information after reviewing the position control database as of April 28, 2011.

- CD1 – No regular earnings in the months of January, February and March 2011, for a total variance of \$(28,208). Per staff responses, all employees listed in this group were new hires.
  - Three employees with respective hire dates of April 4, 14 and 18, 2011 had no earnings posted during the month of April 2011.
  - Employees with hire dates of March 7 and March 28 were paid for a partial period during the month of March on the April 4 payroll.
- CD2 – Late hire coding during the month of March 2011 payroll, for a total variance of \$(26,746). Employees in this group had pay variances and/or no regular earnings during March 2011. The April 2011 payroll was reviewed, and all employees' monthly pay agreed with amounts recorded in position control.
- CD3 - No regular earnings recorded for the February and March 2011 payroll, for a total variance of \$(6,657). The employee listed in this exception category was on 50% sick leave and was paid the eligible sick leave benefits for the months of January, February and March on the May 2011 payroll.
- CD5 - Variance between monthly base pay recorded in position control and regular earnings in the March 2011 payroll, for a total variance of \$14,512. In this category, 187 employees were listed on the exception report. Eighty-nine of these transactions were matched and cleared in the April 2011 payroll. There was a wide variety of variances for the remaining 98 employees, ranging from an adjustment of \$17,964 for one employee for the period of June 2006 to 2010 to a negative salary adjustment of (\$14,904) for another employee in the periods of August, September and October 2010. Total adjustments in this category had total net effect of \$15,301 in retroactive salary adjustments in the prior calendar years as follows:

| Adjustment Made         | No. of Employees |
|-------------------------|------------------|
| Various Pay Adjustments | 14               |
| Bilingual Stipends      | 8                |
| Additional Hours        | 4                |
| Longevity               | 17               |
| Limited-Term Position   | 5                |
| Reclassification        | 2                |
| Step Movement           | 47               |
| Units Verified          | 1                |
| Total                   | 98               |

- CD6 - Early termination code in the January 2011 payroll, receiving regular earnings in March 2011 that did not agree with the earnings recorded in position control, for a total variance of \$(67).

- An employee's pay was coded as ECL (Ed Code Leave) as of November 2010, and the employee was placed in a certificated limited-term administrative position (941-269). Position control lists this employee's prior position number (160-260) as active, and the current position number (941-269) is not listed in position control at all.
- An employee had two positions listed in position control: #069140 is listed as active, and #069120 is listed as on leave. The payroll detail activity shows a January pay coding of ECL for position #069140 (active) and no other pay activity for the months of February, March and April 2011. Position #069120 (on leave) had earnings coded as ECT (Ed Code Termination) in January 2011, and shows monthly regular earnings of \$8,525 for the months of February, March and April 2011.
- CD7 - Early termination code listed in the March 2011 payroll, with no regular earnings recorded in that payroll, although adjustments were paid, for a total variance of \$(25,649). Three employees were in this category. The April 2011 payroll earnings agreed with position control. The adjustments listed in the March 2011 payroll were for:
  - Retroactive ECT pay adjustments for the period of August, September and October 2010.
  - Pay adjustments on two positions, ECT on 2/13/11 on position 160-313; and ECL on 2/14/11 on position #160-538. The April 2011 payroll activity was posted to position #160-538.
  - Retroactive ECT pay adjustment dated 1/7/11; ECL on 2/5/11 on position #135-022.
- CD8 - No regular earnings recorded for the March 2011 payroll, for a total variance of \$(15,617). For these three employees, it was found that:
  - Two employees were on unpaid leave during this period and, therefore, did not generate or receive any pay during the March 2011 payroll.
  - One employee had a last name change and was verified in the April payroll detail, which agreed with the monthly salary listed in position control.
- CD9 - Earnings other than regular earnings recorded for the March 2011 payroll, for a total variance of \$(12,168).
  - Two employees had prior hourly positions that were not listed in position control. Their hire dates of 2/28/11 and 3/1/11 agreed with the monthly salaries paid in the April 2011 payroll.
  - One employee was listed with regular earnings that did not agree to position control. The April 5, 2011 payroll listed a regular monthly amount of \$2,910, while position control listed \$2,971, a variance of \$61.

The following discrepancies were found for those employees classified as "on leave." Please also see Appendix N for a summary of the study team's comparisons.

- Leave/CD2 - Late hiring code used on the March 2011 payroll. The employee in position #144207 was flagged with a status of ECT in the March 2011 payroll and was placed in limited-term position #941029 at a monthly rate of \$8,484, but was not listed in position control.
- Leave/CD5 - Pay differences between position control and the March 2011 payroll.

- Seventeen employees were flagged on leave status for positions listed in the position control database and are currently paid at a different monthly rate in limited-term positions. Limited-term positions are not listed in position control.
- One employee was on family medical leave (FML) as of February 15, 2011. The payroll department listed the salary adjustment activity for leave status during the March 2011 payroll.
- Leave/CD10 - Coding for February early/late hire, with regular earnings in March 2011 that do not match the monthly salary recorded in position control. This employee was listed as an ECT in the February payroll activity, but is currently paid in a limited-term position (9XXXXX) at a different monthly pay rate.
- Terminated/CD2 - Late hire coding during the month of March 2011. Records reflect that this employee worked for a total of nine days in March. Further review found that regular pay earnings were not paid during the April 2011 payroll.
- Terminated/CD5 - Pay differences between position control and the March 2011 payroll. Four employees in terminated status received regular pay. This was because of a timing difference between the date position control was updated and the posting of payroll adjustments. Two of the employees retired and two were terminated.
- Terminated/CD11 - Coding with earnings for vacation payout in the March 2011 payroll. The three employees were flagged as terminated. Pay activity was reviewed and validated; no pay activity was listed in the April 2011 payroll.
- Not in Position Control/CD2 - This employee had regular earnings on the March 2011 payroll and then appeared to be missing from position control because the employee's last name changed. The employee number was verified, with regular earnings listed on the April 2011 payroll.
- Not in Position Control/CD4/CD12/CD13 - The review of nine employees listed in these exception groupings showed that:
  - One employee is listed receiving regular earnings during the review months of January, February, March and April 2011 in position #719865. This is a prime (permanent) position that should be listed in position control.
  - The remaining eight employees with regular earnings during the review months have position numbers in the limited term assignment series that are not required to be in position control.

## Recommendations

*The county office should:*

1. Consider automating current systems for hiring procedures to ensure that newly hired employees are entered in the position control database and initial pay is processed in the normal pay cycle rather than in the supplemental payroll the 5<sup>th</sup> of the following month.
2. Review the current procedures for limited-term positions to verify that they are limited in nature, do not cross fiscal years without administrative approval, and allow timely budget and position control updates of salaries and benefits.
3. Strengthen exception reports before posting payroll to verify that positions with a status other than active are highlighted, are approved by a supervisor and are flagged as potential payroll processing errors so that they can be reviewed and potentially corrected before payroll is processed.

## Budget-to-Payroll Reconciliation

The following files were used to validate the reasonableness of the 2010-11 second interim budget for employee salary and benefit costs:

- LAGL502S – 2010-11 second interim budget (1/31/2011) with year-to-actual activity and salary and benefit encumbrances
- 2009/10 – Prior year unaudited actuals
- Payroll detail transactions for January, February and March 2011 to project the average monthly payroll cost of salaries/benefits that are not encumbered, i.e., substitutes, limited-term positions, daily/hourly employees
- Position control file – F38 report listing filled and vacant positions as of April 28, 2011

LACOE's process for budgeting salaries and benefits in the adopted budget begins annually by importing the position control database into a budget projection model in late November or early December. Standard procedures require that both systems remain in sync during the budget adoption process, so LACOE staff members update both the budget model projection and the position control systems. Staff reported that once the budget has been adopted for the new fiscal year, position control is no longer used or downloaded in the SACS software to produce the required interim financial reports. Rather, to validate the budgets at interim reporting times, reports are distributed to responsible site administrators to review current salary and benefit budgets and project those expenditures for the rest of the year to forecast budget for the remaining year. An Excel file is created where these budgets are reflected, and changes and/or budget adjustments based on the administrators' reviews are reflected on the spreadsheet.

Once all salary and benefit budgets are projected, these budgets are uploaded into the SACS software to reflect the projected budget. The actual working budget in the financial system should be updated to ensure the working budget and the projected interim budgets are the same, but that does not occur. In fact, the interim reports reflect working budgets that differ from the actual financial system. The current procedures are not industry standard because correct budgeting would mean making all revisions directly in the financial system to reflect the most accurate budget at all times. LACOE should revamp the budget process, align projected salaries/benefits with the actual employee cost, update the budgets in the financial system, ensure that SACS reports represent budgets in the financial system, and thus eliminate huge swings in salary expenditures at year-end closing.

The regular monthly pay cycle for LACOE salaried certificated and classified employees includes the payment of an earned salary advance (ESA) warrant on the 20<sup>th</sup> of the month. The payroll system then processes the remaining salary owed on the 5<sup>th</sup> of the following month for services completed during the prior month. Industry standard is to post monthly employee costs in the financial system in the same month as the actual activity, which helps budget/program managers to monitor their budgets for salaries and benefits and aligns costs in the same month they occur. In LACOE, employee cost for the ESA is posted to a general ledger clearing account on the 20<sup>th</sup> of the month. It is then cleared on the 5<sup>th</sup> of the following month and posted to the actual salary/benefit expenditure accounts. Therefore, the financial activity is not reflected on the end-of-month financial reports when the activity occurs and the true employee year-to-date cost is not reflected at interim reporting cut-off dates.

The monthly payroll activity for certificated/classified substitutes is posted to a holding account in the unrestricted general fund due to payroll cutoff dates and the limitations in the substitute

calling system. After the payroll is posted, the salaries and accompanying benefits costs are then moved via a manual journal entry to clear the holding accounts and move those employee costs to the proper funding resource. Thus, once again, the financial activity is not reflected on the end-of-month financial reports when the activity occurs and the true employee year-to-date cost is not reflected at interim reporting cutoff dates.

Staff stated that the substitute expenditure posting is cumbersome because the financial system cannot capture the account code structure for the employee that the substitute is replacing. Employees must analyze, prepare, get approval and finally process the journals as they perform the procedures to move the cost of the substitute to the proper funding resource. Additionally, during this time span the financial reporting system does not reflect the most current information for actual year-to-date expenditure activity, making it difficult to project employee cost for salary/benefits budget needs at any given time.

The March 2011 payroll detail transactions reflect that the payroll department processes payroll warrants almost daily. There are numerous supplemental payroll warrants for these reasons:

- Hours were not recorded on the site timesheets by the normal processing cutoff dates and were thus reported late
- Incorrect monthly pay rates were entered into the HRS system, necessitating correction and retroactive adjustments for pay due to or from employees
- Employees' final separation payout of accumulated vacation and/or sick leave per union contract agreements
- New hires that were not in the HRS system at payroll processing cutoff dates and, therefore, did not receive a pay warrant during the monthly payroll
- Retroactive adjustments to retirement codes when changing a non-member to a member.

While the processing of supplemental payroll warrants is common in education, LACOE should strengthen procedures with respect to amended timesheets and hold site administrators accountable for repeated delays or omissions in reporting this information. Internal control and procedures should also be reviewed for the timeliness and accuracy of information updated in the position control system to reduce omissions/errors and eliminate the disruptive activity created by processing off-cycle payroll adjustments in a supplemental payroll.

Using March 2011 payroll, the study team determined that 3,431 employees had a monthly earnings ID with a regular pay basis. Of that number, 35 employees were categorized as in a limited-term position. Limited-term positions are not included in the position control database and are not encumbered in the payroll processing system. The cumulative monthly salary for March 2011 for those 35 limited-term positions was \$244,984; a potential annual cost of more than \$3 million in salaries/benefits that are not included in the position control database. These positions and internal policies should be reviewed to ensure that the positions are correctly classified as limited in nature, do not cross fiscal years and do not continue without the proper administrative approval, and that staff update budgets in a timely manner to reflect the projected employee costs.

Additionally, the study team's review found that positions filled by two or more employees during the fiscal year were budgeted in total for more than 12 months. The status in position control clearly reflects that an employee is flagged as terminated before the replacement employee is flagged as active. The budget for the employee flagged as terminated appears to be adjusted to reflect the actual total number of months that the employee actually held the position; however,

the replacement employee appears to be typically budgeted for a full annual 12-month period rather than the amount of months left in the year after they begin work. In this situation the position reflects employee costs exceeding the number of months in the fiscal year, making salary and benefit budget information unreliable.

The study team selected 11 positions that had two or more employees listed as active or terminated during this fiscal year to better understand and illustrate the number of months budgeted for each. That analysis found the following:

| Position Number | Months Budgeted |
|-----------------|-----------------|
| #000001         | 14              |
| #016001         | 18              |
| #017020         | 18              |
| #020001         | 14              |
| #041023         | 17              |
| #047006         | 15              |
| #069002         | 16              |
| #069021         | 21              |
| #069104         | 17              |
| #069130         | 20              |
| #070036         | 24              |

These 11 positions were budgeted for a total of 194 months, for an average of 17.63 months per position.

FCMAT's review of position control dated April 28, 2011 found that costs for active vacant positions were not adjusted at interim reporting periods, but allowed to show the full annual budgeted cost of salaries and benefits. The total salary and benefit costs reflected in the general fund in position control for those vacant positions during this time period was \$6.2 million for unrestricted resources, and an additional \$17.7 million for restricted resources, for a total cost of more than \$24 million in salaries/benefits in vacant positions with active status.

## Recommendations

*The county office should:*

1. Consider negotiating with the bargaining groups to change the payroll issue dates to an end of the month pay date rather than the current earned salary advance.
2. Update the substitute calling system to include the account code structure of the employee that the sub is replacing so the costs can be properly charged rather than using holding accounts.
3. Investigate and take action to reduce the large amount of timesheet reporting issues that necessitate off-cycle pay warrants in supplemental payrolls.
4. Review current procedures for limited-term positions to verify that these positions are truly limited in nature, that they do not cross fiscal years without administrative approval and that budgets are updated to include the cost of salaries/benefits for the entire term of the position.
5. Establish a budget procedure for those positions that are filled by two or more employees during the fiscal year so they are not budgeted for more than 12 months.



## Multiyear Financial Projections

Multiyear financial projections (MYFPs) are required by Assembly Bill (AB) 1200 and AB 2756 and are a part of the adoption budget and interim reporting process. AB 2756 was signed into law in June 2004 and made substantive changes to the financial accountability and oversight used to monitor the fiscal position of school districts and county offices. Among other things, AB 2756 strengthened the roles of the state Superintendent of Public Instruction (SPI) and county offices of education and their ability to intervene during fiscal crises, including requesting assistance from FCMAT. The governor recently signed AB 114, which changed the oversight requirement so that in the 2011-12 fiscal year, districts or COEs need only demonstrate that they can meet the financial obligations for the current fiscal year. Although it is no longer a requirement, FCMAT recommends that districts and COEs continue to assess their financial position considering the impact of current decisions and fiscal conditions on subsequent fiscal years.

MYFPs help local educational agencies make more informed decisions and forecast the effect of current decisions. Projections should be a part of annual budget development and should be evaluated and updated during each interim financial reporting period and before any significant budget adjustments, such as salary increases. In developing and implementing the multiyear financial projections, the LEA's primary objectives are to achieve and sustain a balanced budget, improve academic achievement and maintain local governance. The MYFP helps identify specific planning milestones that will help the LEA make decisions.

Financial planning is crucial for every local educational agency, regardless of its size or structure. Long-term financial planning helps a county office strategically align its budget with its instructional goals and programs. In addition, recognizing financial trends is essential to maintaining a county office's fiscal health. Reviewing and analyzing year-over-year trends in key budget areas is helpful in evaluating the budget direction of a county office and may help identify areas of possible concern.

Any forecast of financial data has inherent limitations because calculations are based on certain economic assumptions and criteria, including changes in enrollment trends, cost-of-living adjustments, forecasts for utilities, supplies and equipment, and changing economic conditions at the state, federal and local levels. Therefore, the budget projection model should be evaluated as a trend based on certain criteria and assumptions instead of a prediction of exact numbers.

Local educational agencies throughout the state have been forced to update multiyear assumptions and projections frequently over the last three fiscal years as the state continues to experience significant economic challenges. Multiyear projections in a time of fiscal instability can become somewhat less reliable, especially in the subsequent fiscal years, as projected revenue information from the state has continued to change significantly. However, the MYFP still provides guidance with decisions that cover several fiscal years, and the county office must continue to update and reassess the ramifications of state-imposed budget adjustments.

To help protect local educational agencies against economic uncertainties, the state requires county offices with average daily attendance (ADA) of between 30,001 and 400,000 to maintain reserves of not less than 2%. Districts with ADA of between 1,001 and 30,000 must maintain reserves for economic uncertainties of not less than 3%. LACOE's current reserve requirement is 2%; however, LACOE has established a reserve goal of 3%.

## AB 1200 Oversight

County offices of education submit all financial reports to the SPI/CDE for review. This includes the annual budget and the two interim reports. Education Code Sections 1600-1624 and 1240 prescribe the manner in which the CDE reviews county office budgets and accompanying financial documents. Conformity to state budget requirements includes the ability to meet financial obligations for the current and subsequent two fiscal years. The timeline, action summary and code reference may be found on the CDE website at this location:

<http://www.cde.ca.gov/fg/sf/fr/calendar11district.asp>

The fiscal oversight of county offices of education consists of a process that is nearly identical to the one prescribed for school districts. FCMAT has provided information on some of the more important milestones below.

Once the county office board of education approves the county superintendent's adopted budget, it is submitted to the Superintendent of Public Instruction (SPI) on or before July 1 each year for examination prior to approval. During the examination, the SPI assesses whether the budget complies with the standards and criteria adopted by the State Board of Education, allows the county office of education to meet its financial obligations during the fiscal year and to meet its multiyear financial commitments. For the 2011-12 fiscal year, the SPI will not require a county superintendent to certify in writing whether or not the county office of education is able to meet its financial obligations for the two subsequent fiscal years (EC 1622).

If the SPI disapproves the budget of the county office of education, a communication with the reasons for the disapproval is provided to the county office along with additional time to update and correct the adopted budget. The SPI will take action no later than October 8 to approve or disapprove the revised budget. If the revised budget is disapproved, additional and prescriptive procedures must be followed (EC 1622-1626).

Once interim reports are reviewed by the board of education and approved by a county superintendent of schools, they are submitted to oversight agencies depending on their certifications. A county superintendent must file an interim report with a positive certification to the SPI. A county superintendent must file a report with either qualified or negative certification to the SPI and State Controller. If the county superintendent transmits an interim report with a positive certification but which should, in the opinion of the SPI, contain a qualified or negative certification, the SPI will classify the county office of education as qualified or negative. A county superintendent who files a qualified or negative certification for the second interim report and that is classified as qualified or negative by the SPI must provide a financial statement that covers the financial and budgetary status of the county office of education for the period ending April 30 and projects the fund and cash balances as of June 30. The due date for the financial statement is June 1 (EC 1240.1 – 1240.2).

If the county office of education has a negative certification or if at any time the SPI determines that the county office of education will be unable to meet its financial obligations for the current or subsequent fiscal year (EC 12401(1)(B)), the following options are available to the SPI:

- Develop and impose a budget, in consultation with the county superintendent and the county board of education that will enable the county to meet its financial obligations.
- Stay or rescind any action that is determined to be inconsistent with the ability of the county office to meet its financial obligation for the current or subsequent fiscal year and

may, as necessary, appoint a fiscal adviser to perform any or all of the duties prescribed to the SPI.

- Assist in developing, in consultation with the county superintendent and the county board of education, a financial plan that will enable the county office to meet its future obligations.
- Assist in developing, in consultation with the county superintendent and the county board of education, a budget for the subsequent fiscal year.

A statement of all receipts and expenditures of the county office of education for the preceding fiscal year is due from the county superintendent to the SPI by October 15 each year. This report is commonly referred to as the unaudited actuals report (EC 1628).

Regular and frequent budget monitoring becomes critical in times of fiscal uncertainty. The county office should ensure that multiyear financial projections are updated frequently and are built on accurate assumptions using the most current and accurate information available at the time of preparation. This has become increasingly important as California continues to struggle to balance its budget creating significant inconsistencies and volatility in economic factors passed down to public education entities.

FCMAT prepared its multiyear financial projection with the most recent budget information available, including the 2010-11 enacted budget for the projection base year and the 2011-12 enacted state budget for the projected years. The unrestricted general fund summary in Table 2E-1 indicates that in the absence of budget reduction measures or revenue enhancements to address a considerable structural deficit, LACOE will become insolvent during the 2012-13 fiscal year.

Table 2E-1  
FCMAT MYFP Summary

| UNRESTRICTED - FCMAT   | 2010-11          | 2011-12         | 2012-13         |
|--|------------------|-----------------|-----------------|
| <b>Beginning Fund Balance</b>                                  | \$ 102,425,258   | \$ 43,036,314   | \$ 17,704,901   |
| Revenue  | \$ 166,187,512   | \$ 163,843,081  | \$ 167,050,001  |
| Expenses   | (141,970,361)    | (150,605,070)   | (155,136,166)   |
| <b>Excess / (Deficiency) before Other Sources &amp; Uses</b>   | \$ 24,217,150    | \$ 13,238,011   | \$ 11,913,835   |
| Interfund Transfers In   | \$ 127,024       | \$ 127,024      | \$ 127,024      |
| Interfund Transfers (Out)                                      | \$ -             | \$ -            | \$ -            |
| Contributions  | (83,733,118)     | (38,696,449)    | (75,795,378)    |
| <b>Total Other Financing Sources, Uses &amp; Contributions</b> | \$ (83,606,094)  | \$ (38,569,425) | \$ (75,668,354) |
| <b>Net Increase/(Decrease) in Fund Balance</b>                 | \$ (59,388,943)  | \$ (25,331,414) | \$ (63,754,519) |
| <b>Ending Fund Balance</b>                                     | \$ 43,036,314    | \$ 17,704,901   | \$ (46,049,619) |
| <b>Restricted - FCMAT</b>                                      | <b>2010-11</b>   | <b>2011-12</b>  | <b>2012-13</b>  |
| <b>Beginning Fund Balance</b>                                  | \$ (34,384,228)  | \$ 100,602,852  | \$ 57,011,983   |
| Revenue  | \$ 872,043,446   | \$ 727,599,946  | \$ 709,241,600  |
| Expenses   | (820,732,333)    | (809,830,113)   | (790,882,903)   |
| <b>Excess / (Deficiency) before Other Sources &amp; Uses</b>   | \$ 51,311,114    | \$ (82,230,168) | \$ (81,641,303) |
| Interfund Transfers In   | \$ -             | \$ -            | \$ -            |
| Interfund Transfers (Out)                                      | \$ (57,151)      | \$ (57,151)     | \$ (57,151)     |
| Contributions  | 83,733,118       | 38,696,449      | 75,795,378      |
| <b>Total Other Financing Sources, Uses &amp; Contributions</b> | \$ 83,675,967    | \$ 38,639,298   | \$ 75,738,228   |
| <b>Net Increase/(Decrease) in Fund Balance</b>                 | \$ 134,987,081   | \$ (43,590,869) | \$ (5,903,075)  |
| <b>Ending Fund Balance</b>                                     | \$ 100,602,852   | \$ 57,011,983   | \$ 51,108,908   |
| <b>Combined - FCMAT</b>  | <b>2010-11</b>   | <b>2011-12</b>  | <b>2012-13</b>  |
| <b>Beginning Fund Balance</b>                                  | \$ 68,041,030    | \$ 143,639,167  | \$ 74,716,884   |
| Revenue  | \$ 1,038,230,958 | \$ 891,443,026  | \$ 876,291,601  |
| Expenses   | (962,702,694)    | (960,435,183)   | (946,019,069)   |
| <b>Excess / (Deficiency) before Other Sources &amp; Uses</b>   | \$ 75,528,264    | \$ (68,992,157) | \$ (69,727,468) |
| Interfund Transfers In   | \$ 127,024       | \$ 127,024      | \$ 127,024      |
| Interfund Transfers (Out)                                      | \$ (57,151)      | \$ (57,151)     | \$ (57,151)     |
| Contributions  | -                | -               | -               |
| <b>Total Other Financing Sources, Uses &amp; Contributions</b> | \$ 69,873        | \$ 69,873       | \$ 69,873       |
| <b>Net Increase/(Decrease) in Fund Balance</b>                 | \$ 75,598,137    | \$ (68,922,283) | \$ (69,657,594) |
| <b>Ending Fund Balance</b>                                     | \$ 143,639,167   | \$ 74,716,884   | \$ 5,059,289    |

Table 2E-2 illustrates that the county office will not be able to maintain its state-required reserve of 2%, nor its reserve goal of 3%, in the 2012-13 fiscal year.

| <b>RESERVE BALANCES</b>                                    |                     |                     |                     |
|--|---------------------|---------------------|---------------------|
|  | <b>2010-11</b>      | <b>2011-12</b>      | <b>2012-13</b>      |
| Total Expenditures and Other Financing Uses                | \$ (962,759,844.57) | \$ (960,492,333.54) | \$ (946,076,219.51) |
| Less Special Education Pass Thru                           | 154,747,786         | 77,483,741          | 77,483,741          |
| Net Expenditures and Other Financing Sources               | \$ 753,487,930      | \$ 691,929,413      | \$ 693,609,856      |
| Reserve Standard %   | 2.00%               | 2.00%               | 2.00%               |
| Reserve Standard \$  | \$ 15,069,759       | \$ 13,838,588       | \$ 13,872,197       |
| <b>Unrestricted</b> Ending Fund Balance                    | \$ 43,036,314       | \$ 17,704,901       | \$ (46,049,619)     |
| Less Stores Inventory Balance                              | (265,000)           | (265,000)           | (265,000)           |
| County Available Reserves Before Other Funds               | \$ 42,771,314       | \$ 17,439,901       | \$ (46,314,619)     |
| Unrestricted Available Reserve Balance - Fund 01           | 5.68%               | 2.52%               | -6.68%              |
| Other Funds - Special Reserve Fund (17) ##                 | \$ 7,832,519        | \$ 7,832,520        | \$ 7,832,521        |
| County Available Reserve Balance - Fund 01 & 17            | \$ 50,603,833       | \$ 25,272,420       | \$ (38,482,098)     |
| Unrestricted Available Reserve Balance - Fund 01 & Fund 17 | 6.72%               | 3.65%               | -5.55%              |

*# As reflected in LACOE Second Interim Report*

The county office is confronted with significant challenges with respect to its fiscal circumstances that will require the county board and administration to make and implement additional difficult decisions immediately based on the state's budget crisis. Several assumptions included in the FCMAT MYFP produce this outcome, the details of which are included later in this report. Any deviation in actual expenditure activity will produce a deeper deficit in the absence of coordinating budget reductions or revenue enhancements. Included in these assumptions are:

- Ongoing salary and benefit levels coincide with 2010-11 actuals. All budgetary savings are treated as ongoing.
- LACOE health benefit contributions remain at 2010-11 levels.
- Revenue projections are tied to flat enrollment.
- Staffing levels are tied to flat enrollment.

## 2010-11 (Base Year) Enacted State Budget

The 2010-11 enacted state budget included the suspension of Proposition 98 as part of the state's remedy for adopting a balanced budget. The Proposition 98 guarantee was reduced by \$4.1 billion from the estimated minimum funding level of \$53.8 billion, resulting in a funding level of \$49.7 billion. This suspension added the \$4.1 billion to the state's increasing maintenance factor, reaching \$9.5 billion by the close of the 2010-11 fiscal year.

## 2011-12 Enacted State Budget

In enacting the 2011-12 state budget, the Legislature funded K-14 education below the minimum guarantee without voting to suspend Proposition 98 for the first time since its inception. The Proposition 98 guarantee was reduced by \$1.1 billion from the 2010-11 funding level of \$49.7 billion, resulting in a funding level of \$48.6 billion. The 2011-12 Budget Act recognizes an increase of \$0.5 billion to the state's increasing maintenance factor, reaching \$9.9 billion by the close of the 2011-12 fiscal year. This reflects adjustments of \$4.3 billion due to the suspension of Proposition 98 in 2010-11 and an offset of approximately \$7 billion to be paid in 2009-10 and 2010-11. Due to multiple calculations within the maintenance factor, it has been questioned regarding its accuracy, and questions remain as to when that maintenance factor may be fully repaid to public education.

Although public education seemed to fare better in the 2010-11 enacted state budget, which resulted in approximately 5.17% more revenue limit funding over the 2009-10 fiscal year, the 2011-12 enacted budget has left much in question regarding its effect on public education funding. Although the 2011-12 enacted budget requires LEAs to maintain staffing and program levels commensurate with the same level of revenue per ADA as received in the 2010-11 fiscal year, the governor's letter to the California Assembly supported prudent decision-making at the local level and stated, "School boards should take all reasonable steps to balance their budgets and maintain positive cash balances." Further complicating the 2011-12 enacted budget is language that will trigger additional cuts if the Director of Finance (DOF) determines that revenues will not meet certain targets come December 2011. These cuts would be triggered automatically depending on how far below the targets the DOF's forecasts fall. Should anticipated revenues fall more than \$2 billion below forecasts, the average maximum cut per ADA would range between \$250 to \$300 per ADA, or 4% of total revenue, and LEAs are prohibited from including an assumption of midyear cuts in their multiyear projections.

Governor Brown has acknowledged that since 2007-08 public education has experienced reductions that are disproportionate to other major programs. Because the enacted budget for the 2011-12 fiscal year provides little fiscal certainty for months to come, LEAs should prepare contingency plans based on potential reductions. FCMAT's multiyear financial projection is based on the parameters of the 2011-12 enacted budget.

The 2010-11 enacted state budget recognized a negative statutory cost of living adjustment (COLA) of .39%. Currently a state imposed deficit factor is implemented, reducing the actual funding levels received by school districts and county offices of education. The effects of the negative COLA were eliminated due to a reduction of the deficit factor. The state deficit factor as of the 2010-11 second interim reporting period is 18.250%.

## Revenue Limit

LACOE's primary source of operations revenue comes from revenue limit funding, which is driven by ADA. This was formerly calculated utilizing revenue limit Form O, but now the county office revenue limit calculation is referred to by the California Department of Education as county special schools and classes and county revenue limit funding exhibits. These components are used to calculate the various areas of revenue limit funding. The revenue limit funding calculation is computed as per Education Code Sections 2550-2558.6 The COLAs and deficit factors for revenue limits included in the 2010-11 and 2011-12 enacted state budgets are reflected in Table 2E-3 below.

## PERS Adjustment

An anomaly in the PERS revenue limit calculation based on CDE revenue limit exhibits is that the PERS rate for 1981-82 for LACOE was 11.079%. The rate for all other county offices is 13.020%, other than for LACOE and San Diego COE. FCMAT was unable to determine why these two county offices are different. The current rate on CDE's funding exhibit for LACOE in 2010-11 is 11.673%, which is higher than its 1981-82 rate of 11.079%. This means that LACOE receives an additional projected amount of \$552,795 in revenue limit funding from the state. Normally the PERS revenue limit reduction would be a deduction to the revenue limit based on current rates that are used for most county offices. Although other county offices have not yet experienced this situation, it could occur when their current rate exceeds the 1981-82 rate. Until the county office is certain that the additional revenue will be allowed, LACOE should consider reserving this amount.

## Mandated Cost Reimbursements

The 2010-11 enacted budget provides \$300 million for mandate reimbursement claims, but also suspends eight education mandates. The 2011-12 enacted budget provides \$80.4 million for mandate reimbursement claims, a 73.2% reduction over the funding provided in the 2010-11 fiscal year. The 2011-12 budget also suspends nine education mandates for which LEAs are not required to provide services. In addition to the suspended mandates, eight mandates received no appropriation and were not suspended, so LEAs are still required to perform those functions. Consequently, FCMAT's MYFP reflects actual revenues received in the 2010-11 fiscal year, a reduction of 73.2% of those revenues for the 2011-12 fiscal year, and no revenues for the 2012-13 fiscal year based on that year's budget not having been enacted as well as the volatility these revenues represent.

## Federal Education Jobs Funding

New one-time federal funding for 2010-11 comes just in time to backfill at least in part some of the holes left behind from the American Reinvestment and Recovery Act (ARRA). LACOE received \$4,053,493 during the 2010-11 fiscal year and used it primarily toward certificated employees' salaries and benefits. Funding under this program is required to be fully expended by September 30, 2012. FCMAT's MYFP assumes LACOE will utilize approximately 55% of these funds during the 2010-11 fiscal year, with the remaining 45% expended during the 2011-12 fiscal year. However, FCMAT assumes that the positions covered by this funding source will continue into the subsequent years, and a contribution from the unrestricted resource has been included in the MYFP for the amounts to cover salaries and benefits in the subsequent fiscal years. The continuation of ongoing expenditures originally generated from one-time revenues adds to LACOE's deficit spending and exacerbates its negative ending fund balance in the 2012-13 fiscal year.

## Special Education

Special education AB 602 funding has a 0% COLA for 2010-11 and 2011-12. The estimated statutory COLA for 2012-13 is 3.10% and for 2013-14 is 2.80%. School districts and county offices are encouraged to consider excluding these COLAs from the MYP or placing the additional revenues in a designated reserve. For 2010-11 and 2011-12, growth is funded at approximately \$465.44/ADA, a rate that has not changed since 2008-09.

LACOE is the only single-county SELPA in the state and is funded on overall countywide enrollment, which provides significant financial advantages.

During the 2010-11 fiscal year, the special education program received \$6.2 million in contributions from restricted programs and also reduced several areas of its budget to end the year with revenues exceeding expenditures by \$141,000. The expenditure reductions in books, supplies, services and other operating expenditures were assumed by FCMAT to be one-time in nature and thus produce deficit spending in the 2011-12 and 2012-13 years. This will require additional contributions from unrestricted resources so the program does not end these years with a negative fund balance.

The enacted budget does not include special disabilities adjustment (SDA) funding beyond the 2010-11 fiscal year. Legislation in the form of AB 719 proposes to continue this funding; however, this bill is still in its house of origin. Therefore, school districts should not budget for SDA funding beyond 2010. LACOE staff report that only two of their current six SELPAs are anticipated to be affected by the SDA funding issue, with an estimated total funding reduction of \$700,000 beginning in the 2011-12 fiscal year. FCMAT's MYFP mirrors this assumption.

AB 100, Chapter 5/2011 allocates \$98.6 million in one-time funding from the Mental Health Services Act (Proposition 63) to county mental health agencies to provide AB 3632 services for 2011-12. SELPAs could contract with these agencies for services. There are still questions about the distribution of these funds and whether the allocations will cover all costs for 2011-12. School districts and county offices of education are cautioned that they will need to work with their SELPA on resolutions to these changes in funding.

The most significant aspect of the 2011-12 enacted budget relative to special education is the permanent shift of the responsibility to provide AB 3632 mental health services and out-of-home care residential services from county agencies to SELPAs and the permanent repeal of the AB 3632 mandate. Funding is provided from state and federal resources for this purpose and will be distributed to SELPAs via a formula similar to the AB 602 formula, which is based on total student count rather than services provided. Proposition 98 increases by \$222 million as a result of this shift of responsibility to school districts.

A more complete analysis of special education is contained in another section of this report.

## Flexibility Options

While many flexibility options continue into and through the 2014-15 fiscal year, these options were intended to be short-term in nature. Additional dependency on unrestricted resources may result unless plans are made with regard to how to manage unrestricted expenditures that are funded through the use of these reassigned categorical funds.

**Categorical Program Flexibility (SBX3 4)** - No major changes were made to the flexibility afforded to local educational agencies in the 2011-12 budget. Approximately 40 categorical programs continue to be available to support any education purpose. Under the flexibility provisions, identified categorical program funding is reclassified from restricted to unrestricted, and program requirements provided in the Education Code are not in effect. Flexibility continues through 2014-15, and future extensions are uncertain.

**Routine Restricted Maintenance Account Contribution** - The contribution to the routine restricted maintenance account (RMA), required for LEAs participating in the state school facility program, is reduced from 3% to 1% of the total general fund expenditures and other

financing uses for 2008-09 through 2014-15. Legislation further exempts school districts and county offices with facilities maintained in good repair from the 1% contribution through 2014-15 (Education Code Section 17070.766).

The county office participates in the state school facility program and budgeted approximately \$2,925,000 or 0.3% of its general fund budget to RMA, resource 8150, in the general fund. FCMAT continued this contribution in the MYFP analysis absent a formal decision by the board to further utilize the flexibility option. This produces an \$869,000 increase to its fund balance in the 2010-11 fiscal year due primarily to one-time reductions in expenditures. Allowing the return to previous expenditure levels results in deficit spending for the 2011-12 and 2012-13 years; however, even with deficit spending, RMA will end the 2012-13 fiscal year with an estimated \$1.5 million fund balance.

**Deferred Maintenance** - The local matching contribution normally required as a condition of eligibility for the deferred maintenance basic grant funding is eliminated for 2008-09 through 2014-15. LACOE's 2010-11 second interim budget does not include a contribution to the deferred maintenance fund. Therefore, FCMAT has not included a contribution in its MYFP.

Deferred maintenance program funding also is made flexible by Education Code Section 42605 for the 2008- through 2014-15 fiscal years. State funding for this program is unrestricted for this seven-year period and may be used for any educational purpose. As of the 2010-11 second interim reporting period, the county office had chosen to utilize this flexibility option; therefore, FCMAT has included the state funding for deferred maintenance as unrestricted general fund revenue in its MYFP.

## Assumptions and Analysis

The MYFP prepared by FCMAT uses the county office's 2010-11 second interim financial report and the corresponding SACS data file as the baseline. FCMAT also used budget assumptions based on the 2010-11 State Budget Act, the 2011-12 enacted budget and School Services of California's (SSC's) Financial Dartboard assumptions updated in July 2011. FCMAT's MYFP excludes any salary increase in the current or projection years beyond the negotiated commitments as of June 3, 2011.

### General Assumptions

Included in the projection years are the following assumptions:

- The average cost of step-and-column movement for all contracted salaries and the associated cost of employer-paid statutory benefits of .90% for all certificated staff and 1.4% for all classified staff.
- No increase for employer-paid premium coverage for health and welfare costs in 2011-12 and 2012-13, as any changes had not been ratified at the conclusion of FCMAT's fieldwork.
- Increases in general operating expenditures based on the California consumer price index (CPI) and the most recent economic indicators.

To verify the base year (2010-11) for the multiyear projection, FCMAT did the following:

- Prepared spreadsheet pivot tables to compare certificated, classified and management salary and benefit information budgeted at second interim to position control records and actual year-to-date salary expense activity to identify variances.

- Compared position control records with the second interim budget by resource and major object category.
- Reviewed internal and third party support documentation to verify the county office's current year revenue.
- Reviewed the COE's actual revenue and expenditure detail to identify potential adjustments in each resource and within major object code sections of the general fund.

In addition to staff interviews, FCMAT used a number of LACOE documents to develop a baseline and future assumptions for the MYFP, including the following:

- Financial system general ledger report (LAGL502S) exports that correspond to 2007-08, 2008-09 and 2009-10 actuals, dated May 18, 2011 and May 9, 2011.
- Financial summary reports showing general ledger balance sheet accounts by fund for 2009-10 to verify 2010-11 beginning balances.
- Financial summary reports showing general ledger balance sheet accounts by fund for 2010-11 to analyze cash, accounts receivable and accounts payable.
- Revenue-limit worksheets, including all supporting schedules for 2010-11 and 2011-12 projections.
- Historical enrollment information, including CBEDS data, for the current and prior five fiscal years, and projections for the subsequent two years.
- Identification of any one-time revenues, including ARRA federal funds, and expenditures included in the 2010-11 second interim budget.
- Long-term debt schedules from the 2009-10 audited financial statements.
- The most current collective bargaining agreements for all employee groups.
- AB 1200 disclosure documents for the most recent salary settlement for all employee groups.
- Information on the health and welfare cap adjustments as ratified in the collective bargaining agreements in place as of June 2011.
- Comprehensive Annual Financial Report containing the independent audit reports for 2009-10.

Table 2E-3 below includes the economic factors used by FCMAT in completing the county office’s multiyear financial projection:

**Table 2E-3  
MYFP Rules & Assumptions**

|   |   | Enacted State |           | 2012-13   |
|---|---|---------------|-----------|-----------|
|   |   | Budget        | budget    |           |
|   |   | 2010-11       | 2011-12   |           |
| Statutory COLA - COE Revenue Limits                 | * | -0.39%        | 2.24%     | 3.10%     |
| COE Revenue Limit Deficits %                        | * | 18.25%        | 20.041%   | 20.041%   |
| Net Revenue Limit Change-COE                        | * | 5.17%         | 0.000%    | 3.10%     |
| Special Education COLA (state and local share only) | * | 0.00%         | 0.00%     | 3.10%     |
| California Consumer Price Index (CPI)               | * | 1.80%         | 3.20%     | 2.80%     |
| California Lottery - Unrestricted                   | * | \$ 111.75     | \$ 111.75 | \$ 111.75 |
| California Lottery - Restricted                     | * | \$ 17.00      | \$ 17.00  | \$ 17.00  |
| Interest Rate Trend for 10 Year Treasuries          |   | 3.10%         | 3.50%     | 4.00%     |
| Net Funded Revenue Limit COLA - COEs                |   | 5.17%         | 0.00%     | 3.10%     |
| Revenue Limit Deficit % - COEs                      |   | 18.25%        | 20.04%    | 20.04%    |
| Indirect Cost Rate                                  | # | 7.81%         | 9.31%     | 9.31%     |
| Certificated Step/Column                            |   | 0.90%         | 0.90%     | 0.90%     |
| Classified Step/Column                              |   | 1.40%         | 1.40%     | 1.40%     |

\* = Per 2011 SSC Projection Dartboard - July 14, 2011  
# = Indirect Cost rate based upon full allowable rates unless otherwise negotiated by LACOE

**Analysis**

The primary purpose of a MYFP is to project the county office’s budget over several fiscal years using budget assumptions that allow the county office to achieve and sustain a balanced budget and meet the required minimum reserve for economic uncertainties.

To evaluate the multiyear projection, attention is focused on the county office’s ability to meet its reserve requirement in each fiscal year and demonstrate a positive, unappropriated fund balance. FCMAT has analyzed all funding sources and expenditure categories by resource. When the unappropriated fund balance is negative, the deficit balance is the amount by which the budget must be reduced under AB 1200 guidelines.

The unrestricted general fund summary below indicates that the LACOE has an ongoing structural deficit in all three years of the projection. Based on the assumptions included in FCMAT’s MYFP, LACOE will not meet its recommended reserve requirement in the 2012-13 fiscal year in the absence of a detailed plan to increase revenue and/or reduce expenditures and cease deficit spending. Although FCMAT utilized flat enrollment to project revenue and expenditures, the county office’s enrollment is projected to decrease during the next several fiscal years, as discussed later in this report. The potential effects of decreased funding levels attributable to declining enrollment may further exacerbate the current financial circumstances identified in this report.

To protect the financial solvency of the county office and eliminate the projected shortfalls each year, the county office will need to begin preparing immediately for a period of fiscal instability.

To balance the budget, the LACOE will need to make difficult choices about which expenditures and programs will continue to be funded and which will be scaled back, reconfigured or eliminated. The county office should take immediate actions to address the projected budget shortfall.

## Unrestricted General Fund

The general fund budget is a combination of unrestricted general purpose dollars and restricted grants and categorical funding. In analyzing the budget of the county office, much attention is focused on the unrestricted budget, in particular, the unappropriated ending fund balance. The unrestricted budget is projected to deficit spend each year of the projection and run out of money during the 2012-13 fiscal year, concluding with a negative ending unrestricted fund balance of (\$46,049,619).

FCMAT's unrestricted general fund MYFP is presented below.

General Fund/County School Service Fund  
Unrestricted Resources Only  
Revenues, Expenditures, and Changes in the Fund Balance

| Name   | Object Code | Historical Year<br>2009 - 10 | Base Year<br>2010 - 11 | Year 1<br>2011 - 12 | Year 2<br>2012 - 13 |
|--|-------------|------------------------------|------------------------|---------------------|---------------------|
| <b>Revenues</b>  |             |                              |                        |                     |                     |
| Revenue Limit Sources  | 8010 - 8099 | \$44,619,669.16              | \$46,481,604.51        | \$46,258,857.22     | \$47,608,341.68     |
| Federal Revenues   | 8100 - 8299 | \$23,347,197.67              | \$30,416,245.00        | \$29,347,538.00     | \$29,347,538.00     |
| Other State Revenues   | 8300 - 8599 | \$58,465,933.00              | \$52,496,693.00        | \$51,494,189.00     | \$53,356,638.64     |
| Other Local Revenues   | 8600 - 8799 | \$44,901,450.13              | \$36,792,969.00        | \$36,742,496.36     | \$36,737,482.59     |
| <b>Total Revenues</b>  |             | \$171,334,249.96             | \$166,187,511.51       | \$163,843,080.58    | \$167,050,000.91    |
| <b>Expenditures</b>  |             |                              |                        |                     |                     |
| Certificated Salaries  | 1000 - 1999 | \$15,054,020.63              | \$12,309,351.49        | \$12,420,135.65     | \$12,531,916.87     |
| Classified Salaries  | 2000 - 2999 | \$57,580,362.32              | \$55,792,981.31        | \$56,574,083.04     | \$57,366,120.22     |
| Employee Benefits  | 3000 - 3999 | \$26,046,405.23              | \$24,720,120.13        | \$24,942,792.78     | \$25,168,489.86     |
| Books and Supplies   | 4000 - 4999 | \$4,214,212.65               | \$4,238,369.22         | \$5,805,003.10      | \$5,967,543.20      |
| Services and Other Operating   | 5000 - 5999 | \$40,890,061.15              | \$37,084,775.97        | \$48,286,236.89     | \$50,344,451.93     |
| Capital Outlay   | 6000 - 6900 | \$647,764.57                 | \$639,731.79           | \$1,061,371.00      | \$1,061,371.00      |
| Other Outgo  | 7000 - 7299 | \$20,931,696.00              | \$27,447,538.00        | \$27,447,538.00     | \$27,447,538.00     |
| Direct Support/Indirect Cost   | 7300 - 7399 | (\$24,487,940.82)            | (\$22,499,071.64)      | (\$28,168,655.88)   | (\$26,987,830.13)   |
| Debt Service   | 7430 - 7439 | \$3,052,794.30               | \$2,236,565.00         | \$2,236,565.00      | \$2,236,565.00      |
| <b>Total Expenditures</b>  |             | \$143,929,376.03             | \$141,970,361.27       | \$150,605,069.58    | \$155,136,165.95    |
| <b>Excess (Deficiency) of Revenues Over Expenditures</b>                       |             | \$27,404,873.93              | \$24,217,150.24        | \$13,238,011.00     | \$11,913,834.96     |
| <b>Other Financing Sources/Uses</b>  |             |                              |                        |                     |                     |
| Interfund Transfers In   | 8900 - 8929 | \$449,412.71                 | \$127,024.00           | \$127,024.00        | \$127,024.00        |
| Interfund Transfers Out  | 7600 - 7629 | \$9,450,671.48               | \$0.00                 | \$0.00              | \$0.00              |
| All Other Financing Sources  | 8930 - 8979 | \$0.00                       | \$0.00                 | \$0.00              | \$0.00              |
| All Other Financing Uses   | 7630 - 7699 | \$0.00                       | \$0.00                 | \$0.00              | \$0.00              |
| Contributions  | 8980 - 8999 | (\$7,740,796.69)             | (\$83,733,117.67)      | (\$38,696,448.86)   | (\$75,795,378.15)   |
| <b>Total Other Financing Sources/Uses</b>                                      |             | (\$16,742,055.46)            | (\$83,606,093.67)      | (\$38,569,424.86)   | (\$75,668,354.15)   |
| <b>Net Increase (Decrease) in Fund Balance</b>                                 |             | \$10,662,818.47              | (\$59,388,943.43)      | (\$25,331,413.86)   | (\$63,754,519.19)   |
| <b>Fund Balance</b>  |             |                              |                        |                     |                     |
| Beginning Fund Balance   | 9791        | \$91,762,439.41              | \$102,425,257.88       | \$43,036,314.45     | \$17,704,900.59     |
| Audit Adjustments  | 9793        | \$0.00                       | \$0.00                 | \$0.00              | \$0.00              |
| Other Restatements   | 9795        | \$0.00                       | \$0.00                 | \$0.00              | \$0.00              |
| Adjusted Beginning Fund Balance  |             | \$91,762,439.41              | \$102,425,257.88       | \$43,036,314.45     | \$17,704,900.59     |
| Ending Fund Balance  |             | \$102,425,257.88             | \$43,036,314.45        | \$17,704,900.59     | (\$46,049,618.60)   |
| <b>Components of Ending Fund Balance</b>                                       |             |                              |                        |                     |                     |
| Reserved Balances  | 9700        | \$0.00                       | \$0.00                 | \$0.00              | \$0.00              |
| Revolving Cash   | 9711        | \$80,000.00                  | \$80,000.00            | \$80,000.00         | \$80,000.00         |
| Stores   | 9712        | \$182,361.00                 | \$182,361.00           | \$182,361.00        | \$182,361.00        |
| Prepaid Expenditures   | 9713        | \$9,967,232.27               | \$0.00                 | \$0.00              | \$0.00              |
| Other Prepay   | 9719        | \$0.00                       | \$0.00                 | \$0.00              | \$0.00              |
| General Reserve  | 9730        | \$0.00                       | \$0.00                 | \$0.00              | \$0.00              |
| Legally Restricted Balance   | 9740 - 9759 | \$0.00                       | \$0.00                 | \$0.00              | \$0.00              |
| Economic Uncertainties Percentage  |             | 5.00%                        | 5.00%                  | 5.00%               | 5.00%               |
| Designated for Economic Uncertainties  | 9770        | \$49,689,987.05              | \$48,137,992.23        | \$48,024,616.68     | \$47,303,810.98     |
| Designated for the Unrealized Gains of Investments and Cash in County Treasury | 9775        | \$0.00                       | \$0.00                 | \$0.00              | \$0.00              |
| Other Designated   | 9780        | \$0.00                       | \$0.00                 | \$0.00              | \$0.00              |
| Undesignated/Unappropriated  | 9790        | \$42,505,677.56              | \$0.00                 | \$0.00              | \$0.00              |
| Negative Shortfall   | 9790        | \$0.00                       | (\$5,364,038.78)       | (\$30,582,077.09)   | (\$93,615,790.58)   |

## Restricted General Fund

The county office operates and accounts for more than 130 restricted federal, state and local programs. Other than routine restricted maintenance, special education, and special education transportation, 20 programs require a contribution from the county office's unrestricted general fund in the 2010-11 MYFP.

LACOE has had an ongoing practice of closing the fiscal year with resources that report expenditures exceeding available resources, ending the year with a negative ending fund balance. Several resources have reported significant shortfalls over multiple years, compounding the balances reported as negative at the end of each subsequent fiscal year. FCMAT found several resources reported a negative beginning balance for the 2010-11 fiscal year resulting from expenditures exceeding revenue, beginning balances and other funding sources in the 2009-10 fiscal year, reflected in Table 2E-4 below.

TABLE 2E-4  
2010-11 Negative Beginning Balance Resources

| Restricted Resources  | Resource Code | Base Year 2010 - 11      |
|---|---------------|--------------------------|
| Juvenile Court (Education Code Section 1982.2)                                | 2410          | (\$41,252,070.40)        |
| County Community Schools (Education Code sections 1980-1982.3)                | 2420          | (\$3,156,416.89)         |
| Community Day Schools   | 2430          | (\$12,218,929.01)        |
| Other Restricted Revenue Limit Sources  | 2900          | (\$4,170,414.72)         |
| Transportation: Special Education (Severely Disabled/Orthopedically Impaired) | 7240          | (\$0.01)                 |
| Swiftwater Safety   | 9636          | (\$0.03)                 |
| <b>Restricted Negative Beginning Balances</b>                                 |               | <b>(\$60,797,831.06)</b> |

While LACOE does not make contributions from the unrestricted resources to mitigate the shortfalls in restricted programs, the obligation to cover the negative balances resides with the unrestricted resources. The practice of closing a fiscal year with negative fund balances in restricted resources is misleading regarding the availability of unrestricted resources.

Although there is no legal requirement to do so, it is industry standard to make a contribution from unrestricted sources at year end to balance each restricted program that experiences a shortfall of resources. Current year program funding should be spent during the permissible time period. Negative ending fund balances should not be covered by future year program funding. Rather, future year program funding should be spent on future year students. In the absence of a contribution to cover a negative ending balance at the close of a fiscal year, subsequent year resources may be used erroneously to offset the prior year shortfall(s).

The following table shows FCMAT's projected restricted general fund MYFP.

**General Fund/County School Service Fund  
Restricted Resources Only  
Revenues, Expenditures, and Changes in the Fund Balance**

| Name   | Object Code | Historical Year<br>2009 - 10 | Base Year<br>2010 - 11  | Year 1<br>2011 - 12      | Year 2<br>2012 - 13      |
|--|-------------|------------------------------|-------------------------|--------------------------|--------------------------|
| <b>Revenues</b>  |             |                              |                         |                          |                          |
| Revenue Limit Sources  | 8010 - 8099 | \$111,082,885.62             | \$104,322,707.85        | \$102,788,319.81         | \$103,430,522.44         |
| Federal Revenues   | 8100 - 8299 | \$414,929,705.05             | \$489,611,647.45        | \$363,052,935.02         | \$342,755,173.02         |
| Other State Revenues   | 8300 - 8599 | \$212,229,945.99             | \$221,970,861.48        | \$211,627,381.00         | \$216,614,621.11         |
| Other Local Revenues   | 8600 - 8799 | \$76,310,548.46              | \$56,138,229.51         | \$50,131,309.98          | \$46,441,283.87          |
| <b>Total Revenues</b>  |             | <b>\$814,553,085.12</b>      | <b>\$872,043,446.29</b> | <b>\$727,599,945.81</b>  | <b>\$709,241,600.44</b>  |
| <b>Expenditures</b>  |             |                              |                         |                          |                          |
| Certificated Salaries  | 1000 - 1999 | \$112,531,234.76             | \$107,796,677.84        | \$108,918,184.68         | \$109,898,448.33         |
| Classified Salaries  | 2000 - 2999 | \$62,071,720.98              | \$62,428,384.36         | \$63,302,797.00          | \$64,189,451.44          |
| Employee Benefits  | 3000 - 3999 | \$59,131,106.08              | \$57,939,005.16         | \$58,310,793.60          | \$58,660,855.55          |
| Books and Supplies   | 4000 - 4999 | \$8,866,232.03               | \$13,371,830.44         | \$16,318,738.31          | \$10,156,790.29          |
| Services and Other Operating   | 5000 - 5999 | \$272,118,586.02             | \$266,345,952.53        | \$288,958,783.36         | \$276,308,308.26         |
| Capital Outlay   | 6000 - 6900 | \$170,899.63                 | \$280,491.47            | \$246,381.00             | \$246,381.00             |
| Other Outgo  | 7000 - 7299 | \$301,084,794.44             | \$290,230,348.36        | \$245,764,924.43         | \$244,593,865.45         |
| Direct Support/Indirect Cost   | 7300 - 7399 | \$24,360,358.49              | \$22,339,642.60         | \$28,009,511.04          | \$26,828,802.70          |
| Debt Service   | 7430 - 7439 | \$0.00                       | \$0.00                  | \$0.00                   | \$0.00                   |
| <b>Total Expenditures</b>  |             | <b>\$840,334,932.43</b>      | <b>\$820,732,332.76</b> | <b>\$809,830,113.42</b>  | <b>\$790,882,903.02</b>  |
| <b>Excess (Deficiency) of Revenues Over Expenditures</b>                       |             | <b>(\$25,781,847.31)</b>     | <b>\$51,311,113.53</b>  | <b>(\$82,230,167.61)</b> | <b>(\$81,641,302.58)</b> |
| <b>Other Financing Sources/Uses</b>  |             |                              |                         |                          |                          |
| Interfund Transfers In   | 8900 - 8929 | \$0.00                       | \$0.00                  | \$0.00                   | \$0.00                   |
| Interfund Transfers Out  | 7600 - 7629 | \$84,761.00                  | \$57,150.54             | \$57,150.54              | \$57,150.54              |
| All Other Financing Sources  | 8930 - 8979 | \$0.00                       | \$0.00                  | \$0.00                   | \$0.00                   |
| All Other Financing Uses   | 7630 - 7699 | \$0.00                       | \$0.00                  | \$0.00                   | \$0.00                   |
| Contributions  | 8980 - 8999 | \$17,116,972.83              | \$83,733,117.67         | \$38,696,448.86          | \$75,795,378.15          |
| <b>Total Other Financing Sources/Uses</b>                                      |             | <b>\$17,032,211.83</b>       | <b>\$83,675,967.13</b>  | <b>\$38,639,298.32</b>   | <b>\$75,738,227.61</b>   |
| <b>Net Increase (Decrease) in Fund Balance</b>                                 |             | <b>(\$8,749,635.48)</b>      | <b>\$134,987,080.66</b> | <b>(\$43,590,869.29)</b> | <b>(\$5,903,074.97)</b>  |
| <b>Fund Balance</b>  |             |                              |                         |                          |                          |
| Beginning Fund Balance   | 9791        | (\$25,634,592.90)            | (\$34,384,228.38)       | \$100,602,852.28         | \$57,011,982.99          |
| Audit Adjustments  | 9793        | \$0.00                       | \$0.00                  | \$0.00                   | \$0.00                   |
| Other Restatements   | 9795        | \$0.00                       | \$0.00                  | \$0.00                   | \$0.00                   |
| Adjusted Beginning Fund Balance  |             | (\$25,634,592.90)            | (\$34,384,228.38)       | \$100,602,852.28         | \$57,011,982.99          |
| Ending Fund Balance  |             | (\$34,384,228.38)            | \$100,602,852.28        | \$57,011,982.99          | \$51,108,908.02          |
| <b>Components of Ending Fund Balance</b>                                       |             |                              |                         |                          |                          |
| Reserved Balances  | 9700        | \$0.00                       | \$0.00                  | \$0.00                   | \$0.00                   |
| Revolving Cash   | 9711        | \$0.00                       | \$0.00                  | \$0.00                   | \$0.00                   |
| Stores   | 9712        | \$0.00                       | \$0.00                  | \$0.00                   | \$0.00                   |
| Prepaid Expenditures   | 9713        | \$0.00                       | \$0.00                  | \$0.00                   | \$0.00                   |
| Other Prepay   | 9719        | \$0.00                       | \$0.00                  | \$0.00                   | \$0.00                   |
| General Reserve  | 9730        | \$0.00                       | \$0.00                  | \$0.00                   | \$0.00                   |
| Legally Restricted Balance   | 9740 - 9759 | (\$34,384,228.38)            | \$100,602,852.28        | \$57,011,982.99          | \$51,108,908.02          |
| Designated for Economic Uncertainties  | 9770        | \$0.00                       | \$0.00                  | \$0.00                   | \$0.00                   |
| Designated for the Unrealized Gains of Investments and Cash in County Treasury | 9775        | \$0.00                       | \$0.00                  | \$0.00                   | \$0.00                   |
| Other Designated   | 9780        | \$0.00                       | \$0.00                  | \$0.00                   | \$0.00                   |
| Undesignated/Unappropriated  | 9790        | \$0.00                       | \$0.00                  | \$0.00                   | \$0.00                   |
| Negative Shortfall   | 9790        | \$0.00                       | \$0.00                  | \$0.00                   | \$0.00                   |

## Unrestricted and Restricted General Fund

The combined unrestricted and restricted general fund shows a fund balance shortfall in the 2012-13 fiscal year. Contributing to this shortfall is a deficit of 18.250% in the 2010-11 fiscal year and 20.041% in each fiscal year thereafter. In addition to deficit factors, the state's 2011-12 education budget includes provisions for mid-year cuts should the state not receive revenues as anticipated. The county office also experienced significant funding reductions to several state categorical programs and has declining enrollment. The most significant factor contributing to the rapid decline in unrestricted resources is the ongoing structural deficit of the county court schools program.

### General Fund/County School Service Fund Unrestricted and Restricted Resources Revenues, Expenditures, and Changes in the Fund Balance

| Name   | Object Code | Historical Year<br>2009 - 10 | Base Year<br>2010 - 11    | Year 1<br>2011 - 12      | Year 2<br>2012 - 13      |
|--|-------------|------------------------------|---------------------------|--------------------------|--------------------------|
| <b>Revenues</b>  |             |                              |                           |                          |                          |
| Revenue Limit Sources  | 8010 - 8099 | \$155,702,554.78             | \$150,804,312.36          | \$149,047,177.03         | \$151,038,864.13         |
| Federal Revenues   | 8100 - 8299 | \$438,276,902.72             | \$520,027,892.45          | \$392,400,473.02         | \$372,102,711.02         |
| Other State Revenues   | 8300 - 8599 | \$270,695,878.99             | \$274,467,554.48          | \$263,121,570.00         | \$269,971,259.75         |
| Other Local Revenues   | 8600 - 8799 | \$121,211,998.59             | \$92,931,198.51           | \$86,873,806.34          | \$83,178,766.46          |
| <b>Total Revenues</b>  |             | <b>\$985,887,335.08</b>      | <b>\$1,038,230,957.80</b> | <b>\$891,443,026.39</b>  | <b>\$876,291,601.36</b>  |
| <b>Expenditures</b>  |             |                              |                           |                          |                          |
| Certificated Salaries  | 1000 - 1999 | \$127,585,255.39             | \$120,106,029.33          | \$121,338,320.33         | \$122,430,365.20         |
| Classified Salaries  | 2000 - 2999 | \$119,652,083.30             | \$118,221,365.67          | \$119,876,880.04         | \$121,555,571.66         |
| Employee Benefits  | 3000 - 3999 | \$85,177,511.31              | \$82,659,125.29           | \$83,253,586.38          | \$83,829,345.41          |
| Books and Supplies   | 4000 - 4999 | \$13,080,444.68              | \$17,610,199.66           | \$22,123,741.41          | \$16,124,333.49          |
| Services and Other Operating   | 5000 - 5999 | \$313,008,647.17             | \$303,430,728.50          | \$337,245,020.25         | \$326,652,760.19         |
| Capital Outlay   | 6000 - 6900 | \$818,664.20                 | \$920,223.26              | \$1,307,752.00           | \$1,307,752.00           |
| Other Outgo  | 7000 - 7299 | \$322,016,490.44             | \$317,677,886.36          | \$273,212,462.43         | \$272,041,403.45         |
| Direct Support/Indirect Cost   | 7300 - 7399 | (\$127,582.33)               | (\$159,429.04)            | (\$159,144.84)           | (\$159,027.43)           |
| Debt Service   | 7430 - 7439 | \$3,052,794.30               | \$2,236,565.00            | \$2,236,565.00           | \$2,236,565.00           |
| <b>Total Expenditures</b>  |             | <b>\$984,264,308.46</b>      | <b>\$962,702,694.03</b>   | <b>\$960,435,183.00</b>  | <b>\$946,019,068.97</b>  |
| <b>Excess (Deficiency) of Revenues Over Expenditures</b>                       |             | <b>\$1,623,026.62</b>        | <b>\$75,528,263.77</b>    | <b>(\$68,992,156.61)</b> | <b>(\$69,727,467.61)</b> |
| <b>Other Financing Sources/Uses</b>  |             |                              |                           |                          |                          |
| Interfund Transfers In   | 8900 - 8929 | \$449,412.71                 | \$127,024.00              | \$127,024.00             | \$127,024.00             |
| Interfund Transfers Out  | 7600 - 7629 | \$9,535,432.48               | \$57,150.54               | \$57,150.54              | \$57,150.54              |
| All Other Financing Sources  | 8930 - 8979 | \$0.00                       | \$0.00                    | \$0.00                   | \$0.00                   |
| All Other Financing Uses   | 7630 - 7699 | \$0.00                       | \$0.00                    | \$0.00                   | \$0.00                   |
| Contributions  | 8980 - 8999 | \$9,376,176.14               | \$0.00                    | \$0.00                   | \$0.00                   |
| <b>Total Other Financing Sources/Uses</b>                                      |             | <b>\$290,156.37</b>          | <b>\$69,873.46</b>        | <b>\$69,873.46</b>       | <b>\$69,873.46</b>       |
| <b>Net Increase (Decrease) in Fund Balance</b>                                 |             | <b>\$1,913,182.99</b>        | <b>\$75,598,137.23</b>    | <b>(\$68,922,283.15)</b> | <b>(\$69,657,594.15)</b> |
| <b>Fund Balance</b>  |             |                              |                           |                          |                          |
| Beginning Fund Balance   | 9791        | \$66,127,846.51              | \$68,041,029.50           | \$143,639,166.73         | \$74,716,883.58          |
| Audit Adjustments  | 9793        | \$0.00                       | \$0.00                    | \$0.00                   | \$0.00                   |
| Other Restatements   | 9795        | \$0.00                       | \$0.00                    | \$0.00                   | \$0.00                   |
| Adjusted Beginning Fund Balance  |             | \$66,127,846.51              | \$68,041,029.50           | \$143,639,166.73         | \$74,716,883.58          |
| Ending Fund Balance  |             | \$68,041,029.50              | \$143,639,166.73          | \$74,716,883.58          | \$5,059,289.43           |
| <b>Components of Ending Fund Balance</b>                                       |             |                              |                           |                          |                          |
| Reserved Balances  | 9700        | \$0.00                       | \$0.00                    | \$0.00                   | \$0.00                   |
| Revolving Cash   | 9711        | \$80,000.00                  | \$80,000.00               | \$80,000.00              | \$80,000.00              |
| Stores   | 9712        | \$182,361.00                 | \$182,361.00              | \$182,361.00             | \$182,361.00             |
| Prepaid Expenditures   | 9713        | \$9,967,232.27               | \$0.00                    | \$0.00                   | \$0.00                   |
| Other Prepay   | 9719        | \$0.00                       | \$0.00                    | \$0.00                   | \$0.00                   |
| General Reserve  | 9730        | \$0.00                       | \$0.00                    | \$0.00                   | \$0.00                   |
| Legally Restricted Balance   | 9740 - 9759 | (\$34,384,228.38)            | \$100,602,852.28          | \$57,011,982.99          | \$51,108,908.02          |
| Economic Uncertainties Percentage  |             | 5.00%                        | 5.00%                     | 5.00%                    | 5.00%                    |
| Designated for Economic Uncertainties  | 9770        | \$49,689,987.05              | \$48,137,992.23           | \$48,024,616.68          | \$47,303,810.98          |
| Designated for the Unrealized Gains of Investments and Cash in County Treasury | 9775        | \$0.00                       | \$0.00                    | \$0.00                   | \$0.00                   |
| Other Designated   | 9780        | \$0.00                       | \$0.00                    | \$0.00                   | \$0.00                   |
| Undesignated/Unappropriated  | 9790        | \$42,505,677.56              | \$0.00                    | \$0.00                   | \$0.00                   |
| Negative Shortfall   | 9790        | \$0.00                       | (\$5,364,038.78)          | (\$30,582,077.09)        | (\$93,615,790.57)        |

## Enrollment and Average Daily Attendance

Enrollment and ADA projections play a crucial role in budget planning because a significant amount of revenue is based on these factors. The number of students enrolled in each program provides a basis to identify staffing and facility needs and provides a target for obtainable ADA. Average daily attendance drives most of the county office's revenue sources and determines other fiscal health indicators, including required reserves. Through proper tracking and analysis of enrollment and ADA, the county office can more accurately project future revenues, control staffing and expenditures, and plan accordingly to maintain fiscal solvency.

Proper enrollment tracking and ADA analysis are essential to providing a solid foundation for budget planning. When enrollment and ADA are flat or declining, LACOE must exercise extreme caution regarding budgetary issues such as negotiations, staffing and deficit spending to ensure fiscal solvency. Diligent planning will enable LACOE to better understand its financial objectives and strategies to sustain financial solvency.

Any enrollment forecast has inherent limitations because it is based on certain criteria and assumptions rather than on exact calculations. Limitations include issues such as the unpredictable timing of housing trends, unanticipated changes in enrollment trends, and changing state, federal and local economic conditions. Therefore, the cohort forecasting model should be viewed as a trend based on certain criteria and assumptions rather than as a prediction of exact numbers. To maintain the most accurate and meaningful data, the projection should be updated at least at each interim financial reporting period.

The county office of education operates several programs that are funded based on ADA or pupil hours. Because programs operated by county offices of education do not follow the traditional K-12 classroom structure and are often challenged by other volatile factors, multiyear projections of enrollment and ADA are quite difficult and unreliable.

Enrollment and ADA projections for county community schools, juvenile court schools and special education programs can be very unpredictable because enrollment and daily attendance do not commonly follow consistent predictable patterns. It is more common for LEAs to look at the trends of recent prior years and modify assumptions based on known demographic and program information existing in the current or more recent environment.

## Methodology

The cohort survival technique is the most frequently used method of preparing school enrollment forecasts. The basic premise is that percentages are calculated from the historical enrollment data to determine a reliable percentage of increase or decrease in enrollment between any two grades. For example, if 100 students are enrolled in fifth grade in 2009-10, and this increases to 104 students in sixth grade in 2010-11, the percentage of survival is 104%. Ratios are calculated between each pair of grades or years in school over several years. The ratios used are key factors in projection reliability given the validity of the data at the starting point. The strength of the ratios lies in the fact that each ratio encompasses the variables that could account for an increase or decrease in the size of a grade cohort as it moves to the next grade.

Each ratio represents the cumulative effect of factors such as the following:

1. Migration patterns in/out of schools
2. Retention in the same grade

3. Changes in school program
4. Dropouts, transfers, etc.
5. Birthrates ([www.cdph.ca.gov/data/statistics](http://www.cdph.ca.gov/data/statistics))
6. Residential housing starts
7. Charter/private school enrollments

Based on a reasonable set of assumptions for each of these factors, ratios must indicate of present/future trends and are determined for each pair of grades or years. For projections, the ratios selected are applied to present enrollment statistics for a predetermined number of years. If any of these assumptions need to be altered in the future, it is critical for the projection to be updated. This provides an opportunity for the county office to plan adequately for any changes that might occur over time. The cohort enrollment method was utilized for all grade levels except for kindergarten.

### Juvenile Court Schools

The COE is the agency authorized to provide instructional services to students residing in a juvenile court facility. State apportionment for juvenile court schools is assigned to the COE and is designated as restricted funding. LACOE relies on projections prepared by the probation department to determine any changes that will affect the number of students in juvenile hall programs and/or county court schools. These projections are based on actual annual attendance reported on the County Attendance Report for each fiscal year beginning with actual annual ADA for 2004-05 through 2010-11.

The following table shows the prior year actual from 2004-05 through 2009-10 for the LACOE juvenile court schools program. Projections were completed for 2010-11 using actuals through reporting period 10 and projecting periods 11 to 14. The table shows a decline in ADA each year, continuing through the 2011-12 fiscal year. The 2010-11 year shows a continued decline in ADA in part because of the closing of three camps: Resnik (105 ADA), Scobee (125 ADA) and Smith (105 ADA). These three closures represent projected reductions of 335 ADA in the juvenile court schools program.

| Juvenile Court School ADA |          |           |
|---------------------------|----------|-----------|
| 2011-2012                 | 2,963.93 | Projected |
| 2010-2011                 | 3,061.10 | Projected |
| 2009-2010                 | 3,572.09 | Actual    |
| 2008-2009                 | 3,909.37 | Actual    |
| 2007-2008                 | 3,959.34 | Actual    |
| 2006-2007                 | 4,220.30 | Actual    |
| 2005-2006                 | 4,576.90 | Actual    |
| 2004-2005                 | 4,813.02 | Actual    |

Juvenile court schools programs are funded based on annual ADA, and attendance can be affected by the probation department and LACOE not working closely together. The COE relies on probation to ensure that students attend classes while incarcerated at the facilities. They must work in cooperation with the probation officers so that outside forces do not interfere with the students' education while in these facilities, such as attorney visits and court appearances. Both the county office and probation should work to keep education as a priority for these students.

A more complete analysis of juvenile court schools is contained in another section of this report.

## County Community Schools

The county office operates county community schools throughout the greater Los Angeles area. Like juvenile court schools funding, county community schools funding is based on the current year annual attendance.

LACOE should work with feeder school districts to determine whether there are any major enrollment fluctuations for the Type A and B ADA that are referred to the program by school districts. This ADA revenue limit is based on the district of residence of the student. Projecting this revenue is much more difficult because the ADA is based on referrals and on where the student lives. This, in turn, drives the amount received for these students since the amount received per ADA is the revenue limit of each student's district of residence. Community school is an alternative education program for those students who for various reasons do not do well in the traditional school setting.

The revenue limit Type C students that are referred by probation to the community school are based on the base revenue limit established for the county office. Again these are referred students, so projections are more difficult.

Homeless students attending a community school are another segment of the potential student population, and that revenue limit base is the revenue limit for the largest unified school district in the county where the community school is located. Projections for this type of program are much more difficult to make because of the different types of students that may attend the community school and because the revenue limit amount received for each of these students depends on the type of student.

A more complete analysis of county community schools is contained in another section of this report.

## Specialized Education Programs

LACOE operates several specialized education programs including the Los Angeles County High School for the Arts (LACHSA) and the International Polytechnic High School (iPoly). These two schools offer programs of specialized study that are geared toward entry into higher education institutions.

In addition to LACHSA and iPoly, LACOE operates community day schools, Cal-SAFE and independent study programs for students. Many of these programs are now funded as Tier III programs.

## Regional Occupational Classes/Programs

LACOE operates regional occupational classes/programs (ROP) for both high school students and adults in partnership with 23 participating local educational agencies. Historically these alternative education programs were funded based on ADA formulas. However, ROP is now a Tier III program, with funding based on 2007-08 funding levels and not on ADA.

## Special Education

For special education, the IEPs more commonly govern student enrollment in county programs, making enrollment projections for the subsequent years slightly easier to determine. The SELPA director(s) and the special education director(s) should confer to identify changes in student enrollment due to new students entering county programs or any new or closing county office

classes or programs. This information should be compared to prior year data for any major discrepancies.

LACOE provides programs and services to students with disabilities throughout Los Angeles County. County-operated programs for students with a wide range of disabilities are located in school districts throughout the county per agreements with five out of 16 Special Education Location Plan Areas (SELPAs). LACOE also operates a SELPA providing services to disabled students residing in juvenile halls, juvenile detention camps, residential community and education centers, community day schools, independent study strategies, Cal-SAFE programs, specialized high schools, and Soledad Enrichment Action Charter School.

The study team reviewed the historical enrollment and ADA trends for county-operated programs from 2003-04 through 2010-11. The review compared the October California Basic Educational Data System (CBEDS) student enrollment count to the April second period J18-19 (P-2) ADA report and noted that student enrollment has declined in the previous two fiscal years by 2.11% and 9.97%, respectively. Study team inquiries of LACOE staff also revealed that districts have been taking their students from LACOE provided programs back to their districts of origin in an effort to reduce district expenditures. However, LACOE was unable to furnish documentation that would provide confirmation of future reductions in ADA due to district decisions and, consequently, FCMAT's projections assume ADA to remain at its 2010-11 level.

### Average Daily Attendance

ADA is used to calculate the county office's revenue limit and many other revenue sources. The bases for calculating revenue limit apportionments vary by program and are described by program based on the greater of current or prior year P-2 ADA. ADA is projected in this multi-year financial projection as a percentage of enrollment based on prior-year ADA percentages.

The following chart shows the historical trends for LACOE-operated programs and includes FCMAT's projections for enrollment and ADA:

| Program                                     | 2012-13<br>FCMAT<br>Projected | 2011-12<br>FCMAT<br>Projected | 2010-11<br>Adopted<br>Budget | 2009-10<br>Actual | 2008-09<br>Actual |
|---|-------------------------------|-------------------------------|------------------------------|-------------------|-------------------|
| Special Education - ADA                     | 2,594.12                      | 2,594.12                      | 2,594.12                     | 2,414.65          | 2,685.07          |
| Juvenile Court Schools - ADA****            | 2,928.00                      | 2,928.00                      | 3,116.00                     | 3,572.24          | 3,909.00          |
| Cal-SAFE - ADA*                             |                               |                               |                              |                   | 463.00            |
| High School for the Arts - ADA              | 583.00                        | 583.00                        | 588.00                       | 579.52            | 541.00            |
| International Polytechnic High School - ADA | 492.00                        | 492.00                        | 498.00                       | 492.04            | 490.00            |
| Community Day Schools 1-4 hours             | 742.13                        | 783.99                        | 804.48                       | 1,091.67          | 1,320.00          |
| Community Day Schools 5-6 hours**           | 90.70                         | 90.70                         | 90.70                        | 173.53            | 2,530.68          |
| Other Alternative Education - ADA***        | 198.73                        | 198.73                        | 198.73                       | 697.90            | 269.00            |
| Regional Occupational Programs - ADA* ***** |                               |                               |                              |                   | 9,703.70          |
| Apprenticeship - Hours                      | 240,300.00                    | 240,300.00                    | 240,300.00                   | 226,949.00        | 366,472.00        |

\* Tier III programs

\*\* Tier III program only mandatory expelled ADA counted

\*\*\* Affected by Tier III shifts

\*\*\*\* Juvenile Courts Schools 2010-11 adopted = 3,116.00; projected on RL calculation = 2,928.00

\*\*\*\*\* Not funded on current ADA but at 2007-08 funding level with adjustments to percentage and apportionment deferrals

## Enrollment and ADA Trends

County office of education ADA is dependent on other school districts and agencies and can be a challenge to project because the revenue limit ADA is referred or court ordered. A county office does not have students based on boundaries and provides alternative programs that are not mandated. Programs such as ROP that were once driven by ADA are now in Tier III, and ADA reporting is no longer required. The ADA for most programs offered by LACOE is either holding steady or showing a slight increase. The exception is juvenile court schools. This is because the facilities that house these students are being closed, which results in the loss of ADA for LACOE. The county office must work closely with the probation department on ADA projections to determine the potential loss of students as far in advance as possible and plan for any potential reductions that may need to occur in program staffing.

## Revenue

FCMAT utilized award letters, Consolidated Application Part II and allocations to project revenues when available. Forecasting was completed using the SSC dartboard updated from the 2011-12 enacted budget and projected ADA. (See Appendix O.) In addition, various sources including the 2009-10 year-end closing spreadsheet provided by LACOE, Consolidated Application Part II and accountings provided by LACOE employees were used to verify and include prior year deferred revenue and carryover where applicable in 2010-11. FCMAT made adjustments to total revenue totaling \$8,317,911, the detail of which is presented in Appendix P.

## Revenue Limit Sources

The county office revenue limit for current year is calculated using data from the governor's May Revise 2011, SSC's Financial Dartboard and CDE's P-2 certification data. Current factors include the statutory COLA of negative 0.39% for 2010-11 and a deficit factor of 18.355%, a COLA of 2.24% for 2011-12, and an estimated COLA of 3.1% for 2012-13. A 20.44% deficit factor is applied to the revenue limit for each of the fiscal years 2011-12 and 2012-13.

A word of caution is that there are many concerns over the possibility of the COLA actually being funded in future years. If the COLA were not to be funded, or were funded at a lower level, the county office's fiscal position would be further weakened and fiscal insolvency would occur sooner than currently projected unless adequate budget reductions or revenue enhancements were enacted.

## Federal Sources

It became evident during FCMAT's fieldwork that some of the LACOE staff in the business services departments lack a general understanding of basic accounting concepts such as carryover, deferred revenue and proper revenue recognition. Carryover is the unused grant award calculated by taking the total available award (prior year carryover plus current year award) less expenditures. The timing of revenue recognition for carryover is dependent on each revenue source because some sources are subject to deferred revenue and others are subject to fund balance. The concepts become more complex when the proceeds for a source are not received in full during a single fiscal year. During interviews, some LACOE staff stated there was no carryover for their program but then stated that an amount from the prior year was available for current year expenditure. These explanations clearly demonstrated a lack of understanding regarding carryover. FCMAT experienced the same circumstances during interviews regarding deferred revenue. Staff members would state there was no deferred revenue for their program, but would then describe

amounts from prior year awards available for expenditure in current year. Please see Appendix Q, Federal Programs with Projected Carryover Balances.

Some LACOE employees only acknowledge revenue within a resource once cash is received instead of when the proceeds were actually earned, despite Generally Accepted Accounting Principles (GAAP). California School Accounting Manual (CSAM) Procedure 510 states:

LEAs commonly receive grant awards that are “reimbursement type” or “expenditure driven.” These awards may be mandated by the government or many have been accepted voluntarily by the LEA. The eligibility requirements of these awards have not been met until the LEA has made the required expenditures of the grant within the time period specified by the grantor. Revenue is recognized in the period in which the qualifying expenditures are made. Cash received but unspent at the end of the fiscal period is booked as a liability, and revenue is reduced to the amount that has been expended.

During interviews one LACOE staff member informed FCMAT that funds received had been directly posted into a program’s fund balance, which demonstrates a lack of understanding of the mechanics of governmental accounting.

Because FCMAT includes all available awards and carryover amounts in the current year budget projection for federal revenue and grants, any amount unexpended in each restricted resource falls to the ending fund balance in the FCMAT MYFP. At the close of a fiscal year, any unexpended/unearned balances are treated as carryover.

Conversely, amounts actually received but not expended by LACOE during the current fiscal year are treated as deferred revenue/carryover, which reduces the amounts recognized as revenue in the current fiscal year. This is done by establishing a liability for the amounts received but not earned and reducing the amounts reported as revenue at year end in the unaudited actuals. These unspent balances are then recognized by LACOE as revenue in the subsequent fiscal year(s) when actually spent/earned.

The table provided in Appendix Q identifies the federal restricted resources with projected ending fund balances in the FCMAT MYFP. These amounts would be excluded from current year revenue in LACOE’s unaudited actuals at year-end close and should be incorporated in the subsequent year revenue budget projections at first interim revisions.

Medi-Cal Administrative Activities (MAA) reimbursements are based on current-year receipts, which reflects that the program reimbursement revenue has grown by 23% from that reported in the 2009-10 fiscal year even though, as noted elsewhere in this report, it is still low when compared to other county offices. However, due to the volatility seen in this revenue stream in the three prior fiscal years, FCMAT projections for the 2011-12 and 2012-13 fiscal years have been based on LACOE’s three-year average.

During the 2010-11 year, LACOE had approximately \$72.6 million available for expenditure in 17 ARRA programs and expended \$60 million, leaving \$12.6 million available for expenditure during the first quarter of the 2011-12 year. One-time ARRA funding is required to be expended by September 30, 2011. Because FCMAT did not identify any action taken by LACOE to eliminate positions funded in these ARRA resources, FCMAT did not eliminate expenditures related to salaries and benefits from the MYFP. FCMAT elected to maintain the salary and benefit costs for positions within each ARRA resource in the 2011-12 and 2012-13 fiscal years of the MYFP. To mitigate the funding shortfall, FCMAT recorded contributions from the unrestricted resource to sustain the expenditures rather than relocating them to the unrestricted resource, because this

approach to addressing the depleted funding source has the same net effect on the general fund unrestricted resource. Continuation of these expenditures in the absence of an identified ongoing revenue source contributes to LACOE's unrestricted structural deficit and adds to the depletion of LACOE's unrestricted ending fund balance.

Federal Education Jobs Fund funding was received by LACOE in August 2010 and 55% of those funds have been expended as of June 30, 2011, primarily for certificated salaries and benefits. This one-time funding is to be used for compensation to support site-level services and must be expended by September 30, 2012. As with ARRA funds, positions supported from this resource in 2010-11 are assumed to continue into the 2011-12 and 2012-13 fiscal years in FCMAT's MYFP. A contribution from the unrestricted resource was incorporated to sustain the related expenditures as opposed to moving them to the unrestricted resource.

### State Sources

FCMAT utilized award letters, contracts and allocations to project revenues when available. MYFP projections are calculated using the SSC Dartboard updated based on the 2011-12 enacted state budget. State revenue was adjusted for the COLA of 2.24% in 2011-12 and 3.10% in 2012-13, along with deficits of 18.250% in 2010-11 and 20.041% in 2011-12 and 2012-13. Projected ADA also was considered. In addition, the 2009-10 year-end closing spreadsheet provided by LACOE and accountings provided by LACOE employees were utilized to add deferred revenue and carryover where applicable in 2010-11.

Funding for restricted programs recharacterized as unrestricted under the Tier III categorical flexibility shift, beginning in 2008-09, continues through the 2014-15 fiscal year. The COLA associated with these funds is 0% for 2010-11, and is projected at 0% for 2011-12 and 3.10% for 2012-13 in the FCMAT MYFP.

Lottery funding remains unchanged in the FCMAT MYFP at \$111.75 per ADA for the unrestricted portion and \$17 per ADA for the Proposition 20 or restricted portion for 2010-11, 2011-12 and 2012-13. These estimates remain flat due to the uncertainty of increases in future funding. While the Lottery Commission has recently approved a budget with sales projections of \$4.09 billion (the largest in the history of the Lottery), its last fiscal year did not meet its sales projections. Consequently, until there is a sustainable increase in sales, a conservative estimate is used.

Although flexibility continues for the routine restricted maintenance account (RRMA), reducing required contributions, LACOE continues to provide for approximately \$2,925,000 or 0.3% of its general fund budget for the 2010-11 year. Preservation of this contribution level into 2011-12 and 2012-13 allows this resource to maintain a fund balance of \$1.5 million even while deficit spending in 2011-12 and 2012-13. FCMAT did not reduce the level of contribution in the MYFP.

### Local Sources

FCMAT adjusted the interest earnings in 2010-11 based on the amount received to date and projected collections through the remainder of the fiscal year. FCMAT utilized projection rates for interest earnings using the SSC Dartboard that is updated based on the 2011-12 enacted state budget for the 2011-12 and 2012-13 fiscal years.

FCMAT's MYFP anticipates that the local revenue sources presented in Table 2E-5 below will not continue past their expiration date, or 2010-11 if an award letter was not available.

**Table 2E-5**  
**Local Funding Terminations**

| Resource                | Description                                | 2010-11 Revenue         | Funding Expiration |
|-------------------------|--|-------------------------|--------------------|
| 9039                    | GROW-Transition Services                   | \$ 4,874,646.00         | December 31, 2011  |
| 9047                    | Nutrition Network                          | \$ 2,321,392.00         | September 30, 2012 |
| 9049                    | FNL Youth Leadership Devel                 | \$ 169,659.00           | June 30, 2011      |
| 9056                    | GAIN                                       |                         |                    |
|                         | Job Readiness                              | \$ 14,556,606.00        | June 30, 2012      |
|                         | REP Vocational Assessment                  | \$ 538,968.00           | June 30, 2013      |
| 9058                    | Friday Night Live Social Actn              | \$ 239,771.00           | June 30, 2011      |
| 9060                    | CTE Teach 2010-11 Pilot Site               | \$ 24,950.00            | June 30, 2011      |
| 9066                    | Youth Tobacco Education                    | \$ 900,000.00           | March 18, 2012     |
| 9076                    | Family Litrcy Init Enhnc & Exp             | \$ 1,571,553.00         | June 30, 2012      |
| 9111                    | Early Mental Health Initiative             | \$ 20,721.00            | June 30, 2011      |
| 9270                    | DMH-Suicide Prevention Prog                | \$ 255,000.00           | June 30, 2012      |
| 9546                    | Regional Counseling Center                 | \$ 726,060.00           | June 30, 2012      |
| 9610                    | Emergency Preparedness & Response Services | \$ 50,000.00            | July 31, 2011      |
| 9625                    | Phys Ed Prof Dev & Joint Use - ARRA        | \$ 1,800,000.00         | March 18, 2012     |
| 9632                    | CCSESA Arts Initiative                     | \$ 17,339.00            | June 30, 2011      |
| 9638                    | Advance Network Uses-(K12HSN)              | \$ 125,000.00           | May 31, 2011       |
| 9647                    | Friday Night Live Events                   | \$ 22,000.00            | May 31, 2011       |
| 9651                    | CCSESA Dist Fiscal Plan Grnt               | \$ 299,000.00           | June 30, 2012      |
| 9712                    | ARRA K-12 High-Speed Network               |                         |                    |
|                         | Interagency Services                       | \$ 60,930.00            | June 30, 2011      |
|                         | Interagency Services                       | \$ 280,625.00           | June 30, 2012      |
| <b>Restricted Total</b> |  | <b>\$ 28,854,220.00</b> |                    |

## Pass Through Sources

Included in revenue projections are apportionments, entitlements and awards for program funding received by LACOE that are directly passed through to LEAs in the county. Table 2E-5.5 presents pass through revenue projections by resource for each fiscal year of the MYFP. The amounts included in the FCMAT MYFP are reduced or eliminated in subsequent years when projected revenue declines or discontinues.

**Table 2E-5.5**  
**PASS THROUGH REVENUE PROJECTIONS - BY RESOURCE**

| Name                                       | Resource Code | Object Code | Base Year 2010 - 11      | Year 1 2011 - 12         | Year 2 2012 - 13         |
|--|---------------|-------------|--------------------------|--------------------------|--------------------------|
| Pass-through Revenues from Federal Sources | 0000          | 8287        | \$ 20,000,000.00         | \$ 20,000,000.00         | \$ 20,000,000.00         |
| Pass-through Revenues from Federal Sources | 0001          | 8287        | 7,447,538.00             | 7,447,538.00             | 7,447,538.00             |
| Pass-through Revenues from Federal Sources | 3310          | 8287        | 84,828,964.00            | 66,374,656.00            | 66,374,656.00            |
| Pass-through Revenues from Federal Sources | 3311          | 8287        | 36,636.00                | -                        | -                        |
| Pass-through Revenues from Federal Sources | 3313          | 8287        | 41,938,817.00            | -                        | -                        |
| Pass-through Revenues from Federal Sources | 3315          | 8287        | 2,783,070.00             | 2,193,547.00             | 2,193,547.00             |
| Pass-through Revenues from Federal Sources | 3316          | 8287        | 40,000.00                | 40,000.00                | 40,000.00                |
| Pass-through Revenues from Federal Sources | 3319          | 8287        | 1,661,224.00             | -                        | -                        |
| Pass-through Revenues from Federal Sources | 3320          | 8287        | 5,501,194.00             | 4,371,503.00             | 4,371,503.00             |
| Pass-through Revenues from Federal Sources | 3324          | 8287        | 2,677,076.00             | -                        | -                        |
| Pass-through Revenues from Federal Sources | 3327          | 8287        | 15,235,678.00            | 4,463,868.00             | 4,463,868.00             |
| Pass-through Revenues from Federal Sources | 3345          | 8287        | 45,127.00                | 40,167.00                | 40,167.00                |
| Pass-through Revenues from Federal Sources | 3385          | 8287        | -                        | -                        | -                        |
| Pass-Through Revenues from State Sources   | 3385          | 8587        | 989,954.00               | 989,954.00               | 989,954.00               |
| Pass-Through Revenues from State Sources   | 6515          | 8587        | 17,242.00                | 14,159.00                | 14,597.93                |
| Pass-Through Revenues from State Sources   | 6530          | 8587        | 46,301.00                | 46,301.00                | 47,736.33                |
| Pass-Through Revenues from State Sources   | 6535          | 8587        | 178,691.00               | 136,409.00               | 140,637.68               |
|  |               |             | <b>\$ 183,427,512.00</b> | <b>\$ 106,118,102.00</b> | <b>\$ 106,124,204.94</b> |

Upon exhaustion of available revenues, FCMAT has reduced expenditures in the second and third years of the MYFP, first in the 4000 object code series. When these reductions were insufficient to balance a resource, FCMAT made reductions to the budgets in the 6000 and 5000 object codes series, respectively. Salary and benefit expenditure budgets, object codes 1000-3999, were not reduced to alleviate deficit spending or negative ending balances, as these decisions are made at the local level and have collective bargaining effects. If a negative balance existed after revision of budgets in 4000-6999, a contribution was made into the resource to mitigate the shortfall. For example, upon expiration of the agreement related to GAIN Job Readiness, all expenditures related to the 4000-6999 object codes for the 2012-13 fiscal year were reduced to zero; however, \$11.6 million in expenditures for salaries, benefits and indirect costs continue resulting in a contribution from the unrestricted side of the budget.

## Expenditures

### Salaries and Benefits

Employee salary and benefit costs represent the largest part of an LEA's budget. FCMAT's MYFP indicates that 65.65% of LACOE's 2010-11 unrestricted general fund expenditure budget is projected to be used for employee salary and benefit compensation. Because salaries and benefits account for such a large percentage of the operating budget, it is critical to accurately project these costs. The financial reporting system should be fully integrated with payroll and budget modules that utilize unique identifying position control numbers to properly update the budget at each reporting period.

The county office utilizes three systems for managing position, staffing and financial data. PeopleSoft is the county's primary financial accounting system. PC Budget is the primary position control system. It is managed and updated after the adoption of the original budget through entries made in the Human Resource System (HRS), which is used to generate payroll. These three systems are not fully integrated for accounting and financial reporting. The information housed in each system must be downloaded into the other, and the systems must be manually balanced.

LACOE uses the HRS to generate payroll and uses the PC Budget database to store position control information and for budget development of salaries and benefits. The county office completes a daily download from HRS to PeopleSoft. Interviews indicated that audit reports are generated each night, and LACOE staff members balance HRS and PC Budget quarterly to ensure they match. In its analysis, FCMAT was unable to match the information in position control to the budget. According to LACOE staff, salaries for all positions maintained in position control, including those for positions that remain open (not formally closed or eliminated from organizational charts), are included in the adopted budget. Once approved, the budgets for salaries and benefits are uploaded into PeopleSoft. At each interim reporting period an analysis is conducted of actuals to date compared to the budget. A projected budget is developed reducing the amounts budgeted for salaries and benefits based on an extrapolation of actual expenditures through the reporting period. This projected budget is then used as the export for state reporting in the SACS import file. The working budgets in PeopleSoft are not modified by LACOE during interim periods to reduce excess salaries and benefits.

The county office issues paychecks two times each month, with an advance payment on the 20th of each month and the balance on the 5th of the following month for 10-, 11- and 12-month

employees. LACOE processes payroll almost every day to correct overpayment and/or underpayment of wages.

FCMAT reviewed all active positions in position control as of April 28, 2011, the payroll detail for regular salaries paid during the months of January, February and March 2011, and the LACOE second interim budget report for the unrestricted and restricted salaries and benefits. An additional review was done as a follow-up utilizing the April 2011 payroll detail. Through this review, several issues were encountered involving reporting variances of financial information between system and budget reports.

Discrepancies were noted in salary schedule placement of classified staff during FCMAT's review of financial data extracted from the payroll and position control systems. These discrepancies were subsequently identified as timing issues between the update of eligible salary schedule placement for classified staff in position control and the payroll system. This requires a significant amount of staff time to prepare and process retroactive salary adjustments.

Review of data extracted from position control showed variances in the following areas:

- **Limited-term positions:** These are full-time staff positions that are not included in position control, and as such do not encumber in the financial system. FCMAT's review identified 35 limited-term positions in the March 2011 payroll with monthly salaries totaling \$244,984, a potential of over \$2.9 million in salaries for 12-month positions.
- **Budgeting for more than 12 months for positions that were filled by two or more employees during the fiscal year.**
- **Vacant Positions:** Vacant positions are listed as active in the position control system budget and allowed to show the full annual budgeted cost of salaries and benefits.

Review of the financial system data utilized for reporting LACOE's second interim budget in the SACS reports showed the following:

- **Budgets for limited-term positions must be submitted by department heads and proceed through various levels of approval before being entered into the system.**
- **Month-end financial reports do not reflect the current financial activity in the salary/benefit expense accounts. The monthly earned salary advance paid on the 20th is recorded as a payroll advance in the general ledger, and the salary costs are moved to the actual expense accounts on the 5th of the following month once the final monthly pay is processed.**

### **Payments for Substitute Services**

LACOE payroll staff members pay all teacher substitutes from the unrestricted general fund each month. Once the payroll is posted, the staff prepares journal entries to move substitute salary and benefit costs to the appropriate resource. It is labor intensive to identify and manually transfer these costs to the correct program each month. In an attempt to spend required funds before year end, managers that are responsible for restricted programs that have carryover limitations run the risk of overspending budgets if substitute costs are not posted timely. The county office should explore using a different method to charge substitute costs to the correct resource when payroll is prepared.

## Adjustments to Salary and Benefits Projections

FCMAT prepared an analysis of the total unrestricted and restricted resources to align the salary and benefit budgets to projected spending levels as of June 30, 2011 by utilizing the June 30, 2011 financial summary export file that contained actual year-to-date activity. Budgets were increased or decreased to the projected 2010-11 spending levels.

Because of the significant challenges resulting from LACOE's use of multiple systems for management of salaries and benefits, and predominantly due to the inclusion of budgetary reservations for vacant positions in the LACOE budget, FCMAT utilized actual salary and benefit expenditures as of June 30, 2011, exported from the LACOE financial system August 26, 2011, for salary and benefit projections through June 30, 2011. Savings in salaries and benefits have been deemed the result of vacant positions and have not been added into the subsequent year budgets in the study team's projection. Should LACOE fill vacant positions in the subsequent years that were otherwise vacant during the 2010-11 fiscal year, projected ending fund balances will be affected.

## Calculations of Step and Column Increases

FCMAT calculated a rate for step and column increases based on position comparisons from the 2009-10 fiscal year to the 2010-11 fiscal year. Each position, identifiable by a unique position number, was compared from one year to the next to determine the increased cost for the position. Savings resulting from closing a position in 2010-11 that was staffed in 2009-10 were excluded from this calculation because those savings are treated as budget reduction savings, not a component of step and column. Increased and/or decreased costs related to a change in employee assigned to a position from one year to the next were included in this calculation because these increased/decreased costs are treated as attrition. These increased costs were further segregated as certificated and classified salaries. The total increased cost for each classification was expressed as a percentage of **total** 2009-10 certificated or classified salaries. These percentages were then used as a basis to calculate step and column increases in the 2011-12 and 2012-13 projection years. These rates should not be construed as the cost of step and column calculated for collective bargaining, which are appropriately calculated solely isolating base salary increases expressed as a percentage of prior year base salary. This calculation will result in a much different picture because it does not express the increase as a percentage of total prior year salaries. FCMAT's calculated rate is intended solely for the purpose of extrapolating a cost of step and column based on **total** salaries and benefits of the prior fiscal year, and should only be considered for the purposes of projecting increased costs in the projected years.

FCMAT applied global rules by specific object code to indicate the projected step and/or column salary increases for 2011-12 and 2012-13.

## Collective Bargaining Agreements

As of the completion of fieldwork for this portion of the report, LACOE had not finalized negotiations with the LACEA, CSEA, SEIU and management bargaining units. Therefore, no increases in salaries have been incorporated into the MYFP. Health and welfare benefits were maintained at the levels for the 2010-11 fiscal year. Any amounts subsequently negotiated and confirmed through ratification for increases to salary and benefit levels will affect the ending fund balances reflected in this projection.

**Certificated Salaries** – The multiyear projection includes the impact of ongoing step and/or column costs of 0.9% for certificated wages. No adjustment was made to certificated staffing levels relative to projected declining enrollment because revenue projections tied to average

daily attendance have remained flat. No other adjustments for salary enhancements have been included since those are determined at the local level.

LACOE follows a practice of including the cost of potential salaries and benefits for open/unfilled positions in the adopted budget and modifies them at each interim based on an extrapolation of actual expenses. FCMAT adjusted salary and benefit budgets to actual costs as reported by LACOE as of June 30, 2011 and exported August 26, 2011.

**Classified Salaries** – The multiyear projection includes 1.4% for the impact of ongoing step and/or column costs for classified wages. No adjustment was made to classify staffing levels relative to projected declining enrollment because revenue projections tied to average daily attendance have remained flat. No other adjustments for salary enhancements have been included since those are determined at the local level.

LACOE includes the cost of potential salaries and benefits for open/unfilled positions in the adopted budget and modifies them at each interim based on an extrapolation of actual expenses. FCMAT adjusted salary and benefit budgets to actual costs as reported by LACOE as of June 30, 2011 and exported August 26, 2011.

**Employee Benefits** – FCMAT adjusted statutory benefits in proportion to certificated and classified salary changes. The projected costs of employer-paid benefits have been adjusted in the current year based on year-to-date actuals projected through year end. Table 2E-6 reflects statutory benefit rates for LACOE.

|                           |                             | 2010-11       | 2011-12       | 2012-13       |
|---------------------------|-----------------------------|---------------|---------------|---------------|
| <b>CERTIFICATED</b>       |                             |               |               |               |
| 3111                      | STRS                        | 8.25%         | 8.25%         | 8.25%         |
| 3331                      | Medicare                    | 1.45%         | 1.45%         | 1.45%         |
| 3511                      | Unemployment Insurance      | 0.72%         | 0.72%         | 0.72%         |
| 3611                      | Workers' Compensation       | 6.20%         | 6.20%         | 6.20%         |
| 3711                      | OPEB2 Active Employees      | 0.31%         | 0.31%         | 0.31%         |
|                           | <b>Total</b>                | <b>16.93%</b> | <b>16.93%</b> | <b>16.93%</b> |
| 3751                      | OPEB Active Employees       | \$ 145        | \$ 145        | \$ 200        |
| 3411                      | Health & Welfare-Management | \$ 9,814      | \$ 9,814      | \$ 9,814      |
| 3411                      | Health & Welfare - Others   | \$ 9,230      | \$ 9,230      | \$ 9,230      |
| <b>CLASSIFIED</b>         |                             |               |               |               |
| <b>Regular Retirement</b> |                             |               |               |               |
| 3212                      | PERS                        | 11.673%       | 11.673%       | 11.673%       |
| 3312                      | OASDI                       | 6.20%         | 6.20%         | 6.20%         |
| 3332                      | Medicare                    | 1.45%         | 1.45%         | 1.45%         |
| 3512                      | Unemployment Insurance      | 0.72%         | 0.72%         | 0.72%         |
| 3612                      | Workers' Compensation       | 6.20%         | 6.20%         | 6.20%         |
| 3712                      | OPEB2 Active Employees      | 0.31%         | 0.31%         | 0.31%         |
| 3812                      | PERS Reduction              | -0.594%       | -0.594%       | -0.594%       |
|                           | <b>Total</b>                | <b>25.96%</b> | <b>25.96%</b> | <b>25.96%</b> |
| <b>County Retirement</b>  |                             |               |               |               |
| 3312                      | OASDI                       | 6.20%         | 6.20%         | 6.20%         |
| 3332                      | Medicare                    | 1.45%         | 1.45%         | 1.45%         |
| 3342                      | CERS                        | 14.45%        | 14.45%        | 14.45%        |
| 3512                      | Unemployment Insurance      | 0.72%         | 0.72%         | 0.72%         |
| 3612                      | Workers' Compensation       | 6.20%         | 6.20%         | 6.20%         |
| 3712                      | OPEB2 Active Employees      | 0.31%         | 0.31%         | 0.31%         |
|                           | <b>Total</b>                | <b>29.33%</b> | <b>29.33%</b> | <b>29.33%</b> |
| 3752                      | OPEB Active Employees       | \$ 145        | \$ 145        | \$ 200        |
| 3411                      | Health & Welfare-Management | \$ 9,814      | \$ 9,814      | \$ 9,814      |
| 3411                      | Health & Welfare - Others   | \$ 9,230      | \$ 9,230      | \$ 9,230      |

*Note: Employees staffed below 50% assignment receive no health & welfare benefits.*

**PERS & PERS Revenue Limit Reduction (RLR)** - One of the expenditures associated with classified staff is the payment of a percentage of payroll expenditures 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% (the rate at 1981-82) and the employee responsible for a 7% contribution. For the 2010-11 fiscal year, the employer portion is further divided between regular PERS at 10.707% and PERS reduction at 2.313%. 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.

LACOE's PERS and PERS RLR differ from other county offices that use the 13.02% rate noted above. LACOE's rate is based on its 1981-82 rate, which was 11.079% in that year. Its current PERS rate is 11.673%, which exceeds the 1981-82 rate, resulting in a negative PERS RLR rate of 0.594% and providing the county office with an addition to its revenue limit calculation.

**Health Care Benefits** - In February 1992, LACOE and its employee bargaining units entered into an agreement to create the Los Angeles County Schools Joint Benefits Trust. The purpose of the trust was to manage health and welfare benefits as defined in Government Code Sections 3543.2 and 53200 for employees of LACOE and their dependents. The level of employee and employer contributions to this trust is established through collective bargaining and subsequent agreements between the unions and LACOE.

Review of the trust agreement clearly states that neither the unions nor LACOE have any rights to balances within the trust, nor does either party have any liability with regard to the fund or the health and welfare plan. The trust document states that LACOE shall contribute to the fund the amounts required under the collective bargaining agreement(s). The contribution levels are spelled out in collective bargaining agreements, and are included in the costs of benefits reported in FCMAT's MYFP. Any increases to benefit levels would require collective bargaining agreement and ratification, so no increases have been provided in FCMAT's MYFP over the levels included as of June 30, 2011. Any negotiated increases in the contribution level required by LACOE would negatively impact the balances presented in FCMAT's MYFP unless other budgetary reduction measures or income enhancements were identified to offset the increased costs.

FCMAT adjusted health benefit budgets to reflect actual expenditures through June 30, 2011, as exported from LACOE financial system on August 26, 2011. No increases to the amounts budgeted for health and welfare benefits were incorporated into FCMAT's MYFP in the subsequent years. As a reminder, no adjustment was made to certificated or classified staffing levels relative to projected declining enrollment because revenue projections tied to average daily attendance have remained flat. Thus, the MYFP will reflect a constant amount for health and welfare in the subsequent years as the level of staffing as well as the cost of health and welfare benefits remained the same. Per collective bargaining agreements, health and welfare benefits are capped at the county office rate of \$9,814 for management and \$9,230 for all other eligible staff members. The county office charges the full cost of health insurance for each employee to the resource where that employee is funded. Although LACOE was in negotiations with regard to health and welfare at the time of FCMAT's study, nothing was finalized prior to fieldwork concluding, so no changes are reflected in this report.

## **Expenditures Other Than Salaries & Benefits**

FCMAT reviewed the historical spending averages for the last three fiscal years in each object code and assessed all significant variances. The 2010-11 budget was adjusted based on actual expenditures provided through June 30, 2011 and exported August 26, 2011. FCMAT treated all reductions in expenditures, other than those related to salaries and benefits, as one-time savings based on the guidance provided by the LACOE Superintendent of Schools in the LACOE Budget Update dated March 11, 2011 which stated, "50% of balances as of January 31, 2011 in the following categories must be left unexpended: all 4000s, 5210 and 5220, and all 6000s ..." Therefore, budgetary savings were treated as one-time in the FCMAT MYFP, and reductions made in the 2010-11 fiscal year were reversed in the subsequent fiscal year. Those expenditures that exceeded amounts budgeted were treated as ongoing and were not reversed in the subsequent fiscal years. Excess expenditures primarily occurred in restricted program resources. Expenditure budgets also were adjusted to reflect increases based on the consumer price index inflation factor from the SSC Dartboard.

Reductions were made to reduce or eliminate expenditure budgets when total expenditures exceeded available resources in the second and/or third year of the FCMAT MYFP, first in the 4000 object code series. When these reductions were insufficient to balance a resource, FCMAT made reductions to the budgets in the 6000 and 5000 object codes series, respectively. Salary and benefit expenditure budgets, object codes 1000-3999, were not reduced to alleviate deficit spending or negative ending balances. If a negative balance existed after revision of budgets in 4000-6999, a contribution was made into the resource to mitigate the shortfall.

**Books and Supplies** – Using actuals as a basis for adjusting the budget, a reduction totaling \$8,895,489 across all resources was made in the 2010-11 budget.

**Services** – Using actuals as a basis for adjusting the budget, a reduction totaling \$39,693,277 across all resources was made in the 2010-11 budget.

**Capital Outlay** – Using actuals as a basis for adjusting the budget, a reduction totaling \$490,417 across all resources was made in the 2010-11 budget.

**Other Outgo and Debt Service** – FCMAT maintained debt service commitments at a flat level in the second and third year of the MYFP because these amounts produce the most conservative projection. Any reduction in the annual debt service payments in subsequent fiscal years is projected to have an inconsequential impact on the MYFP.

**Direct Support/Indirect Costs** – Costs of a local educational agency (LEA) can be categorized as direct or indirect. The activity associated with the expenditure 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 district's general operation (e.g., accounting, budgeting, payroll preparation, personnel management, purchasing, centralized data processing, etc.). Each LEA establishes an annual indirect cost rate based on its individual expenditures as applied to the CDE's federally approved indirect cost plan. This individual LEA rate is then multiplied by each program's actual allowable expenditures for the purpose of charging the program for its share of the cost of general administrative activities.

As a rule, individual programs are charged the LEA's CDE approved indirect cost rate unless the program specifically requires a different rate or none at all. For example, Federal Education Jobs Funding allows no indirect costs while Economic Impact Aid allows a 3% indirect cost rate. LACOE's CDE approved indirect cost rate is 7.81% for 2010-11 and 9.31% for 2011-12; however, not all of LACOE's programs were charged the LACOE's CDE approved rate. (Please see Appendix Q.) Some LACOE programs had rates less than the CDE approved rate based on a negotiated percentage; however, some utilized an internal LACOE process whereby programs that have insufficient funding to include indirect costs may apply for and be granted a waiver either reducing or eliminating the charge of indirect costs. The result of the negotiated indirect cost rates and waiver of LACOE's CDE approved indirect cost rate to its programs is that the unrestricted side of the general fund bears the burden of the waived administrative costs even though restricted and other programs receive the benefit of those services.

LACOE staff reported to FCMAT that programs are not allowed to encroach on the unrestricted general fund and this is the primary reason that a waiver is normally sought. However, waiving indirect costs becomes an encroachment on the unrestricted general fund, albeit an unseen encroachment. FCMAT's analysis of the difference between indirect costs charged under LACOE's negotiated indirect rate system and the maximum rates allowed by the CDE resulted in LACOE's unrestricted general fund bearing as much as \$2.1 million in annual costs that should have been absorbed by restricted programs. For LACOE's programs to accurately report the full cost of programs, the CDE approved rate should be utilized and the county office should carefully review all programs to ensure that each is self-sustaining.

A second and more compelling reason LACOE should discontinue its practice of waiving or reducing the charges associated with indirect costs has to do with how the CDE calculates the indirect cost rate for each LEA. The indirect cost rate is calculated in advance of each fiscal year

based on an estimate of indirect and operating costs. Once actual costs are known, the difference between the estimate and the actual indirect costs is carried forward and used to adjust future year rates to ensure that actual indirect costs may be recaptured from federal and state programs. A recent change was made to the indirect cost calculation affecting how the carry-forward adjustment is calculated and applied to each LEA's indirect cost rate calculation. The new provision can significantly affect an LEA's subsequent year indirect cost calculations and should be clearly understood by LACOE when assessing the benefits of continuing its waiver program. Details of the adjustment to the carry-forward provisions of the calculation are found in the CDE letter dated July 9, 2010, which can be accessed through the following link: <http://www.cde.ca.gov/fg/ac/co/icr070910plan.asp>

Except where LACOE negotiated a different rate, FCMAT adjusted indirect cost rates to reflect the CDE allowable rate for each program in the MYFP to maximize the recapture of permissible administrative costs for each instructional program. LACOE's CDE approved indirect cost rates are 7.81% for 2011-12 and 9.31% for 2012-13.

In addition to some programs bearing less than their share of indirect costs, FCMAT's review of LACOE's 2010-11 general ledger expenditures revealed additional costs charged under objects 7310 (Operations Admin, Records Mgmt.) and 7370 (Operations & Security Services – Ed Centers). LACOE utilizes object code 7311 to account for regular indirect costs. The California School Accounting Manual (CSAM), Procedure 330 reports that the use of object 7370 (Transfers of Direct Support Costs) was valid through 2007-08. Beginning with the 2008-09 fiscal year and thereafter, districts and county offices of education were directed to use object 5710 (Transfers of Direct Costs).

FCMAT interviews with LACOE staff revealed that records storage, facilities planning and security services are charged to specific cost centers and are then allocated to programs utilizing object codes 7310 and 7370. Further inquiry regarding how LACOE ensures that these costs are excluded from the CDE indirect cost rate calculation to avoid duplicate charges resulted in assurance that the coding of these expenditures removed them from the CDE indirect cost calculation. These assurances could not be validated through review of documentation provided by LACOE staff. FCMAT's review of the account strings utilized to record the initial expenditures and subsequent allocations charged to object 7310 revealed that some expenditures were being directly charged to programs via CSAM objects in the 5700-5799 range for transfers of direct costs; however, others were coded such that they appeared to remain in the expenditures included in the CDE indirect cost rate calculation.

FCMAT was unable to obtain sufficient documentation to determine definitively which costs were correctly being applied through transfers of direct costs and which would automatically flow to the CDE indirect cost rate allocation, thereby duplicating charges to programs. Consequently, FCMAT did not adjust the base year nor modify the subsequent years for these costs, assumed them to be ongoing, and would suggest that LACOE consult its independent auditors regarding its methodology of costs being charged under objects 7310 and 7370. Costs charged in the 5700-5799 range would be automatically excluded from the CDE calculation and, while application of costs through the 5700 series would increase costs to specific programs, the overall effect to LACOE would likely be negligible.

## Other Financing Sources/Uses

### Contributions to Restricted Programs

FCMAT's MYFP projects ongoing structural deficits in several restricted instructional programs in the absence of expenditure reductions in the current and/or subsequent fiscal years. These structural deficits continue to negatively impact the balances reported in the unrestricted resource(s). To mitigate the negative ending fund balance in each resource, FCMAT reduced projected expenditures in object 4000-6999 where possible. However, this action may also affect the delivery of programs in future years and would require in-depth assessment to determine the county's ability to eliminate these expenditures.

If a negative balance remained after these reductions, FCMAT made contributions from the unrestricted resource 0000 into each resource to mitigate the remaining negative ending fund balance in each applicable year. Salary and benefit budgets were not reduced to mitigate negative ending fund balances. Table 2E-7 reflects each resource requiring contribution(s).

**Table 2E-7  
Contributions by Resource**

| Resource Description  | Resource Code | Object Code | Base Year 11              | 2010 - 2011 - 12          | Year 1 2011 - 12          | Year 2 2012 - 13 |
|---|---------------|-------------|---------------------------|---------------------------|---------------------------|------------------|
| <b>Unrestricted Resources</b>   |               |             |                           |                           |                           |                  |
| Unrestricted  | 0000          | 8980        | \$ (83,733,117.67)        | \$ (38,696,448.86)        | \$ (75,795,378.15)        |                  |
| <b>Total Unrestricted</b>   |               |             | <b>\$ (83,733,117.67)</b> | <b>\$ (38,696,448.86)</b> | <b>\$ (75,795,378.15)</b> |                  |
| <b>Restricted Resources</b>   |               |             |                           |                           |                           |                  |
| Juvenile Court (Education Code Section 1982.2)                          | 2410          | 8980        | \$ 52,987,079.94          | \$ 14,056,274.74          | \$ 13,599,110.93          |                  |
| Juvenile Court (Education Code Section 1982.2)                          | 2410          | 8990        | \$ (5,776,047.94)         | \$ (5,776,047.94)         | \$ (5,776,047.94)         |                  |
| County Community Schools (Education Code sections 1980-1982.3)          | 2420          | 8980        | 3,916,981.43              | 793,478.54                | 911,081.03                |                  |
| County Community Schools (Education Code sections 1980-1982.3)          | 2420          | 8990        | (110,765.70)              | (110,765.70)              | (110,765.70)              |                  |
| Community Day Schools   | 2430          | 8980        | 20,302,642.45             | 9,994,097.52              | 10,420,277.17             |                  |
| Community Day Schools   | 2430          | 8990        | (249,693.87)              | (249,693.87)              | (249,693.87)              |                  |
| Other Restricted Revenue Limit Sources                                  | 2900          | 8980        | 3,427,359.13              | 1,514.13                  | 110,520.48                |                  |
| Other Restricted Revenue Limit Sources                                  | 2900          | 8990        | (70,901.93)               | (70,901.93)               | (70,901.93)               |                  |
| Title I Part A Basic ARRA   | 3011          | 8980        | -                         | -                         | 1,030,226.34              |                  |
| Title I Part D Delinquent ARRA  | 3026          | 8980        | -                         | -                         | 1,735,188.24              |                  |
| NCLB-Title I Part B, Reading First Program                              | 3030          | 8980        | -                         | -                         | 2,279.39                  |                  |
| NCLB: Title I, Part B, Even Start Migrant Education (MEES)              | 3110          | 8980        | 39.92                     | -                         | -                         |                  |
| ARRA:State Fiscal Stabilizatio  | 3200          | 8980        | -                         | 1,900,019.78              | 3,324,208.63              |                  |
| Education Jobs Fund   | 3205          | 8980        | -                         | 391,552.69                | 2,254,684.77              |                  |
| Local Asst-Private School-ESGV  | 3311          | 8980        | 42,393.97                 | -                         | -                         |                  |
| ARRA Local Assistance   | 3313          | 8980        | -                         | -                         | 98,005.56                 |                  |
| Special Ed: ARRA IDEA Part B, Sec 611, Local Assistance Private Schools | 3314          | 8980        | 35,544.70                 | -                         | -                         |                  |
| Special Ed: IDEA Mental Health Allocation Plan, Part B, Sec 611         | 3327          | 8980        | 2.00                      | 2.00                      | 2.00                      |                  |
| Special Ed: IDEA Early Intervention Grants                              | 3385          | 8980        | 1,060.14                  | -                         | -                         |                  |
| Special Ed: IDEA Quality Assurance & Focused Monitoring                 | 3386          | 8980        | 1.05                      | -                         | -                         |                  |
| NCLB: Title II, Part A, Principal Training                              | 4036          | 8980        | -                         | -                         | -                         |                  |
| NCLB: Title II, Part D, Enhancing Education Through Technology          | 4045          | 8980        | -                         | 3,251.69                  | 49,485.16                 |                  |
| ARRA - EETT Formula Grant   | 4047          | 8980        | -                         | -                         | 41,148.93                 |                  |
| Head Start ARRA Quality Improv  | 4810          | 8980        | -                         | -                         | -                         |                  |
| WrkFrc Inv Act (WIA) ARRA   | 4820          | 8980        | -                         | 124,284.03                | 609,156.59                |                  |
| Transitn Partnrshp-ARRA   | 4830          | 8980        | -                         | 295,645.57                | 310,328.55                |                  |
| Child Dev: ARRA Quality Improv  | 5037          | 8980        | -                         | 636,306.23                | 729,199.93                |                  |
| Workforce Investment Act (WIA) From Other Agencies (LWIB)               | 5610          | 8980        | -                         | -                         | -                         |                  |
| ARRA Educ for Homeless Children   | 5635          | 8980        | -                         | 153,865.57                | 187,619.22                |                  |
| Law and Soc. in Modern America  | 5828          | 8980        | 9,597.46                  | 40,139.21                 | 40,500.46                 |                  |
| ASSETs Statewide Tech. Assist.  | 5830          | 8980        | -                         | 28,126.96                 | 36,125.44                 |                  |
| Expansion-TeachStar Online Aca  | 5860          | 8980        | 2,291.88                  | 18,425.48                 | 18,622.87                 |                  |
| Special Education   | 6500          | 8980        | -                         | 4,644,879.08              | 18,848,734.30             |                  |
| Special Education   | 6500          | 8990        | 6,207,409.44              | 6,207,409.44              | 6,207,409.44              |                  |
| Transportation: Special Education (Severely Disabled/Orthopedically     | 7240          | 8980        | -                         | 1,112,469.88              | 1,043,973.54              |                  |
| Staff Development: Intersegmental Advancement via Individual            | 7340          | 8980        | -                         | -                         | 380,004.16                |                  |
| Foster Youth Juvenile Detention   | 7367          | 8980        | -                         | -                         | 36,997.23                 |                  |
| Rehabilitation  | 7831          | 8980        | 18,188.98                 | 18,119.64                 | 18,877.43                 |                  |
| Community Challenge Grant   | 7885          | 8980        | 21,488.82                 | -                         | -                         |                  |
| Ongoing & Major Maintenance Account (RMA: Education Code Section        | 8150          | 8980        | 2,924,643.00              | 2,924,643.00              | 2,924,643.00              |                  |
| Other Local   | 9010          | 8980        | -                         | -                         | -                         |                  |
| GROW Services   | 9039          | 8980        | -                         | 1,212,891.29              | 3,841,081.28              |                  |
| G A I N   | 9056          | 8980        | -                         | -                         | 11,135,453.06             |                  |
| Friday Night Live Social Action   | 9058          | 8980        | -                         | 185,634.56                | 190,667.75                |                  |
| CTE Ind Tech Ed Leadership  | 9060          | 8980        | 1,856.62                  | -                         | -                         |                  |
| Youth Tobacco Education   | 9066          | 8980        | -                         | -                         | 9,932.73                  |                  |
| LOCAL ADDED JUNE CASH FLOW  | 9075          | 8980        | -                         | -                         | -                         |                  |
| Family Litrcy, MEES, ECE  | 9076          | 8980        | -                         | -                         | 836,576.07                |                  |
| Early Mental Health Initiative  | 9111          | 8980        | 13,486.78                 | -                         | -                         |                  |
| DMH-Suicide Prevention Prog   | 9270          | 8980        | -                         | -                         | 27,210.79                 |                  |
| LACHSA Foundation Contribution  | 9370          | 8980        | 28,459.37                 | -                         | -                         |                  |
| Regional Counseling Center  | 9546          | 8980        | -                         | 41,668.58                 | 622,645.13                |                  |
| Phys Ed Prof Dev & Joint Use  | 9625          | 8980        | -                         | -                         | 234,953.03                |                  |
| Swiftwater Safety   | 9636          | 8980        | 0.03                      | -                         | -                         |                  |
| Advance Network Uses-(K12HSN)   | 9638          | 8980        | -                         | 106,764.07                | 107,970.93                |                  |
| FNL Monitoring Seatbelt Safety / Chptr Expans.                          | 9643          | 8980        | -                         | -                         | 4,408.76                  |                  |
| Friday Night Live Events  | 9647          | 8980        | -                         | 12,394.62                 | 23,477.27                 |                  |
| <b>Total Restricted</b>   |               |             | <b>\$ 83,733,117.67</b>   | <b>\$ 38,696,448.86</b>   | <b>\$ 75,795,378.15</b>   |                  |
| <b>Balance</b>  |               |             | <b>\$ -</b>               | <b>\$ -</b>               | <b>\$ -</b>               |                  |

## Accounts Receivable/Current Liabilities

According to the California School Accounting Manual (CSAM), the basis of accounting for local education agency governmental funds is designated by the CDE to be the modified-accrual basis. This method recognizes revenues in the period when they become available and measurable, and expenditures are recognized when a liability is incurred regardless of when the receipt or payment of cash takes place. The term available means collectible within the current period or soon enough afterward to be used to pay the liabilities of the current period. Generally, available is defined as collectible within 45, 60, or 90 days. However, to achieve comparability of reporting among California LEAs and to avoid distorting normal revenue patterns, reimbursement grants and corrections to state-aid apportionments, the CDE has defined available for LEAs as collectible within one year. (Source: CSAM 2008, Procedure 101)

FCMAT reviewed activity in the general ledger related to accounts receivable and current liabilities, including deferred revenue, and noted that activity appeared reasonable. Deferred revenue balances were cleared in full during the first 120 days of the fiscal year, the months of September and October. LACOE staff noted that program managers are responsible for the management, review and routine reconciliation of outstanding accounts receivable and payable. Review of monthly general ledger activity appeared reasonable.

## Recommendations

*The county office of education should:*

1. Discontinue closing restricted resources with negative ending fund balances at year end.
2. Make contributions into resources that experience a negative ending fund balance at year-end closing.
3. Provide additional training to accounting staff regarding basic accounting principles such as carryover, deferred revenue and revenue recognition.
4. Evaluate positions supported by one-time funding such as ARRA or federal jobs funds and those supported by local funding sources that will cease in the near future to determine their future viability.
5. Review policies and procedures of waivers and negotiated indirect cost rates to charge the full CDE-approved rate for each program.
6. Identify and adopt adequate budget reductions and/or revenue enhancements to address the county office's considerable structural deficit and avoid insolvency during the 2012-13 fiscal year.

## Cash Flow Projections

Based on the increasing number of cash deferrals from the state, LEAs face growing challenges to maintain fiscal sustainability, making effective methods for forecasting and monitoring cash flow more critical than ever. Cash is critical for short-term operations, and although the balance sheet may show other assets, without sufficient cash, the county office is effectively bankrupt and may require intervention from the state.

The purpose of a cash flow statement is to project the timing of cash receipts and disbursements so that an organization can understand its monthly or even daily cash needs. The cash flow statement reflects the county office'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 budget and fund balance because it excludes transactions that do not directly affect cash.

Any forecast of financial data 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 education agencies, starting with deferral of the 2002-03 June apportionment to the 2003-04 fiscal year, which has continued each fiscal year thereafter. The budget and cash management process has become increasingly complex each year for LEAs as the state continues to navigate through the instability of the state budget.

The Principal Apportionment Schedule in Appendix R reflects the information regarding cash payments and deferrals for 2011-12 and 2012-13. FCMAT's cash flow projection includes all one-time and permanent apportionment deferrals for the revenue projections. Roughly one-third of 2010-11 K-12 funding apportionments have been delayed through either inter- or intra-year deferrals. LEAs should closely monitor their cash positions to meet short-term fiscal obligations. Because LEAs could face additional cash deferrals, it is more important than ever for the county office to monitor monthly cash flow requirements. The consequences of becoming cash insolvent are severe and should be avoided to maintain local governance and control. The county office must closely track and update all fund balances and cash flow projections as economic data and other fiscal information continue to change.

FCMAT reviewed the county office's SACS 2010-11 Second Interim Cashflow Worksheet (Form CASH) and the monthly financial system reports reflecting transactions that affect the general fund cash balance, including the following:

- Revenue reports through June 30, 2011, as of August 26, 2011
- Expenditure reports through June 30, 2011, as of August 26, 2011
- General ledger reports reflecting prior year balance sheet transactions through June 30, 2011, as of August 26, 2011

## Cash Reporting Processes

FCMAT's review of the 2010-11 Second Interim Cashflow Worksheet, as prepared by LACOE, indicates that generally actual revenue, expense and balance sheet general ledger activity was not utilized to report activity as of the end of the second interim reporting period. Although actual revenue amounts tied for the months of September through January, there were discrepancies in revenue activity reported during the months of July and August. Further, amounts presented for balance sheet activities did not coincide with general ledger activities for any given month in the projection. Expenditure totals for the months of July through January did coincide with general ledger reports; however, amounts attributable to indirect cost charges had been netted against the expenditures reported in the 4XXX object code series as opposed to accurately reflecting them in the 7XXX object code series. The omission of general ledger activity for any given month in the cash flow report results in an inaccurate representation of cash balances.

An accurately prepared cash flow statement should reflect all actual general ledger activity for each month related to revenue, expenditure, and balance sheet transactions. The ending cash balances should tie to cash in county treasury balances as of the end of each given month.

Assessment of the second interim cash flow projection showed a lack of comprehension of fundamentals of a cash flow projection and a lack of understanding of the functionality of the SACS cash flow projection software. A cash flow projection, when accurately prepared, should result in an ending cash and accruals balance that ties to the LEA's ending fund balance.

Table 2E-8 represents a comparison the amounts reported at second interim. The first column represents LACOE's second interim budget, which ties to SACS Form 01. The second column represents a summary of the amounts reported in LACOE's Second Interim Cashflow Worksheet.

|   | <u>2010-11</u>          | <u>LACOE Cashflow</u>       |
|---|-------------------------|-----------------------------|
| <b>Beginning Cash</b>                               | \$ 65,987,681.32        | \$ 65,987,681.32            |
| <b>Revenue</b>                                      | \$ 1,046,628,869.00     | \$ 1,046,628,869.00         |
| <b>Expense</b>                                      | \$ 1,048,893,929.00     | \$ 1,048,893,929.00         |
| <b>Total Revenue over Expenditures</b>              | \$ (2,265,060.00)       | \$ (2,265,060.00)           |
| <b>Asset Accounts (Other than cash)</b>             |                         |                             |
| Revolving   | \$ 80,000.00            |                             |
| Accounts Receivable                                 | \$ 43,521,075.43        |                             |
| Due From Grantor Governments                        | \$ 105,451,151.39       |                             |
| Stores  | \$ 182,361.00           |                             |
| Pre-paid Expenses                                   | \$ 9,967,232.27         |                             |
| <b>Total Assets</b>                                 | \$ 159,201,820.09       | \$ (113,386,342.00)         |
| <b>Liability Accounts</b>                           |                         |                             |
| Accounts Payable                                    | \$ 118,072,572.23       |                             |
| Due to Grantor Governments                          | \$ 20,931,772.38        |                             |
| Deferred Revenue                                    | \$ 18,144,127.30        |                             |
| <b>Total Liabilities</b>                            | \$ 157,148,471.91       | \$ (91,992,441.00)          |
| <b>Ending Cash + Accruals (Ending Fund Balance)</b> | <u>\$ 65,775,969.50</u> | <u>\$ 42,328,720.32</u>     |
|   | <b>Ties to EFB</b>      | <b>Ties to Cash Balance</b> |

Table 2E-9 represents the correct calculation of the cash flow projection.

|   | 2010-11<br>Beginning Balance        | Actuals July-June       | Year End Accruals       | 2010-11<br>Year End Total           | 2011-12 July 1<br>Beginning Balance |
|---|-------------------------------------|-------------------------|-------------------------|-------------------------------------|-------------------------------------|
| <b>Beginning Cash</b>                               | \$ 65,987,681.32                    |                         |                         |                                     | \$ 44,119,707.50                    |
| <b>Revenue</b>                                      | \$ 1,046,628,869.00                 | \$ 933,242,527.00       | \$ 113,386,342.00       | \$ 1,046,628,869.00                 | \$ 958,379,573.00                   |
| <b>Expense</b>                                      | 1,048,893,929.00                    | 956,901,488.00          | 91,992,441.00           | 1,048,893,929.00                    | 987,335,412.00                      |
| <b>Total Revenue over Expenditures</b>              | \$ (2,265,060.00)                   | \$ (23,658,961.00)      | \$ 21,393,901.00        | \$ (2,265,060.00)                   | \$ (28,955,839.00)                  |
| <b>Asset Accounts (Other than cash)</b>             |                                     |                         |                         |                                     |                                     |
| Revolving   | \$ 80,000.00                        | \$ -                    | \$ -                    | \$ -                                | \$ 80,000.00                        |
| Accounts Receivable                                 | 43,521,075.43                       | 43,521,075.43           | -                       | 43,521,075.43                       | 113,386,342.00                      |
| Due From Grantor Governments                        | 105,451,151.39                      | 105,451,151.39          | -                       | 105,451,151.39                      | -                                   |
| Stores  | 182,361.00                          | -                       | -                       | -                                   | 182,361.00                          |
| Pre-paid Expenses                                   | 9,967,232.27                        | 9,967,232.27            | -                       | 9,967,232.27                        | -                                   |
| <b>Total Assets</b>                                 | \$ 159,201,820.09                   | \$ 158,939,459.09       | \$ -                    | \$ 158,939,459.09                   | \$ 113,648,703.00                   |
| <b>Liability Accounts</b>                           |                                     |                         |                         |                                     |                                     |
| Accounts Payable                                    | \$ 118,072,572.23                   | \$ 118,072,572.23       | \$ -                    | \$ 118,072,572.23                   | \$ 91,992,441.00                    |
| Due to Grantor Governments                          | 20,931,772.38                       | 20,931,772.38           | -                       | 20,931,772.38                       | -                                   |
| Deferred Revenue                                    | 18,144,127.30                       | 18,144,127.30           | -                       | 18,144,127.30                       | -                                   |
| <b>Total Liabilities</b>                            | \$ 157,148,471.91                   | \$ 157,148,471.91       | \$ -                    | \$ 157,148,471.91                   | \$ 91,992,441.00                    |
| <b>Ending Cash + Accruals (Ending Fund Balance)</b> | <u>\$ 65,775,969.50</u>             | <u>\$ 44,119,707.50</u> | <u>\$ 21,393,901.00</u> | <u>\$ 65,513,608.50</u>             | <u>\$ 36,820,130.50</u>             |
|   | Ties to 2010-11 EFB<br>SACS Form 01 |                         |                         | Ties to 2010-11 EFB<br>SACS Form 01 | Ties to 2011-12 EFB<br>SACS MYFP    |

An adjustment was entered into the LACOE cash flow projection so that the asset and liability accounts balanced with the accrual balances for revenue and expenditures. In doing so, the revised amounts were also entered as negative amounts. The correct amounts in the 2010-11 Year End Total column for the balance sheet items should reflect only the entries adjusting transactions directly related to the beginning balances and current year activities excluding new year-end accruals for revenue and expenditures. The ending cash and accrual balance presented in the cash flow for each year should tie to the ending fund balance for that fiscal year.

The importance of an accurately prepared cash flow projection makes it essential that responsible staff members are sufficiently trained and knowledgeable in the fundamentals of cash flow projection construction and in its interpretation. Failure to ensure that projections are accurate may result in misleading information and an inaccurate interpretation of the COE's cash position.

FCMAT prepared an independent cash flow statement based on the actual transactions recorded in LACOE's general ledger through June 30, 2011, as of August 26, 2011. The following statements reflect a positive ending cash balance of \$5,021,994.19 in June 2012. Because of the increasingly unpredictable flow of revenue from both federal and state sources, the second year of this projection should not be relied on as assurance that sufficient cash will be available each month to meet LACOE's expenditure activity. It is imperative for LACOE to routinely and frequently monitor its cash and to complete monthly cash flow statements for the current and subsequent fiscal year to ensure that its financial obligations can be met.

LEA: Los Angeles County Office of Education

General Fund/County School Service Fund  
Cashflow  
Fiscal Year: 2010/11

| Name   | Object Code | Budget                     | Jul<br>Actual           | Aug<br>Actual            | Sep<br>Actual           | Oct<br>Actual           | Nov<br>Actual            | Dec<br>Actual            |
|--|-------------|----------------------------|-------------------------|--------------------------|-------------------------|-------------------------|--------------------------|--------------------------|
| <b>Beginning Cash Balance</b>                |             |                            | <b>\$65,987,681.32</b>  | <b>\$88,555,351.98</b>   | <b>\$62,781,174.40</b>  | <b>\$51,496,377.24</b>  | <b>\$81,839,097.80</b>   | <b>\$50,872,466.81</b>   |
| <b>Receipts</b>                              |             |                            |                         |                          |                         |                         |                          |                          |
| Revenue Limit Sources                        | 8010 - 8099 | \$ 150,804,312.36          | \$6,715,844.62          | \$4,468,016.63           | \$5,604,767.00          | \$6,049,703.00          | \$11,458,121.92          | 45,525,352.32            |
| Federal Revenues                             | 8100 - 8299 | \$ 520,027,892.45          | \$10,950,267.98         | \$8,005,858.55           | \$58,791,387.01         | \$16,732,367.44         | \$26,116,254.76          | 48,347,914.42            |
| Other State Revenues                         | 8300 - 8599 | \$ 274,467,554.48          | \$22,857,773.95         | <b>(\$22,576,211.00)</b> | \$12,012,230.74         | \$45,283,539.76         | \$29,933,802.09          | 46,767,380.89            |
| Other Local Revenues                         | 8600 - 8799 | \$ 92,931,198.51           | \$3,901,585.58          | \$1,502,776.80           | \$3,693,855.83          | \$8,102,475.77          | \$3,507,361.08           | 18,548,528.19            |
| Interfund Transfers In                       | 8900 - 8929 | \$ 127,024.00              | -                       | -                        | -                       | -                       | -                        | -                        |
| All Other Financing Sources                  | 8930 - 8979 | \$ -                       | -                       | -                        | -                       | -                       | -                        | -                        |
| <b>Total Receipts</b>                        |             | <b>\$ 1,038,357,961.80</b> | <b>\$4,425,472.13</b>   | <b>(\$,599,559.02)</b>   | <b>\$0,102,240.58</b>   | <b>\$76,168,085.97</b>  | <b>\$71,015,539.85</b>   | <b>\$159,189,175.82</b>  |
| <b>Disbursements</b>                         |             |                            |                         |                          |                         |                         |                          |                          |
| Certificated Salaries                        | 1000 - 1999 | \$ 120,106,029.33          | \$ 1,487,008.87         | \$ 5,917,191.24          | \$ 8,576,103.32         | \$ 10,178,978.04        | \$ 10,268,747.75         | \$ 10,258,741.15         |
| Classified Salaries                          | 2000 - 2999 | \$ 118,221,365.67          | \$ 516,860.35           | \$ 8,733,719.10          | \$ 8,301,319.43         | \$ 10,186,239.47        | \$ 10,457,225.97         | \$ 10,138,084.62         |
| Employee Benefits                            | 3000 - 3999 | \$ 82,659,125.29           | \$ 642,074.82           | \$ 3,162,534.77          | \$ 3,582,919.41         | \$ 7,550,706.37         | \$ 7,635,925.74          | \$ 7,706,891.31          |
| Books and Supplies                           | 4000 - 4999 | \$ 17,610,199.66           | \$ 160,790.63           | \$ 1,469,018.58          | \$ 1,935,059.68         | \$ 1,359,187.60         | \$ 1,104,754.97          | \$ 1,095,984.32          |
| Services and Other Operating                 | 5000 - 6999 | \$ 303,430,728.50          | \$ 9,604,829.42         | \$ 15,049,050.02         | \$ 17,882,031.42        | \$ 21,445,554.72        | \$ 29,601,569.60         | \$ 29,272,062.87         |
| Capital Outlay                               | 6000 - 6900 | \$ 920,223.26              | -                       | \$ 17,306.22             | \$ 79,271.68            | \$ 7,314.40             | \$ 31,165.76             | \$ 97,007.77             |
| Other Outgo                                  | 7000 - 7299 | \$ 317,677,886.36          | \$ 1,114,213.07         | \$ 504,552.58            | \$ 16,379,688.54        | \$ 2,823,830.94         | \$ 47,854,270.58         | \$ 32,624,460.45         |
| Direct Support/Indirect Cost                 | 7300 - 7399 | \$ (159,429.04)            | -                       | \$ (4,138.00)            | \$ (7,165.85)           | \$ (8,757.54)           | -                        | \$ (9,371.93)            |
| Debt Service                                 | 7430 - 7439 | \$ 2,236,565.00            | -                       | -                        | -                       | -                       | -                        | -                        |
| Interfund Transfers Out                      | 7600 - 7629 | \$ 57,150.54               | \$ 2,236,564.19         | -                        | -                       | -                       | -                        | -                        |
| All Other Financing Uses                     | 7630 - 7699 | \$ -                       | -                       | -                        | -                       | -                       | -                        | -                        |
| <b>Total Disbursements</b>                   |             | <b>\$ 962,759,844.57</b>   | <b>\$ 15,762,341.35</b> | <b>\$ 34,849,234.51</b>  | <b>\$ 56,529,227.63</b> | <b>\$ 53,543,054.00</b> | <b>\$ 106,944,288.44</b> | <b>\$ 91,192,781.24</b>  |
| <b>Assets</b>                                |             |                            |                         |                          |                         |                         |                          |                          |
| Revolving Cash Account                       | 9130        | \$ 80,000.00               | \$ -                    | \$ -                     | \$ -                    | \$ -                    | \$ -                     | \$ -                     |
| Accounts Receivable                          | 9200        | \$ 43,521,075.43           | \$ 15,811,570.32        | \$ 4,540,858.18          | \$ (1,888,811.89)       | \$ 1,795,621.90         | \$ 6,955,333.44          | \$ (8,673,296.23)        |
| Due from Grantor Governments                 | 9290        | \$ 105,451,151.39          | \$ 15,247,320.48        | \$ 58,053,556.42         | \$ 4,142,543.94         | \$ 7,877,055.23         | \$ 329,243.59            | \$ 7,317,026.00          |
| Stores                                       | 9320        | \$ 182,361.00              | \$ 26,630.83            | \$ (32,131.76)           | \$ 12,525.90            | \$ 11,227.83            | \$ (25,985.87)           | \$ 29,332.60             |
| Prepaid Expenditures (Expenses)              | 9330        | \$ 9,967,232.27            | \$ \$9,869,472.02       | \$ \$884.73              | \$ \$310.42             | \$ \$0.00               | \$ \$17,404.78           | \$ -                     |
| <b>Total Assets</b>                          |             | <b>\$ 159,201,820.09</b>   | <b>\$ 40,953,993.65</b> | <b>\$ 62,563,167.57</b>  | <b>\$ 2,266,568.37</b>  | <b>\$ 9,683,904.96</b>  | <b>\$ 7,275,995.94</b>   | <b>\$ (1,326,937.63)</b> |
| <b>Liabilities</b>                           |             |                            |                         |                          |                         |                         |                          |                          |
| Accounts Payable (Current Liabilities)       | 9500        | \$ 118,072,572.23          | \$ 43,908,687.77        | \$ 40,453,762.62         | \$ 13,302,893.47        | \$ 1,179,276.61         | \$ 2,313,878.34          | \$ (3,902,888.12)        |
| Due to Grantor Governments                   | 9590        | \$ 20,931,772.38           | \$ 3,140,766.00         | \$ 4,434,789.00          | \$ 5,923,284.27         | \$ 541,013.20           | \$ -                     | \$ (21,675.10)           |
| Deferred Revenue                             | 9650        | \$ 18,144,127.30           | \$ -                    | \$ -                     | \$ 17,898,200.74        | \$ 245,926.56           | \$ -                     | \$ -                     |
| <b>Total Liabilities</b>                     |             | <b>\$ 157,148,471.91</b>   | <b>\$ 47,049,453.77</b> | <b>\$ 44,888,551.62</b>  | <b>\$ 37,124,378.48</b> | <b>\$ 1,966,216.37</b>  | <b>\$ 2,313,878.34</b>   | <b>\$ (3,924,563.22)</b> |
| <b>Ending Cash + Accruals (Fund Balance)</b> |             | <b>\$ 143,659,166.73</b>   | <b>\$ 88,555,351.98</b> | <b>\$ 62,781,174.40</b>  | <b>\$ 51,996,377.24</b> | <b>\$ 81,839,097.80</b> | <b>\$ 50,872,466.81</b>  | <b>\$ 121,466,486.98</b> |

LEA: Los Angeles County Office of Education

General Fund/County School Service Fund

Cashflow

Fiscal Year: 2010/11

|                         | Jan<br>Actual           | Feb<br>Actual            | Mar<br>Actual           | Apr<br>Actual           | May<br>Actual             | Jun<br>Actual           | YTD Actuals Plus<br>Projected Cash | Accruals                  | Totals                  | Variance      |
|-------------------------|-------------------------|--------------------------|-------------------------|-------------------------|---------------------------|-------------------------|------------------------------------|---------------------------|-------------------------|---------------|
| <b>\$121,466,486.98</b> | <b>\$121,873,356.47</b> | <b>\$91,126,693.16</b>   | <b>\$117,040,408.25</b> | <b>\$117,455,598.12</b> | <b>\$82,087,791.71</b>    | <b>\$29,155,199.72</b>  | <b>\$127,993,272.19</b>            | <b>\$157,148,471.91</b>   | <b>\$143,639,166.73</b> | <b>\$0.00</b> |
| 15,522,768.96           | 5,766,406.52            | (363,749.21)             | 31,609,001.23           | 8,154,975.23            | 10,996,683.00             | 151,507,891.22          | (703,578.86)                       | 150,804,312.36            | \$0.00                  |               |
| 57,397,931.08           | 15,941,781.85           | 88,721,338.38            | 34,749,168.41           | 31,803,551.72           | 33,410,008.43             | 430,967,830.03          | 89,060,062.42                      | 520,027,892.45            | \$0.00                  |               |
| 24,583,095.66           | 2,461,801.27            | 619,711.49               | 25,108,472.16           | 5,166,405.98            | 55,882,176.19             | 248,100,179.18          | 26,367,375.30                      | 274,467,554.48            | \$0.00                  |               |
| 5,769,157.44            | 5,157,649.04            | 19,260,581.97            | 5,169,653.11            | 5,546,733.11            | 10,912,194.24             | 91,072,552.16           | 1,858,546.35                       | 92,931,198.51             | \$0.00                  |               |
| 82,754.34               | -                       | -                        | -                       | -                       | 33,397.33                 | 116,151.67              | 10,872.33                          | 127,024.00                | \$0.00                  |               |
| <b>\$103,355,707.48</b> | <b>\$29,527,638.68</b>  | <b>\$108,237,862.63</b>  | <b>\$96,636,294.91</b>  | <b>\$50,671,666.04</b>  | <b>\$111,234,459.19</b>   | <b>\$921,764,604.26</b> | <b>\$116,593,377.54</b>            | <b>\$1,038,357,981.80</b> | <b>\$0.00</b>           |               |
| 10,227,358.44           | 10,263,500.87           | 10,293,509.14            | 10,437,516.79           | 10,409,441.86           | 21,786,531.86             | 120,104,629.33          | 1,400.00                           | 120,106,029.33            | \$0.00                  |               |
| 9,920,414.86            | 10,015,348.00           | 10,046,213.37            | 10,056,470.44           | 9,923,153.11            | 19,926,316.95             | 118,221,365.67          | -                                  | 118,221,365.67            | \$0.00                  |               |
| 7,509,653.44            | 7,560,769.50            | 7,664,521.49             | 7,562,083.65            | 7,587,443.94            | 14,676,440.10             | 82,841,964.54           | (182,839.25)                       | 82,659,125.29             | \$0.00                  |               |
| 1,059,832.11            | 553,983.58              | 776,214.70               | 1,057,969.50            | 1,381,631.61            | 5,623,334.57              | 17,577,761.85           | 32,437.81                          | 17,610,199.66             | \$0.00                  |               |
| 27,278,223.00           | 24,395,431.19           | 22,915,152.32            | 27,467,940.44           | 24,559,034.79           | 54,200,979.69             | 303,471,859.48          | (41,130.98)                        | 303,430,728.50            | \$0.00                  |               |
| 40,845.04               | 31,116.76               | 65,161.92                | 85,810.06               | 68,187.22               | 401,429.62                | 924,616.45              | (4,393.19)                         | 920,223.26                | \$0.00                  |               |
| 39,931,115.67           | 23,269,103.16           | 14,626,220.06            | 42,580,578.59           | 36,948,604.33           | 16,696,019.39             | 275,352,657.36          | 42,325,229.00                      | 317,677,886.36            | \$0.00                  |               |
| (3,486.00)              | (1,470.00)              | (1,838.00)               | (1,648.00)              | (1,179.00)              | (3,087.98)                | (42,593.55)             | (116,835.49)                       | (159,429.04)              | \$0.00                  |               |
| -                       | -                       | -                        | -                       | -                       | -                         | 2,236,564.19            | 0.81                               | 2,236,565.00              | \$0.00                  |               |
| 4,769.00                | -                       | -                        | -                       | -                       | 48,360.77                 | 53,129.77               | 4,020.77                           | 57,150.54                 | \$0.00                  |               |
| <b>\$95,966,725.56</b>  | <b>\$76,087,783.06</b>  | <b>\$66,385,155.00</b>   | <b>\$99,246,721.47</b>  | <b>\$90,876,317.86</b>  | <b>\$133,356,324.97</b>   | <b>\$920,741,955.09</b> | <b>\$42,017,889.48</b>             | <b>\$962,759,844.57</b>   | <b>\$0.00</b>           |               |
| -                       | -                       | -                        | -                       | -                       | -                         | -                       | 80,000.00                          | 80,000.00                 | \$0.00                  |               |
| 5,149,588.40            | 7,329,471.43            | (12,781,127.98)          | 6,155,018.06            | 5,596,526.78            | (10,093,234.88)           | 19,897,517.53           | 23,623,557.90                      | 43,521,075.43             | \$0.00                  |               |
| 11,911.00               | 10,732,124.19           | 33,522.01                | 11,123.62               | (42,911.79)             | (131,222,809.44)          | (27,510,294.75)         | 132,961,446.14                     | 105,451,151.39            | \$0.00                  |               |
| 4,611.04                | (29,101.16)             | 38,828.98                | (7,101.31)              | 21,249.28               | (29,734.84)               | 19,351.52               | 163,009.48                         | 182,361.00                | \$0.00                  |               |
| -                       | 6,893.87                | 69,331.63                | 870.00                  | (21,214.50)             | (6,005,706.40)            | 3,938,246.55            | 6,028,985.72                       | 9,967,232.27              | \$0.00                  |               |
| <b>\$5,166,110.44</b>   | <b>\$18,039,388.33</b>  | <b>\$(12,639,445.36)</b> | <b>\$6,159,910.37</b>   | <b>\$5,553,649.77</b>   | <b>\$(147,351,485.56)</b> | <b>\$(3,655,179.15)</b> | <b>\$162,856,999.24</b>            | <b>\$159,201,820.09</b>   | <b>\$0.00</b>           |               |
| 12,145,286.45           | 986,486.37              | 3,240,381.18             | 2,181,091.75            | 550,844.50              | (97,424,438.75)           | 18,935,262.19           | 99,137,310.04                      | 118,072,572.23            | \$0.00                  |               |
| 936.42                  | 1,039,420.89            | 59,186.00                | 953,202.19              | 165,959.86              | (11,402,163.29)           | 4,834,719.44            | 16,097,052.94                      | 20,931,772.38             | \$0.00                  |               |
| -                       | -                       | -                        | -                       | -                       | (12,758,909.21)           | 5,385,218.09            | 12,758,909.21                      | 18,144,127.30             | \$0.00                  |               |
| <b>\$12,146,222.87</b>  | <b>\$2,025,907.26</b>   | <b>\$3,299,567.18</b>    | <b>\$3,134,293.94</b>   | <b>\$716,804.36</b>     | <b>\$(121,585,511.25)</b> | <b>\$29,155,199.72</b>  | <b>\$127,993,272.19</b>            | <b>\$157,148,471.91</b>   | <b>\$0.00</b>           |               |
| <b>\$121,873,356.47</b> | <b>\$91,126,693.16</b>  | <b>\$117,040,408.25</b>  | <b>\$117,455,598.12</b> | <b>\$82,087,791.71</b>  | <b>\$34,199,951.62</b>    | <b>\$29,155,199.72</b>  | <b>\$127,993,272.19</b>            | <b>\$157,148,471.91</b>   | <b>\$0.00</b>           |               |

LEA: Los Angeles County Office of Education

General Fund/County School Service Fund  
Cashflow  
Fiscal Year: 2011/12

| Name   | Object Code | Budget            | Jul<br>Projected | Aug<br>Projected   | Sep<br>Projected  | Oct<br>Projected | Nov<br>Projected  | Dec<br>Projected  |
|--|-------------|-------------------|------------------|--------------------|-------------------|------------------|-------------------|-------------------|
| <b>Beginning Cash Balance</b>                |             |                   | \$ 34,199,951.62 | \$ 54,111,454.33   | \$ 94,529,289.96  | \$ 78,012,656.45 | \$ 80,680,892.01  | \$ 44,386,938.06  |
| <b>Receipts</b>                              |             |                   |                  |                    |                   |                  |                   |                   |
| Revenue Limit Sources                        | 8010 - 8099 | \$ 149,047,177.03 | \$ 66,637,593.22 | \$ 64,415,956.38   | \$ 55,539,461.61  | \$ 55,979,213.33 | \$ 111,324,614.66 | \$ 44,994,901.94  |
| Federal Revenues                             | 8100 - 8299 | \$ 392,400,473.02 | \$ 8,262,807.43  | \$ 6,041,027.27    | \$ 44,362,559.02  | \$ 12,625,839.87 | \$ 19,706,694.33  | \$ 36,482,167.14  |
| Other State Revenues                         | 8300 - 8599 | \$ 263,121,570.00 | \$ 21,912,875.57 | \$ (21,642,951.91) | \$ 11,515,667.19  | \$ 43,411,601.42 | \$ 28,696,393.70  | \$ 44,834,103.28  |
| Other Local Revenues                         | 8600 - 8799 | \$ 86,873,806.34  | \$ 3,647,274.49  | \$ 1,404,823.60    | \$ 3,453,084.88   | \$ 7,574,344.48  | \$ 3,278,746.13   | \$ 17,339,507.85  |
| Interfund Transfers In                       | 8900 - 8929 | \$ 127,024.00     | \$ -             | \$ -               | \$ -              | \$ -             | \$ -              | \$ -              |
| All Other Financing Sources                  | 8930 - 8979 | \$ -              | \$ -             | \$ -               | \$ -              | \$ -             | \$ -              | \$ -              |
| <b>Total Receipts</b>                        |             | \$ 891,570,050.39 | \$ 40,460,550.72 | \$ (9,781,144.66)  | \$ 64,870,772.70  | \$ 69,590,999.10 | \$ 63,006,448.82  | \$ 143,650,680.20 |
| <b>Disbursements</b>                         |             |                   |                  |                    |                   |                  |                   |                   |
| Certificated Salaries                        | 1000 - 1999 | \$ 121,338,320.33 | \$ 1,502,285.62  | \$ 5,977,901.78    | \$ 8,664,094.36   | \$ 10,283,414.62 | \$ 10,374,105.37  | \$ 10,363,996.10  |
| Classified Salaries                          | 2000 - 2999 | \$ 119,876,880.04 | \$ 524,098.21    | \$ 8,856,021.84    | \$ 8,417,567.06   | \$ 10,328,882.60 | \$ 10,603,663.86  | \$ 10,280,053.41  |
| Employee Benefits                            | 3000 - 3999 | \$ 83,253,586.38  | \$ 646,692.44    | \$ 3,185,278.83    | \$ 3,608,686.75   | \$ 7,605,008.92  | \$ 7,690,841.16   | \$ 7,762,317.10   |
| Books and Supplies                           | 4000 - 4999 | \$ 22,123,741.41  | \$ 202,001.70    | \$ 1,845,532.01    | \$ 2,431,020.70   | \$ 1,707,551.05  | \$ 1,387,906.65   | \$ 1,376,888.06   |
| Services and Other Operating                 | 5000 - 5999 | \$ 337,245,020.25 | \$ 10,675,190.70 | \$ 16,726,114.73   | \$ 19,652,515.33  | \$ 23,835,445.31 | \$ 32,900,365.72  | \$ 32,534,138.79  |
| Capital Outlay                               | 6000 - 6900 | \$ 1,307,752.00   | \$ -             | \$ 24,594.30       | \$ 112,654.94     | \$ 10,394.67     | \$ 44,290.43      | \$ 137,860.14     |
| Other Outgo                                  | 7000 - 7299 | \$ 273,212,462.43 | \$ 958,256.49    | \$ 433,930.28      | \$ 14,087,020.95  | \$ 2,428,578.88  | \$ 41,156,100.77  | \$ 28,058,009.57  |
| Direct Support/Indirect Cost                 | 7300 - 7399 | \$ (159,144.84)   | \$ -             | \$ (4,130.62)      | \$ (7,153.08)     | \$ -             | \$ (8,741.93)     | \$ (450.45)       |
| Debt Service                                 | 7430 - 7439 | \$ 2,236,565.00   | \$ 2,236,565.00  | \$ -               | \$ -              | \$ -             | \$ -              | \$ -              |
| Interfund Transfers Out                      | 7600 - 7629 | \$ 57,150.54      | \$ -             | \$ -               | \$ -              | \$ -             | \$ -              | \$ -              |
| All Other Financing Uses                     | 7630 - 7699 | \$ -              | \$ -             | \$ -               | \$ -              | \$ -             | \$ -              | \$ -              |
| <b>Total Disbursements</b>                   |             | \$ 960,492,333.54 | \$ 16,745,070.17 | \$ 37,045,243.14   | \$ 56,966,407.03  | \$ 56,190,534.13 | \$ 104,147,918.75 | \$ 90,512,812.73  |
| <b>Assets</b>                                |             |                   |                  |                    |                   |                  |                   |                   |
| Revolving Cash Account                       | 9130        | \$ 80,000.00      | \$ -             | \$ -               | \$ -              | \$ -             | \$ -              | \$ -              |
| Accounts Receivable                          | 9200        | \$ 25,493,076.58  | \$ 9,281,847.71  | \$ 2,659,870.97    | \$ (1,106,397.89) | \$ 1,051,810.56  | \$ 4,074,183.51   | \$ (5,080,504.17) |
| Due from Grantor Governments                 | 9290        | \$ 247,685,305.00 | \$ 35,813,143.56 | \$ 136,357,096.52  | \$ 9,730,071.66   | \$ 18,501,749.88 | \$ 773,332.47     | \$ 17,186,344.51  |
| Stores                                       | 9320        | \$ 163,009.48     | \$ -             | \$ -               | \$ -              | \$ -             | \$ -              | \$ -              |
| Prepaid Expenditures (Expenses)              | 9330        | \$ 6,028,985.72   | \$ 6,028,985.72  | \$ -               | \$ -              | \$ -             | \$ -              | \$ -              |
| <b>Total Assets</b>                          |             | \$ 279,450,376.78 | \$ 51,103,977.00 | \$ 139,016,967.49  | \$ 8,623,673.76   | \$ 19,553,560.43 | \$ 4,847,515.98   | \$ 12,105,840.34  |
| <b>Liabilities</b>                           |             |                   |                  |                    |                   |                  |                   |                   |
| Accounts Payable (Current Liabilities)       | 9500        | \$ 14,155,199.52  | \$ 52,492,627.76 | \$ 48,362,281.15   | \$ 15,903,545.98  | \$ 24,396,744.63 | \$ -              | \$ -              |
| Due to Grantor Governments                   | 9590        | \$ 16,097,052.94  | \$ 2,415,327.08  | \$ 3,410,462.91    | \$ 4,555,152.75   | \$ 5,716,110.21  | \$ -              | \$ -              |
| Deferred Revenue                             | 9650        | \$ 12,758,909.21  | \$ -             | \$ -               | \$ 12,585,974.21  | \$ 172,935.00    | \$ -              | \$ -              |
| <b>Total Liabilities</b>                     |             | \$ 170,011,161.67 | \$ 54,907,954.84 | \$ 51,772,744.06   | \$ 33,044,672.94  | \$ 30,285,789.84 | \$ -              | \$ -              |
| <b>Ending Cash + Accruals (Fund Balance)</b> |             | \$ 74,716,883.58  | \$ 54,111,454.33 | \$ 94,529,289.96   | \$ 78,012,656.45  | \$ 80,680,892.01 | \$ 44,386,938.06  | \$ 109,630,645.87 |

LEA: Los Angeles County Office of Education

General Fund/County School Service Fund  
Cashflow  
Fiscal Year: 2011/12

|                   | Jan<br>Projected  | Feb<br>Projected  | Mar<br>Projected | Apr<br>Projected | May<br>Projected  | Jun<br>Projected  | YTD Actuals Plus<br>Projected Cash | Accruals          | Totals | Variance |
|-------------------|-------------------|-------------------|------------------|------------------|-------------------|-------------------|------------------------------------|-------------------|--------|----------|
| \$ 109,630,645.87 | \$ 106,364,653.93 | \$ 84,771,325.46  | \$ 95,130,656.39 | \$ 88,169,642.50 | \$ 44,418,633.23  |                   |                                    |                   |        |          |
| 15,341,901.41     | 5,699,217.75      | (359,510.89)      | 31,240,700.80    | 8,059,555.43     | 10,868,552.31     | 149,742,557.96    | (695,380.93)                       | \$ 149,047,177.03 | \$0.00 |          |
| 43,311,090.87     | 12,029,283.10     | 66,946,976.60     | 26,220,882.22    | 23,998,191.10    | 25,210,384.48     | 325,197,903.45    | 67,202,569.57                      | \$ 392,400,473.02 | \$0.00 |          |
| 23,566,875.65     | 2,360,034.93      | 594,093.76        | 24,070,534.05    | 4,952,836.25     | 53,572,109.69     | 237,844,173.56    | 25,277,396.44                      | \$ 263,121,570.00 | \$0.00 |          |
| 5,393,115.27      | 4,821,465.89      | 18,005,148.92     | 4,832,687.52     | 5,185,188.89     | 10,200,921.37     | 85,136,309.29     | 1,737,497.05                       | \$ 86,873,806.34  | \$0.00 |          |
| 82,754.34         | -                 | -                 | -                | -                | 33,397.33         | 116,151.67        | 10,872.33                          | \$ 127,024.00     | \$0.00 |          |
| \$ 87,695,737.55  | \$ 24,910,001.67  | \$ 85,186,708.38  | \$ 86,364,804.59 | \$ 42,196,171.67 | \$ 99,885,365.19  | \$ 798,037,095.93 | \$ 93,532,954.46                   | \$ 891,570,050.39 | \$0.00 |          |
| 10,332,291.40     | 10,368,804.66     | 10,399,120.81     | 10,544,605.99    | 10,516,243.01    | 22,010,062.25     | 121,336,905.97    | 1,414.36                           | \$ 121,338,320.33 | \$0.00 |          |
| 10,059,335.51     | 10,155,598.05     | 10,186,895.64     | 10,197,296.35    | 10,062,112.11    | 20,205,355.38     | 119,876,880.04    | -                                  | \$ 119,876,880.04 | \$0.00 |          |
| 7,563,660.75      | 7,615,144.42      | 7,719,642.56      | 7,616,468.02     | 7,642,010.69     | 14,781,988.91     | 83,437,740.56     | (184,154.18)                       | \$ 83,253,586.38  | \$0.00 |          |
| 1,331,469.94      | 695,971.07        | 975,160.62        | 1,329,129.94     | 1,733,747.52     | 7,064,610.41      | 22,082,989.70     | 40,751.71                          | \$ 22,123,741.41  | \$0.00 |          |
| 30,318,105.60     | 27,114,055.74     | 25,468,814.73     | 30,528,965.13    | 27,295,891.31    | 60,241,131.75     | 337,290,734.86    | (45,714.61)                        | \$ 337,245,020.25 | \$0.00 |          |
| 58,045.90         | 44,220.80         | 92,603.21         | 121,946.80       | 96,902.54        | 570,481.55        | 1,313,995.27      | (6,243.27)                         | \$ 1,307,752.00   | \$0.00 |          |
| 34,341,951.10     | 20,012,123.12     | 12,578,985.73     | 36,620,568.28    | 31,776,902.35    | 14,359,074.92     | 236,811,502.42    | 36,400,960.01                      | \$ 273,212,462.43 | \$0.00 |          |
| (3,479.79)        | (1,467.38)        | (1,834.72)        | (1,645.06)       | (1,176.90)       | (3,082.48)        | (42,517.62)       | (116,627.22)                       | \$ (159,144.84)   | \$0.00 |          |
| 4,769.00          | -                 | -                 | -                | -                | 52,381.54         | 2,236,565.00      | -                                  | \$ 2,236,565.00   | \$0.00 |          |
| \$ 94,006,149.42  | \$ 76,004,450.47  | \$ 67,419,388.60  | \$ 96,957,335.44 | \$ 89,124,632.63 | \$ 139,282,004.23 | \$ 924,401,946.74 | \$ 36,090,386.80                   | \$ 960,492,333.54 | \$0.00 |          |
| 3,016,443.19      | 4,293,340.06      | (7,486,723.87)    | 3,605,387.62     | 3,278,243.57     | -                 | 17,567,501.27     | 80,000.00                          | \$ 80,000.00      | \$0.00 |          |
| 27,976.74         | 25,207,780.27     | 78,737.02         | 26,127.33        | (100,791.88)     | -                 | 243,601,568.07    | 7,925,575.31                       | \$ 25,493,076.58  | \$0.00 |          |
| \$ 3,044,419.93   | \$ 29,501,120.33  | \$ (7,407,986.85) | \$ 3,631,514.96  | \$ 3,177,451.69  | \$ 267,198,055.06 | \$ 12,252,321.72  | \$ 279,450,376.78                  | \$ 279,450,376.78 | \$0.00 |          |
| -                 | -                 | -                 | -                | -                | -                 | 141,155,199.52    | -                                  | \$ 141,155,199.52 | \$0.00 |          |
| -                 | -                 | -                 | -                | -                | -                 | 16,097,052.94     | -                                  | \$ 16,097,052.94  | \$0.00 |          |
| -                 | -                 | -                 | -                | -                | -                 | 12,758,909.21     | -                                  | \$ 12,758,909.21  | \$0.00 |          |
| \$ 106,364,653.93 | \$ 84,771,325.46  | \$ 95,130,658.39  | \$ 88,169,642.50 | \$ 44,418,633.23 | \$ 5,021,994.19   | \$ 170,011,161.67 | -                                  | \$ 170,011,161.67 | \$0.00 |          |
|                   |                   |                   |                  |                  |                   |                   |                                    | \$ 74,716,883.58  | \$0.00 |          |

The county office should be aware that any additional delay of cash receipts could cause further cash flow problems and result in a need to borrow to pay ongoing expenditures. If borrowing becomes necessary, options include the following:

- Internal borrowing between COE funds as authorized by Education Code Section 42603, which allows LEAs to borrow temporarily between funds to address cash flow shortages. This is the most common method used by LEAs, but it only works if cash is available in other funds. This type of borrowing has specific limitations regarding amounts and the timing of repayment. Amounts transferred must be repaid either in the same fiscal year or in the following fiscal year if the transfer takes place within the final 120 calendar days of a fiscal year. Internal borrowing is allowable only when the fund receiving the cash will earn enough income during the current fiscal year to repay the internal borrowing. No more than 75% of the maximum of moneys held in any fund or account during a current fiscal year may be transferred. Cash from non-voter-approved debt secured by real property may not be used for county office general operating purposes (EC 42133.5).
- External borrowing from the county treasurer, which is authorized by Education Code Section 42620. Under Article XVI, Section 6 of the California Constitution, the county treasurer must provide funds to an LEA that cannot meet its obligations. However, some controversy does exist regarding Government Code provisions that are perceived by some to be in conflict with this EC section. Some county treasurers may not automatically provide cash. The county treasurer cannot lend LEAs money after the last Monday in April of the current fiscal year.
- External borrowing using tax and revenue anticipation notes (TRANs). This option consists of short-term borrowing, up to 15 months, and may be necessary on a mid-year or full-year basis. Because there are arbitrage penalties, the LEA should determine its cash flow needs and size the TRANs appropriately. In addition, a mid-year TRANs may be classified as a taxable transaction, thereby posing a larger cost of issuance. Working with an outside financial consultant can help avoid potential problems. A county office of education that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, any non-voter approved debt instrument including a TRANs, unless the SPI determines that the repayment of the indebtedness by the county office of education is probable (EC.42133(b)).

LACOE has not been confronted with cash shortfalls requiring internal or external borrowing during the preceding years. However, potential increases in deferrals of state funding make it imperative for the COE to plan far enough ahead to address any cash shortfalls that could arise.

## Recommendations

*The county office of education should:*

1. Ensure that staff members are sufficiently trained and knowledgeable in the fundamentals of cash flow projection and in its interpretation.
2. Routinely monitor cash.
3. Complete monthly cash flow statements for the current and subsequent fiscal year.
4. Develop a contingency plan to address any cash shortfalls that could arise.



# Juvenile Court, Community and Community Day Schools Overview

The Los Angeles County Office of Education (LACOE) operates the largest county office alternative education program in California through its juvenile court school, county community school, and community day school programs. The program serves approximately 20% of the total court school pupils in the state, making it twice as large as any other county. According to Ed-Data, there were 64 juvenile court schools, 75 county community schools, and 33 community day schools operating in California in 2009-10. Working closely with the juvenile probation department and the juvenile court system, the LACOE juvenile court schools provide an educational program for students incarcerated in juvenile halls or placed in group homes, ranches, camps, day centers, or regional youth facilities. The county community and community day school programs also serve pupils who have been expelled from their home district schools because of a status offense, other infraction, or behavior governed by the Welfare and Institution Code or California Education Code.

The LACOE community school program is generally used to offer pupils the alternative of continuing their education through independent study. The county office community day schools serve students who have been expelled from district schools for any reason, referred by probation according to Welfare and Institutions Code Section 300 or 602, or referred by a School Attendance Review Board (SARB) or other district-level referral process. While the county office is required to provide juvenile court instruction (Ed. Code 48645.2), both community school and community day school programs are permissive. Ed. Code Sections 1980 and 1986 cover community schools, and Ed Code Sections 48660 and 48667 enumerate community day school programs.

Like other county offices throughout the state, LACOE has experienced significant changes in program funding, the number of incarcerated youth served, the severity of offenses of juvenile court school pupils, and working relationships with related agencies. A review of the characteristics of Los Angeles County, including juvenile crime rates by geographic area, indicates that the juvenile crime rate and severity of infraction committed by wards in Los Angeles County is comparable to other county programs. Unlike the majority of county offices, advocacy groups have initiated legal actions to ensure all pupils/juvenile wards housed in Los Angeles County Probation Department detention facilities and educated in the county office juvenile court schools receive a safe, credible and comprehensive education. This makes LACOE one of a few county offices that increasingly are being expected to provide a full continuum of educational services for every pupil with special needs incarcerated in county-operated juvenile court schools.

Over the past decade, there has been a shift of California's most serious juvenile offenders from state-operated California Youth Authority/Department of Juvenile Justice programs to county-operated juvenile court schools. The magnitude of the shift, its programmatic/fiscal implications, and the absence of a related funding increase have placed enormous pressures on juvenile court school programs.

The report findings will identify a number of areas in which LACOE can make significant improvements in operational efficiencies and identify the related potential cost savings. Any potential cost savings will generally be associated with decreasing services to a level of compliance. However, there is a significant difference between an educational program that is compliant and one that is judged to be comprehensive. LACOE will need to carefully review the recom-

mentations that reduce staffing and program services and balance this with the specific needs of the students it serves.

The team based potential cost savings on the data provided by LACOE including staff assignments and funding sources. Much of this financial analysis is based on attendance, personnel, and fiscal data from a single point in time. Instability in the current juvenile court school enrollment may compromise the data's long-term validity even though efforts were made to produce longitudinal data to show trends. The data provides comparative information that can be used as a basis to discuss areas of program efficiencies and deficiencies and prioritize areas for improvement. Agreements with the respective bargaining units and settlement agreements resulting from legal actions may make it difficult or impossible to realize the full potential program operational savings identified by the study. However, in most cases, recommendations can be incrementally implemented with a long-term goal of full implementation.

LACOE is the only Class I county in the state. FCMAT selected the San Diego, San Bernardino, San Luis Obispo, and Kern county offices of education for comparison based on the type of programs operated and the percentage of youth served. Another analysis was based on one- and three-year reviews of California Basic Educational Data System (CBEDS) data comparing Los Angeles County to the California Class II counties. These counties were selected because much of the information required is not readily accessible from statewide data sources; four members of the FCMAT team are (or recently were) administrators able to gather this information in these four counties, and three of these counties are Class II counties with geographic and pupil population characteristics that make them excellent comparison counties. The purpose of this comparison is to provide LACOE with a view of how other county offices organize their programs and services as well as provide a comparison of staffing ratios by title. Although comparative information is useful, it should not be considered the only measure of appropriate staffing levels. County offices are complex and vary widely in demographics, operating programs, and resources. Careful evaluation is recommended because generalizations can be misleading if significant circumstances are not taken into account.

FCMAT's analysis indicates that the failure to sustain a balanced budget in LACOE's juvenile court, county community and community day school programs is attributable to a combination of inefficient operations and inadequate state funding as determined by the Juvenile Court School Association's funding analysis (Appendix Z).

## Historical Perspective

Juvenile court schools historically have received a higher base revenue limit per average daily attendance (ADA) than the average funding for regular K-12 school districts. This funding differential was intended to address the unique challenges faced by county offices to educate students in detention facilities and mitigate factors such as mobility, facility limitations, grouping restrictions associated with security/safety/facility, attendance changes resulting from court actions/disciplinary actions/security/safety, and higher rates of special needs pupils. California's juvenile court schools had a total of 12,278 pupils enrolled in the 2006-07 fiscal year according to CBEDS data, but 154,080 separate enrollments in these schools the same school year. While most schools have a total number of enrollments that are reasonably close to their CBEDS count, the average juvenile court school statewide will enroll more than 12 pupils during the year for each pupil that was on the CBEDS count as shown in Appendix S.

The youth in these county-operated juvenile detention facilities have been incarcerated for committing adult crimes, and for the past 30 years, the facilities have not included the large

populations of what were considered status offenses (running away, truancy and being out of control) that often resulted in detention in the 1960s. The status offenders have generally been handled through alternatives to detention, and the most serious juvenile offenders in California were served in the state-operated California Youth Authority (CYA). The percentage of special education pupils in the county-operated juvenile court schools (20% to 30%) has historically been significantly higher than that of the general K-12 schools (10%), and the mobility rates in these settings introduce demands on juvenile court special education staff that are significantly different from those of the more conventional K-12 school settings.

In the past decade, the following two major forces have significantly affected county-operated juvenile court schools throughout the state:

- The shift of the state's most serious juvenile offenders from California Youth Authority programs to county-operated programs (juvenile court schools).
- Increasing program expectations regarding services to pupils with special needs.

The CYA had approximately 8,000 wards (grades K-12) in 1995-96. That number decreased to 5,191 K-12 wards in 1999-2000 and 1,423 in 2008-09. This means that 73% of the most serious juvenile offenders that were served in CYA programs are now housed and educated in county programs based on a recent study of juvenile offender placement trends conducted by the California Juvenile Court Association ().

Statewide enrollment in juvenile court school programs declined by 22.7% between the 2006-07 and 2009-10 fiscal years. State budget constraints caused county probation departments to make adjustments in the use of juvenile halls. Although the enrollment is not growing in total population, the wards served are a much higher risk with more substantial needs.

## Enrollment and Attendance

LACOE divides the administrative structure of juvenile court schools and community day schools into 10 principal administrative units determined by geographical service areas throughout the county of Los Angeles. Each administrative unit has a principal, and some units have additional administrative support based on size, type, and number of geographic settings. Unit support staff includes psychologists and counselors that help students with appropriate academic placement, transcripts, and plans for reintegration into the community.

FCMAT identified issues with ineffective communication between the LACOE Division of Student Programs and the Los Angeles County Probation Department when developing policy and procedures. Minimal attention was given to the specific ways in which the two partner agencies function and how their roles are interdependent. Previous reports of the juvenile court school operation detail some of the communication inadequacies and the resulting operational deficiencies.

The juvenile court school and community day school program delivery system is less than optimal and needs clear, careful attention to collective planning, organizational and personal relationship building, and information sharing. Building trust through openness, improved communication, greater involvement from affected parties, and expedient follow-through will be essential in making improvements that will help provide LACOE students with a consistent, coordinated instructional and educational program.

Based on data from CBEDS, LACOE juvenile court school program enrollment decreased by 19% between the 2006-07 and 2009-10 fiscal years compared to a statewide decrease of 22.7%

for the same period. These sudden decreases in enrollment are likely the result of fiscal pressures on county probation departments, population decreases in juvenile detention facilities, and subsequent decreases in juvenile court school enrollments. State budget constraints caused county probation departments to make adjustments in detention practices and the use of juvenile hall for disciplining youth. For the last two years, the Los Angeles County probation department has reduced the number of youth detained in juvenile halls and as a consequence, school enrollment/attendance has declined, affecting the LACOE's juvenile court school (JCS) average daily attendance and the number of special education students attending school in juvenile hall.

The decline in enrollment is exacerbated by considerably low attendance rates. Attendance is the primary source of income for the program. Enrollment and attendance figures indicate that only 81.48% of the juveniles in LACOE facilities attended school, compared to 95.86% in the four county offices that were used as comparisons in this report (Appendix X). FCMAT visited many LACOE juvenile court school programs and made observations regarding instructional programs. The student count in classrooms was clearly much lower than would be required to operate a fiscally solvent juvenile court school program with a comparable student population. LACOE is staffed to accommodate higher attendance rates, and increased attendance could increase revenue with no additional associated cost. Education Code Section 48646 (Appendix CC) and Section 1370 of Title 15 Regulations (Appendix DD) clearly expect the county office and the county probation department to work together to ensure that juveniles detained in county-operated juvenile halls, camps and ranches receive an education. High attendance rates would show the entities are committed to this goal. Contributors to low attendance include: medical appointments, court appearances, transfer procedures, enrollment processes, and procedural practices. At this time, due to limited data, FCMAT is unable to determine how many of the absences are directly attributable to medical and other appointments. The daily and monthly monitoring of attendance patterns is inadequate, resulting in an absence of interventions to address attendance problems. The limited monitoring of attendance data is not completed at, adequately communicated to, or acted on at the program level.

Increasing the juvenile court school program attendance rate to the average of the other four selected comparison counties would generate approximately \$4.6 million in new revenue annually with no increase in expenditures necessary to accommodate the increased attendance rate. Increasing the attendance rate is challenging and requires interagency cooperation. An increase of this magnitude would take time; however, for each 1% increase in attendance, LACOE could realize additional revenues of approximately \$260,000.

## Special Education

LACOE serves as the administrative unit of several SELPAs in Los Angeles County. These SELPAs and LACOE provide regionalized special education services for school districts. LACOE and the member districts have collaborated to create student-staff ratios that ensure quality service to students in LACOE-operated programs and an efficient use of special education resources.

The special education unduplicated student count (the total number of students served, not counting multiple enrollments during the school year for the same student) for the LACOE SELPA decreased by 50 percent between 2008-2009 and 2010-2011. The total funded staff has decreased by only 14 percent, according to LACOE's California Special Education Management Information System (CASEMIS) data sheet.

FCMAT found the following indicators of fiscal and operational concern in the juvenile court and community day school programs:

- Based on the student-to-staff ratio, the special education program is overstaffed, and program expenditures exceed program revenue, requiring a contribution from the unrestricted general fund.
- Consistent with the decline in the general LACOE juvenile court, community day and county community school populations, as shown in Appendix Y, the special education student population is in decline.
- Some special day classes have very low enrollments partially due to settings, student characteristics and the segregation required in secure settings.
- The special education funding model established for LACOE differs significantly from AB 602, which governs other county offices and school districts throughout California to fund special education services.
- The administrative supervision of the special education program for juvenile court schools, community day schools, and county community schools-independent study (CCS-IS) is dispersed throughout the LACOE educational programs, without a lead administrator who is responsible for all components of the program including the budget.

Special education staffing and the special education administration (Appendix EE) should be restructured to increase accountability and program coordination. Additionally, LACOE should consider decreasing staffing levels in various positions to align with SELPA and stated program goals and to meet the needs of the students served. Restructuring and reductions in staffing ratios could generate significant savings that are discussed in detail in the report.

## Alternative Program Staffing Ratios

The LACOE juvenile court schools, county community school and community day school programs have been unable to operate with a balanced budget for several years without a contribution from the unrestricted general fund. This study addresses how much of the budget imbalance relates to operational structure inefficiency and how much is due to funding inadequacies.

Economies of scale typically allow an organization to operate more efficiently and should reduce the operational cost per student. In comparing LACOE with Class II counties, the economies of scale principle does not appear to apply. The ratio of student-to-staff is lower rather than higher in all program areas, causing significantly higher per-student operational costs. Juvenile court schools staffing levels exceed comparable counties in the instructional, instructional support, administration, and special education staff. Even if attendance rates were increased to a level that is equal to that of the four comparison counties overstaffing issues would remain.

Using the 1997-98 staff ratios and/or Los Angeles County Education Association (LACEA) collective bargaining agreement (CBA) ratios as guidelines, LACOE's current staffing ratios are well beyond those necessary to deliver special education services and ensure compliance with state and federal law.

The student-to-staff caseload for school psychologists is not included in the LACEA CBA primarily because psychologists are classified as management. Consequently, the student to psychologist caseload of 35-to-1 was established by LACOE and the SELPAs. At that level, the

number of psychologists needed for the current or combined JCS, CDS, CCS-IS student population would be 11.11 instead of the current 24.

Staffing needs are difficult to predict in a regular K-12 environment and in an alternative setting where students are more fluid this is even more problematic but is critical to fiscal solvency of the program. Detention facility populations vary from month to month, and historically LACOE has staffed to projected ward counts in facilities based on probation estimates and historical trends. The CBA prevents adjustments to staffing mid-year to accommodate declines in enrollment. The fluctuations in detention facility population levels and the staffing budget implications place continued pressures on the program, as described in more detail in the findings. Based on the most recent posted CBEDS data (Appendix T), LACOE's juvenile court, community and community day schools had a ratio of 11.4 pupils to one teacher contrasted to other comparable Class II counties with an average ratio of 17.8-to-1.

The language contained in the agreement between the Los Angeles County Board of Education and Superintendent of Schools and the Los Angeles County Education Association establishes staffing requirements that are excessively restrictive (Appendix AA). These restrictions include, but are not limited to, class size based on enrollment rather than ADA, requirements for educational counselors and requirements for paraprofessionals.

The pupil-to-administrator ratio at LACOE is also lower than comparable counties. If LACOE's juvenile court school program used the same pupil-to-site administrator ratio as the average of the four comparison counties (Appendix Y), the number of principals/assistant principals would decrease from 25 to fewer than nine. Pupil-to-site-administrator ratios in the comparison counties, which have larger geographic areas than Los Angeles, have increased in recent years because of budget pressures. A reduction in staffing to the level of comparable counties has the potential to realize savings of approximately \$1.9 million annually.

Using 2010 CBEDS data (Appendix T), FCMAT compared the LACOE court, community and community day school programs to those of other Class II county offices (212-to-1) and found that LACOE (75-to-1) has nearly three times (2.83) the total administrative staffing, including both site level and central office level administrators. LACOE may be able to reduce the number of administrators to be closer to comparable county offices. The potential reduction in operational cost is \$382,000.

Similarly, LACOE maintains a lower student- to- counselor ratio. If LACOE operated at a level consistent with comparable county offices, it would realize significant savings.

Increasing the LACOE pupil-to-teacher ratio (11.5-to-1) in the juvenile court school program to the level of comparable counties (12.7-to-1, Appendix S) would result in a reduction of 23 teachers (from 239 to 216) and produce a net budget savings of approximately \$1.8 million.

CBEDS data for 2009-10 shows a pupil-to-teacher ratio of 11.1-to-1 at the total LACOE program (juvenile court, county community and community day schools) as compared to selected Class II counties' 20.9-to-1 ratio. Observations indicate that significant improvement has been made in staffing ratios in the alternative education program for the current year, but based on the identified overstaffing in 2009-10, additional reductions in teacher staffing will likely be justified to realize a savings of \$3 million annually. When compared to similar counties, the anticipated income for the LACOE juvenile court school would be significantly greater than calculated if the attendance rate increased, or the calculation was based on attendance.

## MAA and Medi-Cal Billing

FCMAT has determined that LACOE has not placed adequate emphasis on MAA and Local Education Agency Medi-Cal Direct Billing (LEA) as significant reimbursement opportunities for work performed by the community and community day schools' staffs. As a result, LACOE's budget, as well as the student population, has not benefited from the resources that an intensive MAA/Medi-Cal Program could generate.

## Budget Development and Monitoring

Although LACOE administration and the board of education contracted with FCMAT to conduct this study, site-level administrative staff were found to have a significant lack of understanding of the fiscal problems confronting the LACOE alternative education programs. Site administrators lack a comprehensive understanding of the budget development format and the relationship between enrollment, attendance, and staffing levels. The LACOE administration appears to have been operating under the belief that the state funding model is deficient and the structural deficit was a direct result of underfunding. Little attention was given to studying and improving the operational efficiencies to reduce program costs. There is a lack of administrative ownership in efficient program operation.

LACOE uses the prior-year budget as a basis for developing the preliminary budget. The preliminary budget is built with employee salary and benefit costs based on the current year projections and assumes a rollover of all other expenditure lines from the current year budget.

This method of using prior year base budgeting is not conducive to addressing or fixing the budget's structural issues. Budget imbalances are not addressed, and every new budget includes continued deficit spending or less than optimal use of all resources. Categorical budgets are developed separately using base budgeting. These funds are then communicated and incorporated into the division budgets. Budget imbalances or required contributions from the unrestricted general fund are not identified, and the subsequent budget includes continued deficit spending or less than optimal use of all resources.

FCMAT sampled and tested purchases made by the juvenile court and community day school programs to determine whether these purchases were properly authorized. In some instances, the written requisition process required by policy was not followed. While there was no indication of serious issues in this area, LACOE should adhere to all written policies.

## Potential Budget Revenue and Expenditure Changes

The recommendations contained in this report can improve the integrity of the LACOE juvenile court school, county community school, and community day school budgets by a total of approximately \$20 million. These recommendations and subsequent savings are based on the expectation that these programs operate at a level of efficiency equal to that of comparable county offices of education offering the same programs.

Approximately \$8.5 million of the \$20 million would come from the additional revenue generated primarily from increasing enrollment/attendance rates to the levels of comparable counties and focusing on reimbursement requests for MAA and Medi-Cal eligible activities. Most of the remaining \$11.5 million would be the result of reducing staffing levels for teachers, administration, counselors, and special education services to those of comparable counties.

It may not be possible to implement some recommendations immediately because of contracts with certificated bargaining units or settlements resulting from lawsuits. LACOE will need to carefully review and prioritize recommendations based on many factors, including local conditions. The majority of potential savings would be realized through reductions in force. If the recommended reductions in force are implemented, significant savings can be realized within the same fiscal year.

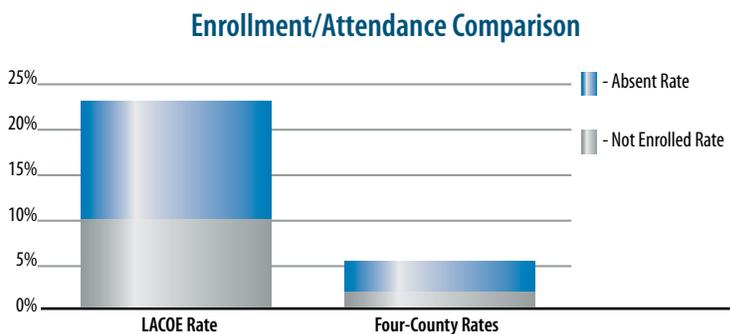
# Juvenile Court, Community and Community Day Schools Findings and Recommendations

## Juvenile Court Schools Attendance

### Facility Population to School Enrollment Rate

The facility-population-to-school-enrollment rate is a calculation that determines how many juvenile wards housed in the juvenile detention facility are enrolled in the juvenile court school at any given time. This calculation is important because a juvenile court school must be staffed to adequately accommodate a student load equal to the capacity (population) in the detention facility. Therefore, any significant difference between the number of wards housed in the facility and students enrolled and educated in school has a negative impact on a juvenile court school budget.

Approximately 6.17% of the wards housed in the Los Angeles County Office of Education (LACOE) juvenile court school program’s detention facilities are not enrolled in school. This percentage is significantly higher than what FCMAT found in its review of other county offices. Using data obtained from the Kern, San Bernardino, San Luis Obispo and San Diego county offices of education, FCMAT calculated the average percentage of nonenrollment for that group as 1.38% (Appendix X). Based on interviews with administrators at several levels, review of relevant data, and site observations by FCMAT consultants, FCMAT could not identify characteristics unique to LACOE to account for the higher nonenrollment rates.



Source: LACOE Controller’s Office reports and county office information requests

### Attendance Rate Based on School Enrollment

More conventional K-12 programs would generally focus on the attendance rate based on school enrollment. This calculation determines how many of the students enrolled in the school actually attended school. This calculation is important to a juvenile court school just as it is to all K-12 schools in California.

Of the students enrolled in the LACOE juvenile court school program, an average of 13.16% are absent each school day based on the average attendance rate (ADA) for the past three years (Appendix X). The average absentee rate for the other counties mentioned above was 2.80% (Appendix X). Again FCMAT could not identify characteristics unique to LACOE to account for the higher rates.

## Attendance Rate Based on Facility Population

Unique to juvenile court schools is the attendance rate based on facility population. This calculation is divided into two subcategories (facility population to school enrollment rate and attendance rate based on school enrollment) because each represents a very different challenge with different solutions. In simple terms, the attendance rate based on facility population identifies how many incarcerated juvenile wards are enrolled in *and* attending school.

By combining the two earlier calculations to determine the attendance rate based on facility population, FCMAT found that only 81.48% of the juveniles in LACOE facilities attend school as compared to 95.86% in the four comparison county offices (Appendix X).

FCMAT visited many LACOE juvenile court school programs and made observations regarding instructional programs. The number of students in classrooms was clearly much lower than would be required to operate a fiscally solvent juvenile court school program. Observations indicated that the primary causes of the low student-to-teacher ratio are low attendance rates, overstaffing, or some combination of the two. Unlike the educational programs in school districts, juvenile court schools are very fluid with multiple challenges such as high mobility rates, access to records, influences by the county probation department, actions by the juvenile court, and ultimately, a constantly changing pupil demographic and population. These challenges are similarly faced by juvenile court schools throughout California. FCMAT determined that there are no unique or additional challenges faced by LACOE.

The primary factor affecting ADA for both K-12 and juvenile court schools is students enrolled in school but not attending. However, unlike regular K-12 education juvenile court schools must contend with two additional factors that can affect the attendance rate: a detention facility operating below rated/projected capacity and wards housed in the detention facility but not enrolled in school. Issues such as court appointments, transfers within facilities, and security-related issues can also decrease attendance in a juvenile court school. Typically, attendance at school is preferable to room confinement for students; however, attendance at juvenile court schools faces very different challenges than a school district.

## Probation/COE Responsibility

Both probation and the county office are responsible for providing education to incarcerated youth. Both have obligations and priorities to deliver services to the students that at times may conflict with the other agency carrying out its responsibility. It has been speculated that the low attendance rate could be attributed to medical and other appointments that are scheduled during the instructional day. This practice impedes the educational delivery and reduces funding for court schools. Because of the absence of adequate attendance monitoring, it is difficult to determine how much absenteeism is attributable to medical and other appointments scheduled by probation. A student attendance system that tracks attendance and provides identification of the types of absenteeism, cause of absenteeism and associated operational costs will assist with clear communication with the probation department. This type of data will provide the basis for the departments to develop a coordinated solution to identified issues.

## Fiscal Implications

LACOE juvenile court schools are staffed to serve all incarcerated youth rather than the attendance rate. Because the program is already staffed to capacity, revenue from increased attendance would be realized without cost for additional staffing. *Incremental increase in the attendance rate can be realized through careful monitoring of attendance patterns, implementation of intervention strategies, and improved coordination with the probation department.* Increasing the attendance rate is challenging and requires interagency cooperation. Increasing the juvenile court school program attendance rate to the average of the other four selected comparison counties would generate approximately \$4.6 million in new revenue annually. An increase of this magnitude would be a long term goal; however, each incremental 1% increase in attendance could realize revenues of \$262,437.50.

## Joint Responsibility for Education

California Education Code Section 48646 (Appendix CC) and Section 1370 of Title 15 Regulations (Appendix DD) clearly expect the county office and the county probation department to work together to ensure that juveniles detained in county-operated juvenile halls, camps and ranches receive an education. The enrollment and attendance rates for LACOE's juvenile court school programs are significantly lower than comparable county offices. Higher attendance rates would show the entities are committed to the goals established in the above statute and regulation. The increased attendance rate would also provide the average pupil in the juvenile court school program with an increase of approximately 20% in actual classroom seat time.

## Attendance Monitoring

Daily and monthly attendance monitoring is inadequate, and there are subsequently no consistent intervention strategies to address attendance problems. Attendance is monitored in a division other than the program, and is not adequately communicated to the program level. Without adequate monitoring of basic enrollment and attendance rates and patterns, it is very difficult to determine the reasons for absences or nonenrollments. This type of in-depth analysis will assist the county office with determining the primary causes for low attendance and to identify measures to mitigate those causes. FCMAT reviewed attendance records and the processes for maintaining and reporting attendance in the juvenile court schools.

LACOE uses Educational Programs Information Connection (EPIC), a Web-based student information system, to capture attendance information and generate reports. According to LACOE controller department publications, the county office has committed to developing the EPIC program, developing resource publications, and providing professional development training sessions for attendance accounting. A pupil attendance handbook was published in July 2009 by the controller's office that details the policies, requirements, and procedures for attendance accounting. An attendance procedures bulletin was drafted in August 2010 to provide program-specific guidelines and tips related to the routine tasks of entering, exiting, and daily attendance coding of students. In addition, staff interviews indicated that the Pupil Attendance, Accounting and Compliance Unit holds regular training for the Principal Administrative Units staff.

During FCMAT's review of the juvenile court program and community day school programs, information was requested regarding enrollment and attendance rates. The LACOE EPIC system

is in development and currently unable to efficiently produce the reports necessary to make informative decisions regarding staffing and maximize student attendance. FCMAT requested population, enrollment, and attendance numbers for specific school days. According to the controller's staff responsible for attendance, the EPIC system was able to provide only summary information on a monthly attendance period basis by site and was not able to produce more specific reporting formats. These reports were also requested of the fiscal operations consultants who were unable to produce a report from the EPIC system. Enrollment and attendance information specific to the class unit and day is important to identify causes for nonattendance, monitor trends, and to make enrollment and staffing decisions. In order for FCMAT to obtain information about daily classroom enrollment and attendance, EPIC reports were ordered and a hand count of students by day was necessary. This involved a lengthy and cumbersome process. FCMAT has concerns over the ability of the administration (including the site, PAU, and director levels) to actively manage programs at all levels without the ready access and availability of this enrollment and attendance data disaggregated by class on a daily basis.

In a subsequent follow-up with LACOE Management Information Systems, FCMAT requested:

1. Enrollment and attendance reports by site for the specified week.
2. Enrollment and attendance by PAU for the same week.
3. Enrollment and attendance for a specified site for a specified date.
4. Enrollment and attendance for a specified site for a specified date by classroom unit.

In response, FCMAT learned that these reports are not readily available through the Web interface standard report request, but that the EPIC system can produce them. To achieve this, the management information systems team can be requested to generate the appropriate query and provide the data. According to the information systems manager, these queries have now been written and manager requests made to the help desk can be fulfilled on demand within a few minutes. LACOE should standardize this type of report so that daily monitoring by PAU principals can occur without MIS staff involvement and development of a query.

As part of this study, FCMAT also reviewed LACOE external audit reports for 2009 and 2010. The reports had several findings for attendance in independent study, juvenile court schools, and special education/alternative education programs. The auditor had few exceptions and identified the causes for the findings as inadequate controls and attendance review (An excerpt from the 2009 and 2010 audit is attached as Appendix HH to this report).

To test the current attendance, FCMAT requested probation average daily population (ADP) counts for the week of April 4-8, 2011 and received the daily movement report (DMR) for each of those days for each site. The reports list the names of all the admissions and departures for that specific day and the reason for the move. FCMAT further collected the monthly attendance register (MAR) reported from the EPIC system and the teacher's daily attendance (TDA) report. FCMAT found several discrepancies concerning attendance reporting between these rosters. The discrepancies included the following:

- Students listed on the TDA as enrolled could not be found on the MAR.
- Students listed as in attendance on the TDA were not entered into the MAR and therefore their attendance was not counted.

- Students listed on the DMR were not on the TDA or MAR.
- Students marked “present” on the MAR were absent on the TDA.
- Students marked “present” on the TDA with no indication on the MAR.
- Student marked as “present” for two different teachers during multiple periods on the TDA.

These discrepancies concur with the audit findings and support the continued findings of inadequate controls and review of attendance data.

## Recommendations

*The county office should:*

1. Complete a one-month study jointly with the county probation department analyzing the relationship between wards housed in the detention facilities and students enrolled in school. This analysis should be completed for each juvenile detention facility operated by the probation department and divided into the two categories of juvenile hall and camp. Any student who does not appear on both lists (wards housed in detention facility and students enrolled in school) for the same day should be placed on a not-enrolled list and an explanation for nonenrollment should be obtained. These explanations should be categorized as those with “legitimate explanations with no solution” (medical segregation, etc.), and those that are “nonenrollments that could have been enrolled in school.” The county office should meet with the county probation department to develop strategies and practices to promote the enrollment of students that are not enrolled. A monitoring system should be developed to monitor this data and ensure these strategies and practices are implemented.
2. Complete a one-month study jointly with the county probation department analyzing the relationship between students enrolled in school and students who attended classes. This analysis should be completed for each school serving a juvenile detention facility operated by the probation department and additionally divided into the categories of juvenile hall and camp. Any student who does not appear on both lists (students enrolled in school and students attending school) for the same day should be placed on a not-attended list and an explanation should be obtained for each. These explanations should be categorized as those with “legitimate explanations with no solution” (medical segregation, etc.), and those with “nonattendance that could have been attending school for some part of the school day.” The school should meet with the county probation department to develop strategies and practices to promote the attendance of students that are not attending school. The county office should also develop a system to monitor this data and ensure these strategies and practices are implemented.
3. Implement a system of monitoring attendance. This system should monitor attendance at all levels beginning with the individual site reports, inter-

mediate principal administrative unit and region reports and ending with a compiled report at the assistant superintendent level. Reports should be completed annually, weekly, and during the reporting period. The county office should standardize reports on EPIC that can provide the level of detail necessary to provide daily monitoring at the site level.

4. Educate the juvenile court school administration at all levels about the importance of attendance rates and the impact these rates have on the budget. Educating management should initially be reinforced by placing attendance on the agenda of any administrative team meetings. The agenda item should include reporting on current attendance patterns and their relationship to the juvenile court school budget.
5. Hold administrators accountable for attendance rates in their area of responsibility. Either attendance rates should be acceptable, or there should be a record of attempted interventions, intervention outcomes, communications to the administrator's immediate superior, and an acceptable explanation for the attendance rate.
6. Program and populate the EPIC system to readily produce the reports necessary for frequent and detailed analysis of enrollment and attendance. Make reports such as daily enrollment and attendance by site, classroom, teacher, and student available for review to identify opportunities to improve enrollment procedures, increase attendance, and make staffing decisions.
7. Develop and implement procedures to support the accurate and timely reporting of enrollment and attendance information. In addition, implement training and accountability measures to ensure that the procedures are followed through all levels of the reporting process. Ensure enrollment and attendance information is regularly queried and reviewed by administration to ensure that the information is complete, accurate, and useful.
8. Set specific attendance improvement targets and develop a plan that specifies the strategies employed, staff responsible, and timeline for monitoring progress.

# Special Education

## Background

The county office's Educational Programs Division educates students residing in probation-operated juvenile halls and camps/ranches through its juvenile court schools (JCS) program. These are students who are on formal probation in the community or who are expelled from school, incorrigible, or at risk of not completing school attend community day schools or county community schools-independent study (CCS-IS) provided by LACOE's alternative education unit. Source data and information for the findings associated with special education are found in Appendix EE.

LACOE's current year ADA is projected at 4,278 and 25 percent of the students with disabilities. Disabled students receive a range of special educational services including the resource specialist program (RSP); special day class (SDC); language, speech, hearing (LSH), designated instructional services (DIS); counseling, adaptive physical education (APE); and services for the deaf and hard of hearing (DHOH) while attending school in the juvenile court schools and alternative education schools. LACOE serves nearly 650 special education students each day in its juvenile court, community day and county community school programs with a total of 166 special education staff members equaling 146.95 FTE positions.

FCMAT visited classrooms at the three juvenile halls and several of the residential camp/ranch facilities located in different areas of the county in addition to the community day school (CDS) and county community school-independent study sites. A wide range of LACOE program, fiscal, and budget related staff were interviewed and numerous documents reviewed. From those activities, FCMAT determined the following:

- The special education program is overstaffed, and program expenditures exceed program revenue.
- The special education student population is in decline consistent with the general population decline.
- Special day classes consistently have low enrollment.
- The special education funding model established for LACOE differs significantly from AB 602, which governs other county offices and school districts throughout California to fund special education services.
- The administrative supervision of the special education program for JCS and CDS, CCS-IS is dispersed throughout the LACOE educational programs without a lead administrator who is responsible for all components of the program, including the budget.

## Student-to-Staff Ratios and Overstaffing

Special education student-to-staff ratios do not conform to the specific language contained in the collective bargaining agreements or the original projections established in 1997-1998, at the time of transition from the J-50 to AB 602 funding model, causing overstaffing.

Federal law mandates educational services for students with disabilities. Specifically, the Individuals with Disabilities Education Act (IDEA) establishes education as a national require-

ment implemented by each state and local education agency that accepts IDEA funds. In keeping with this statutory requirement, it is important that LACOE maintain a special education program that provides a continuum of services that ensure a free appropriate public education (FAPE) for disabled students with IEPs and that these services are provided efficiently.

The following table shows LACOE's current practice in student-to-staff ratios, which were established 14 years ago to guide service implementation and case management, and allowable student-to-staff ratios in the Los Angeles County Education Association and county superintendent collective bargaining agreement. No data is readily available from other counties for comparison purposes. However, approximately four years ago, the California Department of Education's Special Education Unit performed compliance reviews of the special education services provided in the juvenile court schools operated by the Kern, San Bernardino and San Diego county offices, where three FCMAT consultants for this review are employed. This comprehensive review was completed for all Class II county office juvenile court schools to assess compliance, but it also provided these consultants with a recent measure of what the California Department of Education (CDE) expects from a juvenile court school.

The potential savings associated with the recommended special education teacher reductions would total \$1,694,555, with an additional savings of \$327,700 associated with the paraprofessionals assigned to those teachers.

### *Student to Staff Ratios for Special Education Services*

| Current Ratios |              |          |         | Ratio Projections 1997-98 |         |          |              | Contract Maximum Ratios |         |          |              |
|----------------|--------------|----------|---------|---------------------------|---------|----------|--------------|-------------------------|---------|----------|--------------|
|                | Average      | Students | Staff   |                           | Average | Students | Staff Needed |                         | Average | Students | Staff Needed |
| RST (Pool)     | 14.1<br>12.9 | 297      | 21<br>2 | RST                       | 24:1    | 297      | 12.4         | RST                     | 28      | 297      | 10.6         |
| SDC            | 9.5          | 314      | 33      | SDC                       | 10:1    | 314      | 31.4         | SDC                     | 14 *    | 314      | 22.4         |
| LSH            | 13.2         | 79       | 6       | DIS                       | 23:1    | 79       | 3.4          |                         | 55      | 79       | 1.4          |
| APE            | 4            | 4        | 1       |                           | 23:1    | 4        | .17          |                         | 55      | 4        | .07          |
| DHOH           | 3            | 3        | 1       |                           | 23:1    | 3        | .13          |                         | 55      | 3        | .06          |

Source: LACOE SELPA and Controller's Office

\* Combined average class size of Level II, which is 12 students and Level III, which is 16 students as cited on page 93 of LACEA and County Superintendent's and County Board of Education Agreement.

## Recommendations

*The county office should:*

1. Increase its student –to-resource specialist teacher (RST) ratios to 24-to-1, which will result in a reduction from 23 RSTs to 13. The reduction in teacher/specialist staff should result in a reduction of approximately nine paraeducator positions given the current staffing formula of 91 percent of RST.
2. Increase LSH student-to-staff ratios to 25-to-1, resulting in a reduction of from six to three LSH staff members. The county office should review IEP goals and objectives to determine the necessity of using LSH specialists instead of the classroom staff to implement goals and objectives. This could result in further reduction in LSH staff.
3. Use existing Special Education Division staff members to provide services for the deaf and hard of hearing. The county office should review IEP goals to determine the necessity of using specialists to implement goals and objectives where appropriate.

## Student-to-Psychologist Ratios

Student-to-psychologist ratios in juvenile court schools, community day schools, and county community schools special education programs do not conform to the standard established by LACOE and the four administrative unit SELPAs, resulting in overstaffing in the alternative education programs.

LACOE serves as the administrative unit of several SELPAs in Los Angeles County. These SELPAs and LACOE provide regionalized special education services for school districts. They have collaborated to create student-to-staff ratios that ensure quality service to students in LACOE-operated programs and an efficient use of special education resources. Many ratios are included in the Los Angeles County Education Association (LACEA) contract. The student-to-staff caseload for school psychologists is not included in the contract primarily because psychologists are classified as management. Consequently, the student-to-psychologist caseload of 35-to-1 was established by LACOE and the SELPAs. At that level, the number of psychologists needed for the current JCS, CDS, CCS-IS student population would be 11.11 instead of the current 24. LACOE has not adjusted psychologist staffing to the decline in enrollment.

Every county office operates programs differently according to its unique needs. At initial IEP meetings, staff members from the public defender's office who work in the juvenile halls request special education assessments and referrals for individual counseling services. The probation staff usually supports the individual counseling recommendations because it prefers not to have wards in group settings for safety reasons. To address the demands from the public defender's office, a more reasonable ratio/caseload for school psychologist would be 24-to-1. The potential savings associated with the reduction in psychologists would be \$1,555,293.

### *Psychologists – Current Staffing Levels*

| Program                | Psychologists | Students | Average |
|------------------------|---------------|----------|---------|
| Juvenile Court Schools | 11.3          | 176      | 15.58*  |
| Camps                  | 10.7          | 196      | 18.32   |
| AE/CDS, CCS-IS         | 2             | 17       | 8.5**   |
| Total                  | 24            | 389      | 16.21   |

Source: As reported by the staff at Nidorf Juvenile Hall and the director of the special education division

# Caseload has high level of initial special education assessments.

\*\*# Covers wide geographic area.

No data specific to county office psychologists is readily available for comparison purposes, but the CBEDS data gathered by the CDE reports psychologists as part of the general classification of "Pupil Services Staffing" (definition along with counselors and other positions CBEDS definition in Appendix S). As shown in Appendix U, this data indicates that LACOE's pupil services staffing for the past three years was 52-to-1 compared to a 319-to-1 ratio in the 10 Class II comparison county offices.

## Recommendation

*The county office should:*

1. Increase the student-to- psychologist ratio/caseload to no greater than 24-to-1 to address the ongoing requests for initial assessments and DIS counseling services. This would reduce the required number of psychologists from 24 to 16.21. Additionally, if budget pressures persist, consider reducing psychologist staffing to a level of 35-to-1 for a reduction from the current 24 to 11.11 FTE psychologists.

## Special Day Class Student Enrollment and Attendance

In juvenile hall, the safety of staff and wards is a major priority and requires probation to group students into smaller units based on safety standards and risk factors such as gang affiliations and behavioral issues. Students are likewise separated by gender and age. Segregating wards, housing them in specific living units, and preventing the mixing of wards in school challenges the capacity of the JCS school staff to reach and serve all students. This is especially the case when serving disabled students and providing special education services at the JCS's three juvenile halls, where disabled students represent 25 percent of an already dispersed student population, affecting student participation in school. As a result, student enrollment and attendance in special day classes is less than optimal in JCS.

LACOE has 53 credentialed teachers authorized to teach general and special education. Because class sizes are relatively low, special day class students could reasonably have their IEPs implemented in regular peer/unit classrooms with a special education credentialed teacher.

## Recommendations

*The county office should:*

1. Explore the feasibility of using dually credentialed teachers to provide special day class services in the regular classroom, particularly where low enrollment special day classes exist. This recommendation could result in a two to four position reduction in the number of regular education teachers assigned to JCS.
2. Research strategies in other county-operated juvenile court schools that efficiently deliver services to special needs students in challenging settings, such as juvenile halls. To maximize the benefit of this research, include the Los Angeles Probation Department and visit other counties to observe these strategies in practice.

## Unduplicated Pupil Count

The special education unduplicated student count for the LACOE SELPA decreased by 50 percent between 2008-2009 and projected current year 2010-2011. The total funded staff has decreased by only 14 percent, according to CASEMIS.

Because of state budget constraints, the county probation department has been required to make adjustments in its detention practices and the use of juvenile hall for disciplining youth. For the last two years, the department has reduced the number of youth detained in Los Angeles County juvenile halls and as a consequence, school enrollment and attendance has declined, affecting the LACOE’s JCS ADA and the number of special education students attending school in juvenile hall.

### *Decline in Special Education Students in LACOE Student Programs*

|                            | 2010-11 Projected | 2009-10 | 2008-09 |
|----------------------------|-------------------|---------|---------|
| Unduplicated Student Count | 614               | 994     | 1227    |
| Total Special Ed Staff     | 181.35            | 203     | 210.9   |

Source: LACOE 2010-11 Budget Book

## Recommendation

*The county office should:*

1. Consider implementing the staff reductions outlined in the findings above, which would result in the elimination of 22 classroom positions. These reductions applied to the staff numbers in the table above will increase total staff reductions from 14 percent to 24.4 percent between 2008-09 and 2010-11.

## Administrative, Operational and Instructional Supervision

The administrative, operational, and instructional supervision of the LACOE JCS, CDS, CCS-IS special education program is dispersed and decentralized among six different administrative levels in the Division of Student Programs. These are not coordinated across the division to ensure systemic implementation and program accountability and effectiveness.

LACOE's JCS, CDS, CCS-IS special education is administered and supervised by the director of student programs, regional directors, LACOE SELPA director (.5 FTE), principals, coordinator of curriculum, instruction and professional development, and senior program specialist, special education. The LACOE SELPA staff and the Compliance Support Services Unit provide technical support for the special education program when needed on matters concerning staff evaluations, professional development, compliance, compliance complaints, mediation, and due process hearings. Each manager or administrative unit supervises segments of the special education program, but no single manager is responsible and accountable for the operation and performance of the entire program. This model can result in noncompliance practices, compliance complaints, budgetary overruns, overstaffing, and disjointed service delivery to students. The table below shows the supervisory structure of the special education program. The following section includes a summary of the JCS, CDS, and CCS-IS compliance matters handled by the Compliance Support Unit.

| <b>Administrative Supervision and Accountability of the Special Education Program<br/>Major Areas of Special Education Responsibility</b> |  |
|---|--|
| <b>Area of Responsibility</b>   | <b>Person(s) Responsible</b>   |
| Program Budget Development  | DSP Director/Regional Directors  |
| Personnel Hiring  | Site Principals/DSP Director/LACOE SELPA Director  |
| Staff Assignments   | Site Principals/DSP Director   |
| Staff Evaluation  | Site Principals with technical support from Special Education Division   |
| Instructional Supervision/Leadership  | Director/Regional Directors/Site Principals with technical support from LACOE SELPA staff                        |
| Professional Development  | LACOE SELPA staff  |
| Curriculum Development  | Coordinator of Curriculum, Instruction and Professional Development/Senior Program Specialist, Special Education |
| Compliance  | Compliance Support Services Unit   |
| Program Evaluation/Effectiveness  | LACOE SELPA staff  |

Source: Multiple, confirmed and approved by Assistant Superintendent of Ed Programs

## Recommendation

*The county office should:*

1. Consider establishing a special education program unit and assign a full-time administrator with the appropriate experience and administrative credentials to lead, direct, and administer the program for the JCS, CDS, and CCS-IS. This position could be filled by implementing the reductions in administration recommended later in this report. The county office should also align special education administrative positions within the JCS, CDS, CCS-IS and the LACOE SELPA to report directly to the administrator mentioned in this recommendation.

## Special Education Funding Formula

In 1997, the legislature adopted a new funding model for special education services based on the assumption that special education students are evenly distributed among local education agencies throughout California and represent about 10 percent of a district's student body. The model, referred to as AB 602, allocates funds based on the total general education ADA times the state special education rate. This was a major departure from the former model as represented on form J-50.

For years, county offices have expressed concern about the fact that juvenile court school programs statewide have concentrations of special needs students that are consistently in the range of 20% to 30%. The average special education population in California K-12 schools is 10%. As a result of this concentration and the AB602 funding model structure, juvenile court schools funding for special education students is less than half that of other K-12 students throughout the state. This funding shortfall is amplified by additional cost demands for issues such as mobility, security segregation, and the higher concentrations of assessments required.

The J-50 funding model was based on instructional personnel service units and administrative support ratios. Districts and county offices received funding directly from the CDE through their local SELPA based on an established number of service units multiplied by established rates for specific service packages, e.g. special day class, resource specialist program, severely handicapped, low incidence, severely emotionally disturbed. However, this model included incentives to over-identify students and generate additional funds. After nearly 20 years and rising special education costs, the J-50 was replaced with AB 602 to contain costs, equalize special education funding across the state, and remove incentives to overidentify.

When AB 602 was enacted, LACOE was the only single-LEA county SELPA in California with no participating school districts. By becoming its own SELPA, LACOE received its funding directly from the state, making it easier and more efficient to provide educational services for disabled JCS and CCS students. To address its unique situation, AB 602 included a funding formula specifically for LACOE. This special formula became necessary to ensure LACOE (like school districts and SELPAs) received the same level of funding generated by the J-50 as LACOE transitioned to the new AB 602 funding model. Consequently, the LACOE-AB 602 formula used the entire ADA of Los Angeles County to compute the LACOE's AB 602 allocation for funding special education services for disabled JCS and CCS students. At present, the special education pupil rate for LACOE is \$4.16.

Special education funds are allocated through a formula that provides \$463 per general education ADA for each district or LEA. LACOE's special education funding formula is \$4.16 per county-wide ADA for all LEAs. The formula therefore provides \$6,754,000 annually for LACOE special education services ( $\$4.16 \times 1.623$  million ADA for Los Angeles County). Under the typical AB 602 formula, LACOE would receive approximately \$1,850,000 ( $\$463 \times 4000$  estimated ADA).

The LACOE-AB 602 formula that uses the ADA of Los Angeles County somewhat insulates LACOE from the fluctuations in revenue that would occur if its funding was linked to the program ADA of JCS, CDS, CCS-IS. Unlike LACOE, county offices throughout the state are subject to losses and increases in revenue as their total program ADA shifts from year to year. Countywide ADA is more stable than LEA or JCS, CDS, CCS-IS ADA.

The table below illustrates the stability of LACOE's AB 602 revenue over time despite the three-year decline in the unduplicated special education student count and program ADA.

*JCS, CDS, CCS/IS Special Education Revenue and Pupil Count –  
A Four Year View*

| Year   | 2007-08        | 2008-09        | 2009-10        | 2010-11        |
|--|----------------|----------------|----------------|----------------|
| LA County ADA                                      | 1,558,277.00   | 1,553,260.87   | 1,531,897.93   | 1,516,693.43   |
| Rate   | \$4.24         | 4.24           | 4.26           | 4.33           |
| Funded ADA   | 1,578,597.90   | \$1,558,156.78 | \$1,553,223.12 | \$1,531,897.93 |
| Base Entitlement                                   | \$6,462,217.00 | \$6,688,583.00 | \$6,635,332.85 | \$6,723,506.31 |
| Unduplicated pupil count (students served)         | 1094           | 1227           | 994            | 614            |
| Funding per student (base entitlement/pupil count) | \$5,906.96     | \$5,451.17     | \$6,675.39     | \$10,950.34    |

## Recommendations

*The county office should:*

1. Revise student programs and program budget development, approval, and monitoring processes to ensure that only necessary and mandatory expenditures are authorized.
2. Initiate and adopt procedures for monitoring and controlling special education program staffing assignment practices to ensure that the program is not overstaffed.

## Certificated Contract with the Los Angeles County Education Association

The language contained in the agreement between the Superintendent of Schools and LACEA (Appendix AA) establishes staffing requirements that are excessively restrictive. Collective bargaining unit contracts are not the appropriate vehicle to guarantee instructional quality and safety, and using a contract in this manner will have a negative impact on the integrity of the budget. In LACOE, the hard cap on class size is based on enrollment instead of attendance. The attendance rate has already been reported as 81 percent of facility population, well below comparable counties. Building staffing ratios to enrollment rather than attendance is fiscally unsound.

### Class Size

Article XII - G of the collective bargaining agreement (Appendix AA) states “In the Juvenile Court School programs, the class size shall not normally exceed seventeen (17) pupils per teacher.” A goal of 17 students per juvenile court school classroom would provide a balance between a constructive learning environment, safety and budget integrity; however, in practice a cap of 17 students in a contract between a certificated bargaining unit and a county office does not result in a class size of that number of pupils. A number of factors should be considered when making decisions on the staffing levels needed at a particular school site. This analysis will concentrate on two of those factors. To operate within the requirements of Article XI I- G, each juvenile court school facility should have staffing sufficient to serve no more than 17 pupils per classroom if all the juveniles in the facility attended school on a given day. Given the fact that LACOE juvenile court schools have an average rate of only 81.48% of detention facility wards attending class, the contract’s 17-pupil cap translates into only 13.9 pupils on an average day (Appendix AA - calculation detail). The second factor affecting enrollment within the cap is the fact that during the first 10 reporting periods of 2010-11, the average high enrollment month (2,842 pupils) in the juvenile court schools was 18.9% greater than the average low enrollment month (2,305 pupils), and the average month was only 88.1% of the average high enrollment month.

These factors result in the need to staff for the high-enrollment month to avoid violating the terms of the contract. The net result is that the 13.9 pupils resulting from the attendance factor decreases to only 12.25 pupils per teacher (Appendix AA - calculation detail). This ratio does not consider other factors such as fragmentation within a detention facility, restricting even distribution of pupils, which would decrease the number to less than 10 pupils per teacher. When factoring in pullouts for specialized instruction, the student-to-staffing ratio would decrease even more and be consistent with the observations made by FCMAT when visiting the juvenile court school sites. No juvenile court school can operate with a balanced budget if it has a pupil-to-teacher ratio of less than 10.

## Recommendations

*The county office should:*

1. Initiate negotiations regarding certificated contract language to address restrictive class size language while maintaining a commitment to quality education and safety.
2. Take the appropriate measures to work toward modifying or removing the class-size language in the certificated contract for juvenile court, county community and community day schools. Once the certificated contract is changed to less restrictive language or removed, perform the following:
  - Agree to provide the Los Angeles County Education Association with a monthly report that contains actual enrollment counts for each juvenile court and alternative education teacher in the bargaining unit. This will demonstrate and document good faith in maintaining a balance among education, safety and fiscal responsibility.
  - Increase the number by at least three to targets of at least 20 for regular classes and 17 for special day classes when classroom square footage allows according to Title 24 regulation.

If the contract language remains, the county office should perform the following:

- Work with the county office labor relations staff to determine if the current contract language would allow LACOE to ensure the class-size language is a target based on average numbers of students among teachers at a site or based on individual teacher counts.

## Counselors

Article XII - F of the contract (Appendix AA) states “The caseload of Educational Counselors shall not exceed, at any one time, one hundred and fifty (150) assigned pupils.” While educational counselors are valuable, a caseload requirement in the certificated bargaining agreement creates a fiscal vulnerability for LACOE. Data from the 2010 CBEDS indicates that the pupil services staffing level (51.8 pupils per staff member) in the juvenile court/community school program is more than three times the rate of other Class II (larger) county offices throughout the state (166.7 pupils per staff member). The ratio is not restricted to counselors (CBEDS definition in ), but these staff members contribute significantly to the ratio, so the contract language restricts the county office from making adjustments necessary to address fiscal challenges.

## Recommendation

*The county office should:*

1. Negotiate through the proper channels of collective bargaining to remove any contract language that establishes a requirement for educational counselors.

## Community Schools and Community Day Schools

Article XII - J-3 of the contract (Appendix AA) states “Enrollment in classes for the Community School Program (CSP) shall not exceed twenty-five (25) and CSP classes will be assigned fifteen (15) hours of Paraeducator time.” No contract language addresses community day schools, and the document appears to be based on a perception that community schools and community day schools are the same. In reality, these are two separate programs with different structures and statutory authority. As with juvenile court schools, the certificated contract restricts class size, but unlike juvenile court schools, the restriction is based on enrollment instead of attendance.

While 25 is a reasonable number, the fact that it is a hard cap based on individual teachers instead of a target based on average teacher enrollments limits flexibility and potentially compromises program and budget integrity. The certificated contract requirement providing paraprofessional support for these teachers further exacerbates these flexibility and budget issues.

## Recommendations

*The county office should:*

1. Review the current contract language for community schools to determine if it applies to community day schools, and develop appropriate language for the latter program.
2. Negotiate to replace the current enrollment with attendance and target language that is based on the average among teachers at the school.
3. Negotiate to remove the requirement for paraprofessional support from the contract.

## Staffing Alternative Education Programs

County offices must consider the unique needs of the districts and student population it serves when determining staffing levels and programs. Staffing levels can be affected by the type of student served, geographic size of the county, settlement agreements, and other factors. To provide a basis for staffing comparisons FCMAT analyzed the pertinent information including juvenile crime data provided by the California Department of Justice through their CJSC Statistics Report and county/state population estimates provided by the California Department of Finance. This analysis found that Los Angeles County has juvenile crime characteristics that are consistent with other counties throughout the state. In fact, the Los Angeles County juvenile arrest rates per capita at all levels were slightly less than the statewide average as shown by the following:

- California's total juvenile arrest rate was 0.532% compared to 0.443% for Los Angeles County.
- California's felony juvenile arrest rate was 0.175% compared to 0.172% for Los Angeles County.
- California's misdemeanor juvenile arrest rate was 0.356% compared to 0.271% in Los Angeles County.

The juvenile arrest rates per capita in the comparison counties used in this study (Kern, San Bernardino, and San Diego counties) were higher in all categories and all counties than both the Los Angeles County and statewide juvenile arrest rates.

LACOE juvenile court schools staffing levels are excessive in the administration, instructional, instructional support, and special education position categories. Even if low attendance rates were increased to a level that is equal to that of the four comparison counties, the problem of excessive staffing would remain.

Overstaffing is systemic and can be partially attributable to hiring practices. An examination of the staffing practices in LACOE juvenile court, community and community day school program indicates the following:

- Staff members were hired when the pupil enrollment would not support the cost of the positions;
- Staff members were retained when enrollment reductions would not support the position;
- Instructional support staff members were employed when the budget could not support the positions; or
- Some combination of the three.

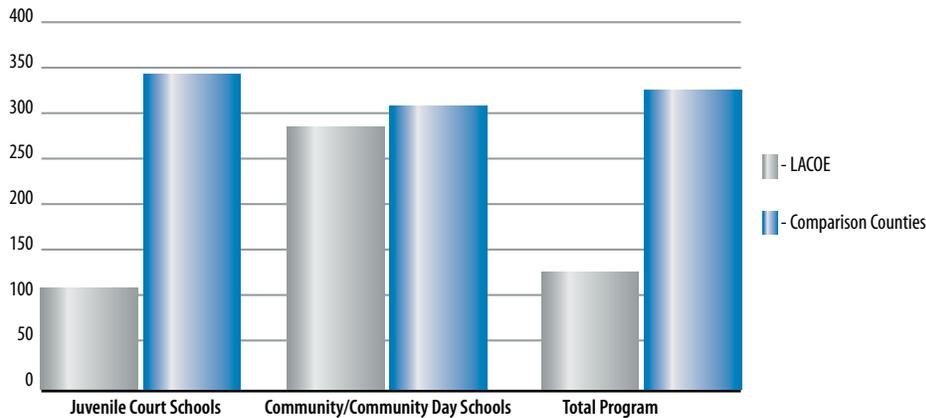
### Administration

Administrative overlay costs are those associated with the LACOE support services and administrative staff. Administrative overlay costs account for approximately 10% of the operational costs of the program. Site administration adds an additional 10% to the total administration costs for the programs. Most of these costs for county office services and site administration are funded through the core juvenile court, community and community day school budgets, with only a

small percentage coming from categorical support. Together they account for a large amount of the excess costs.

The current pupil-to-site administrator (principal or assistant principal) ratio in the juvenile court school program is 123-to-1. In comparison, the Kern, San Bernardino, San Diego and San Luis Obispo county offices had a combined average pupil-to-site administrator ratio of 355 pupils per administrator (Appendix Y).

**Pupil-to-Site Administrator Ratios**



If the LACOE juvenile court school program used the same pupil-to-site administrator ratio as is the average among the four comparison counties, the number of site administrators would decrease from 25 to fewer than nine. Pupil-to-site administrator ratios in the comparison counties have increased in recent years because of budget pressures. The cost savings of reducing the number of administrators to the levels of the comparison counties are estimated to be more than \$1.9 million.

The pupil-to-site administrator (principal or assistant principal) ratio in the LACOE alternative education (community and community day schools) program is 300-to-1. In comparison, the Kern, San Bernardino, San Diego and San Luis Obispo county offices had a combined average pupil-to-site administrator ratio of 323-to-1. LACOE’s alternative education schools had a ratio that was reasonably comparable to the comparison counties for the 2010-11 fiscal year.

The number of county central office administrators is excessive in comparison with other county offices. Five director-level staff members (one director, three regional directors and one project director) and four additional certificated staff members (one program specialist, one coordinator, one counselor, and one assistant principal) perform some form of administrative duties including assessment. Using 2010 CBEDS data, FCMAT compared the LACOE court, community and community day school program administrative count to those of other Class II county offices (212-to-1) and found that LACOE (75-to-1) has nearly three times (2.83) the administrative staffing. The details of this comparison of CBEDS data are included in Appendices T, U and V. The cost savings of reducing the county central office administration to be competitive with other county offices would be approximately \$380,000.

## Recommendations

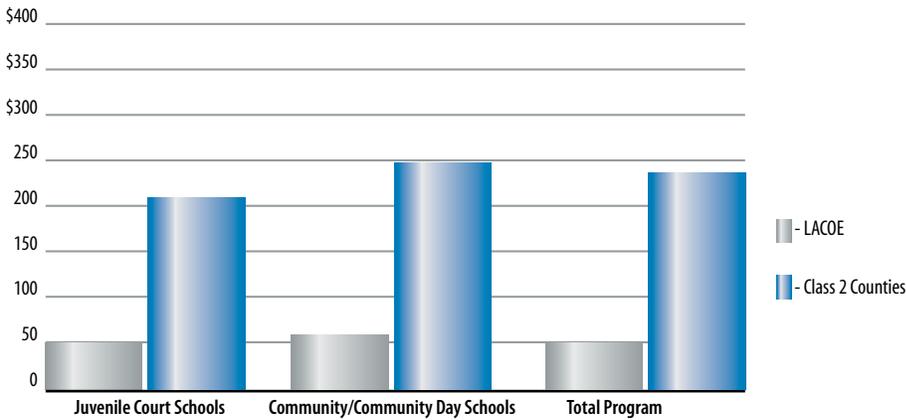
*The county office should:*

1. Review county and program needs and work to reduce the site-level juvenile court school administration to a level that is more comparable to other large county office programs.
2. Review county and program needs and work to reduce the county office juvenile court school and alternative education administration and support services personnel that make up the administrative overlay expense to a level that is more comparable to other large county office programs.
3. Adopt the philosophy that no position can exist unless it is supported by the income it generates of some other source (categorical, etc.).

## Counselors and Other Pupil Services Staff

The number of counselors and other pupil services staff members, as defined in Appendix V, at LACOE exceeds the levels of Class II county offices in the state. The Class II county offices have an average of 243 pupils for every pupil services staff member in their juvenile court, community and community day school programs, based on 2010 CBEDS data (Appendices T, U and V). LACOE has only 54 pupils for every pupil services employee. Given the 70 identified pupil services staff members in LACOE’s juvenile court school and alternative education programs in 2009-10, a reduction of 20 counselors could produce a cost savings of \$1.8 million. Reducing counselor levels to that of Class II counties would produce a cost savings of more than \$3 million.

**Pupil-to-Pupil Services Staff Ratios**



## Recommendations

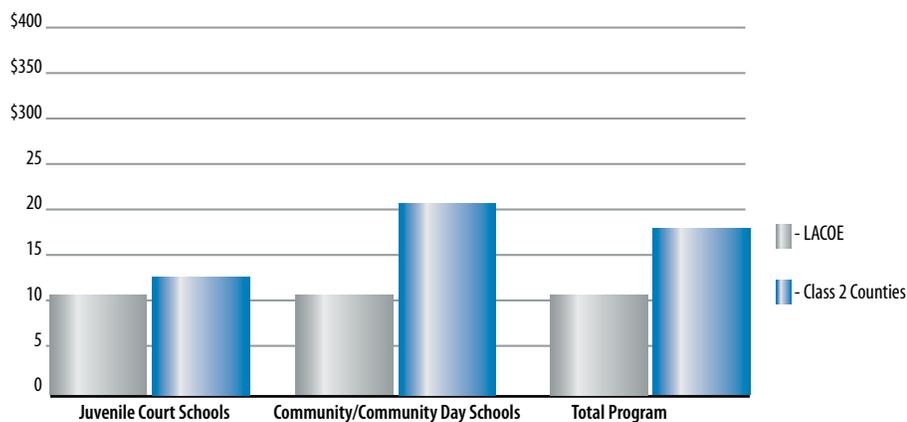
*The county office should:*

1. Evaluate all pupil services positions to rate their necessity given LACOE’s unique needs, and determine the funding source.
2. Consider reducing the number of pupil services positions to bring operational structure closer to that of comparable counties.
3. If eliminated positions are funded by a categorical program, reallocate available categorical funds in a manner that benefits pupils and supports core budget integrity.

## Teachers

The county office's teachers (core, support, special education, etc.) are not disaggregated in CBEDS data, making it difficult to determine the number of teachers by program (core, support, special education). To make comparisons with other county office of education programs serving similar students in similar settings, the general classification of teacher must be used. As stated earlier in this report, visits to the juvenile court schools classroom indicated there is a serious problem with low class size. Some of this can be attributed to the low attendance rate of the LACOE juvenile court school program. The certificated contract's restrictive language on class size contributes to low pupil count in classrooms, and the large number of pull-out services, draws on the numbers of pupils in the core classrooms. All of these factors hamper LACOE's ability to efficiently operate the program and each must be addressed and mitigated. The range of detention facility population levels places pressures on the program. The result is overstaffing. Based on 2009-10 CBEDS enrollment data (Appendix T), the juvenile court, community and community day school pupil-to-teacher ratio was 11.4-to-1. The ratio for other comparable (Class II) county offices was 17.8-to-1.

**Pupil-to-Teacher Ratios**



It is cost-prohibitive for the juvenile court school program to have teachers providing pull-out services if the juvenile court school program does not have a balanced budget or there is no funding stream to fully fund the positions. Increasing the pupil-to-teacher ratio (11.5-to-1) in LACOE's juvenile court school program to the level (12.7-to-1) of comparable counties could result in a reduction of 23 teachers (from 239 to 216) and produce a net budget savings of approximately \$1.8 million. CBEDS data for 2009-10 shows teacher overstaffing at the juvenile court and alternative education schools with the difference between LACOE (11.1-to-1) and the Class II comparison counties (20.9-to-1) being even more significant. Observations indicate that significant improvement has been made in teacher staffing in the alternative education program for the current year, but based on the magnitude of overstaffing in 2009-10, additional reductions will likely be justified to increase total savings to more than \$3 million annually.

## Recommendations

*The county office should:*

1. Evaluate the unique needs of LACOE students and determine staffing levels. Work to reduce staffing ratios to more closely align with levels of comparable county offices and within funding capacity.
2. Evaluate all noncore teacher positions and consider reducing the number of positions unless there is a programmatic or fiscally sound reason that the position should be retained.
3. Negotiate to make changes to the certificated contract as outlined in other parts of this document.
4. Improve attendance rates using the strategies outlined in other parts of this document.
5. Complete a critical analysis of the function of the assessment centers and determine the staffing structure necessary to carry out the center's responsibilities.

## Community School Independent Study

The LACOE community school program is generally used to offer pupils the alternative of continuing their education through independent study. Two major factors affect the integrity of the community school budget, pupil classification and the independent study attendance rate. Both are identified as problems in the LACOE program.

### Classification of Pupils

A low percentage of pupils in the community school program are enrolled as Type C (higher funded), with the remaining pupils served at a much lower funding level. Unlike community day schools, county community schools receive different funding levels (revenue limits) for pupils depending on their reason for referral to community school. A pupil referred to community school under Education Code Section 1981(c) could very well receive a total funding level that is twice that of a pupil referred to the same community school through Section 1981(b) and receives the same services. Additionally, the lower funding level is generally less than the school districts in the county receive for educating a much less challenging student population. Many pupil behaviors/histories could legitimately result in a referral to a community school under two separate statutory authorizations and at the two different funding levels. A county office of education should enroll students in county community school programs in a manner that is consistent with law and in the best interest of the students served in the school.

In 2009-10, the LACOE community school earned only 88.24 (12.4%) of its total ADA of 710.84 at the higher Type C funding level. This data is not readily available statewide for comparison purposes. However, in 2004, the Student Programs and Services Steering Committee and Business and Administration Steering Committee for the California County Superintendents Educational Services Association (CCSESA) created a budget resource guide for community and community day schools that provided detailed community school attendance data for 2002-03. This data showed that in 2002-03, 63% of the community school pupils in the average county office were enrolled at the higher funding level. Additionally, 60% of the county offices operating these schools had 75% or more for their pupils enrolled as Type C. It is not clear why LACOE's rate of Type C funding is significantly lower than the state average. LACOE should review reporting practices and determine the reason for this variance. Using statewide average revenue limit rates and based on the total community school ADA of 710.84, an increase in the percentage of Type C community school pupils from the current 12.4% to the statewide average 63% would generate increased revenue of \$1,016,000 with no increase in expenditure levels. An additional increase could come from reporting Type C community school attendance on the annual report as opposed to using the P-2 report for Type A, B and D funded pupils.

## Recommendations

*The county office should:*

1. Analyze the population of the community school program to determine whether there are students being enrolled in a manner that funds them at the lower funding when they are eligible for the higher funding under California Education Code.
2. Determine the funding level of students served in the county community school and the percentage of students who are funded at the lower level. The county office should also determine the operational cost per student of county community school. If costs exceed revenue, a review of operational procedures should be completed, and strategies should be implemented to decrease costs.

## Attendance Rate in Independent Study

The pupil-to-teacher attendance ratio in the LACOE community school independent study program is low. A school district or county office is eligible to claim apportionment for independent study only if the claimed ADA is no greater than that of pupils served in classroom settings. The state requires each district or county office to calculate the average amount of ADA earned by independent study teachers each year. According to Education Code Section 51745.6, LACOE programs are limited by the ratio of Los Angeles Unified School District, which had ratios of 21-to-1 in 2008-09 and 25-to-1 in 2009-10 (Appendix BB). LACOE's community school independent study teachers had ratios of only 10-to-1 and 7-to-1, respectively, during the same years. This averages to 8.5 ADA per teacher and is only 28% of what it was eligible to earn. This means LACOE far exceeds legal requirements in this area. This is compounded by the fact that the LACOE certificated contract requires the program to provide 15 hours of paraprofessional support for each teacher. The Education Code requires periodic assessments of the success of independent study pupils. The continued enrollment of unsuccessful pupils is inconsistent with the legal requirements and can contribute to low attendance rates. The pupils served are funded at the previously identified lower levels. The problem of low student-to-teacher ratio is the result of low attendance rates, substandard pupil assignment levels for each teacher, or a combination. At a projected average revenue limit of \$7,500, an increase of from 8.5-to-1 to 20-to-1 in the pupil-to-teacher ratio for the 11.63 FTE independent study teachers reported in 2009-10 would allow for a staff reduction that would result in an increase of \$86,250 in revenue with no additional expenditures.

## Recommendations

*The county office should:*

1. Establish a system to monitor weekly teacher loads, attendance rates, and pupil performance to maintain at levels that will result in a pupil-to-teacher ratio that is reasonably consistent with those of LAUSD classrooms.
2. Evaluate community school teacher loads and make the changes necessary to keep enrollments at the maximum level allowed in the certificated contract or 25 pupils per teacher, whichever is greatest.
3. Evaluate the independent study attendance rates and make the changes necessary to attain an attendance rate of 85%.

## Working Relationship with County Probation Department

The quality of the working relationship between LACOE and the Los Angeles County Probation Department has been reported in previous studies conducted by other agencies. The quality of the relationship can affect educational programming for juveniles incarcerated in detention facilities and the budget. The extent of this problem is difficult to determine since staff interviews indicated the relationship is strong, even though actions and outcomes contradicted this information. Some LACOE teachers have been excluded from juvenile detention facilities by probation. The Los Angeles County Probation Department did not involve the LACOE juvenile court school program in decisions to exclude (lock out) county office teachers from juvenile detention facilities. This makes it difficult to foster a cooperative working relationship between the two agencies. Further, it has detrimental effects on program operations. Similarly an absence of clear policies delineating the shared responsibilities to house and educate incarcerated students is an indicator of poor communications.

There is a low enrollment or attendance rate in the LACOE juvenile court school programs, but it is unclear whether this is the product of the current working relationship with the probation department and the failure of both agencies to address the problem and find resolution. The juvenile court school administration had not identified the reason for student absences and discussed it with probation department administration. The county office has the primary responsibility of ensuring juveniles receive an education, but Title 15 regulations (Section 1370 found in Appendix AA) also require the probation department to ensure wards are educated. Enrollment and attendance problems should be brought to the attention of the chief probation officer and his/her staff so the two entities can jointly determine solutions.

Education Code Section 48646 (Appendix Z) was recently enacted into law, and is intended to provide the foundation for a cooperative working relationship between a county probation department and a county office of education. It encourages each county to develop a memorandum of understanding (MOU) between the two entities and specifically addresses the topics of ensuring regular classroom attendance and developing a process for communicating, collaborating, and resolving conflicts. LACOE has this type of memorandum (Appendix II), but implementing the recommendations of this report would provide an opportunity to refine and fully implement the terms of the agreement.

## Recommendations

*The county office should:*

1. Identify the problems causing low enrollment and attendance, and meet with the county probation department to develop strategies to maximize enrollment and attendance in the juvenile court school program.
2. Contact the juvenile court school programs and county probation departments in other counties to determine the strategies they employ to maximize enrollment and attendance.
3. Develop a process for the county probation department and county office to jointly make decisions on the exclusion (lock out) of county office employees assigned to a juvenile detention facility.

4. Use Education Code Section 48646 as a vehicle to develop a comprehensive MOU that addresses the concerns contained in this study and ensure it is fully implemented.

## MAA and Medi-Cal Billing

LACOE has not placed adequate emphasis on Medi-Cal Administrative Activities (MAA) and Local Education Agency Medi-Cal Direct Billing (LEA Medi-Cal) as significant reimbursement opportunities for work performed by the community and community day schools' staffs. As a result, LACOE's budget, as well as the student population, has not benefited from the resources that an intensive MAA and LEA Medi-Cal Program could generate.

In 2009-10, LACOE collected \$142,855.22 through the MAA program in its community day schools alternative education programs. The staff members involved in reporting activities included school psychologists, nurses, independent study teachers, and former Cal-SAFE teachers.

The local education agency direct billing option can be used to bill for nursing/trained health aides, psychologists and counselors, occupational therapists and physical therapists, speech and audiologists, physicians and psychiatrists for the following services:

- Health screenings and assessments including vision, hearing, psychological, speech, IEPs
- Treatment services by nurses, trained health-care aides, psychologists, counselors, speech therapists, and more
- Specialized transportation

MAA can be billed by administrators, clerical, instructional assistants, nurses, special education teachers, school psychologists, and classroom teachers who perform duties as the following:

- Outreach and application facilitation
- Referrals, monitoring and coordinating of health services
- Arrangement of transportation to health services
- Program planning and policy development
- Health-related translation services

Medi-Cal prohibits federal financial participation to "individuals who are inmates of public institutions"; further, Title 22 provides that "...inmates who are detained under the penal system, and who are not released on probation or parole, are not eligible for Medi-Cal benefits." This includes juveniles awaiting trial in a detention center. However, students in community and community day schools are eligible for Medi-Cal funding.

A small county office with a community school ADA of 219.95 generated \$462,000 in 2009-10, yet the same year, LACOE generated only \$142,900 with a community and community day school ADA of 1806.39. Extrapolating this data indicates that LACOE could potentially generate as much as \$4 million annually in community and community day school through the MAA and LEA Medi-Cal program if the program is fully implemented.

While court schools and camps could generate some MAA funding, an analysis would be necessary to determine which activities in these programs are in fact billable. Therefore, FCMAT is not recommending any actions for these specific programs.

## Recommendations

*The county office should:*

1. Identify a specific management team or point of contact to manage the LACOE MAA/ LEA Medi-Cal program, emphasizing its importance to budget development.
2. Review the MAA and LEA Medi-Cal billing process in the court/community day/community schools with the contracted provider or another vendor with expertise in this area.
3. Analyze the potential reimbursement on a case-by-case basis, reviewing the tasks performed by all staff members as they relate to the MAA and LEA Medi-Cal reimbursable activities.
4. Immediately begin to provide training for all staff members who bill in this area. This training should be provided by a knowledgeable vendor.
5. Ensure administrators are educated in program requirements and are expected to hold staff members accountable for regular and accurate billing.
6. Hold quarterly LEA Medi-Cal consortium meetings with the required personnel according to Medi-Cal regulations to develop plans to expend funds so that they increase reimbursement. One example is hiring licensed medical professionals.
7. Conduct regular meetings with the LACOE business office to ensure that the generated funds are identified, appropriately expended, and that the budgets are available and transparent to program administrators, staff, and the consortium members.

## Budget Development

Site administrators lack understanding of budget development and the relationship between enrollment, attendance, and staffing levels. Limited communication occurs between the fiscal office and the programs in the development and monitoring of the budget. During interviews with FCMAT, site administrators did not express concern about an unbalanced budget or indicate that the county office's operational practices should be reevaluated. The general belief among the line staff is that the state funding model is the determining factor in the program's structural budget deficit. The acceptance and lack of concern regarding an unbalanced budget has resulted in a lack of ownership and administrators making a less critical analysis of program structure.

LACOE has a shared decision-making policy (BP 2250, 12/99) designed to “improve student learning by giving decision making opportunities to the people who are closest to the students.” The implementation of this policy is evident through the shared decision-making expenditure protocols and council procedures communicated in the budget management handbook. The policy further states that “the Superintendent shall have direct accountability for all final decisions and oversee all policies.”

Budget development for the JCS and CDS division begins in December with the receipt of a preliminary budget. Concurrently, additional information is made available such as the superintendent's planning guide which contains rates, assumptions, and instructions for the development of the division budget. LACOE uses the prior-year budget as a basis for developing the preliminary budget. The preliminary budget is built with employee salary and benefit costs based on the current year projections and assumes a rollover of all other expenditure lines from the current year budget. Additionally, there is a formula structure associated with ratios that is employed, but the process appeared to be incomplete, and clearly did not generate outcomes necessary to produce a fiscally sound budget. Categorical budgets are developed separately using the same manner of base budgeting. These funds are then communicated and incorporated into the division budgets.

This method of using prior year base budgeting is not conducive to addressing or fixing the budget's structural issues. Budget imbalances are not addressed, and every new budget includes continued deficit spending or less than optimal use of all resources. Program encroachment continues to grow year after year and resources such as Title I are consistently left unutilized and unspent.

## Recommendations

*The county office should:*

1. Prepare budgets in consideration of the goals and priorities of LACOE and the program.
2. Reevaluate the budget development process to include a priority to balance the budget.
3. Replace or adapt the current budget development process, which is based on the prior-year budget, with a model designed to align with the program needs.

4. Evaluate all prior year expenditures and determine the necessity of every expenditure.
5. Conduct monthly meetings between the program administrators and the LACOE fiscal office regarding budget development, monitoring, and the review of staffing levels as well as their fiscal impact on the budget.
6. Foster a culture in which fiscal efficiency is an important goal of being a school site administrator.
7. Provide site administrators with training on expenditure drivers, income sources, and the relationships between the two.
8. Hold prebudget meetings with site administrators that include a thorough analysis of the income-expenditure relationship at each site. If the budget is not balanced, cost-saving strategies to bring the budget into balance should be discussed.

## Budget Development Training

FCMAT study team members with experience in managing juvenile court, community and community day school programs conducted interviews with the director and regional directors. The interviews indicated these directors lack a thorough understanding of budget development and the distinction between attendance, enrollment, and facility population when discussing enrollment ratios. The process for adjusting to likely changes in the coming year was unclear, and there was no clear explanation of the difference between the budget standards student-to-teacher ratio of 17-to-1 and the attendance observed in the classrooms. There is inadequate site-level involvement in budget development based on interviews with site administrators.

The program should develop a culture of budget awareness and the importance of a balanced budget.

## Recommendations

*The county office should:*

1. Hold directors accountable for balancing the juvenile court school and alternative education program budgets. The county office should expect directors to develop, implement, and monitor efficiencies in program operation.
2. Develop a balanced budget and identify the amount of general contribution required.

## Budget Development Process

Budget development in the juvenile court, community and community day schools is built on income (enrollment and attendance) assumptions. These types of county office programs are very fluid, with frequent changes in juvenile court judges, probation department leadership or budgets, and other forces that can influence enrollment and attendance patterns. Similar to most county offices, LACOE uses the prior-year budget to develop the preliminary budget. The preliminary budget is developed with employee salary and benefit costs based on current year projections and assumes a rollover of all other expenditure lines from the current year. Programmatic staffing changes are not included in the budget development process. Categorical budgets are developed separately in the same manner. These funds are incorporated into division budgets. This method is not conducive to addressing or resolving the budget's structural problems. Because budget imbalances are not addressed, every new budget continues deficit spending or includes inefficient use of resources.

## Recommendation

*The county office should:*

1. Develop the budget by using prior-year expenditures as a basis; however, identify operational areas where expenditures can be reduced.

## Budget Monitoring

The sites and directors do not closely monitor the program budget during the year. Controller's office staff members have an effective process to track enrollment and attendance as well as considerable knowledge of the implications of this data. However, there is no structure for communicating that information to program administration, and even if it is communicated, program administration does not use the information to monitor budget status and implement cost efficiencies.

One example of the fiscal and educational consequences of failing to monitor attendance is as follows. A probation department changes shifts, and a new daytime probation manager that pulls students from school for court or medical reasons begins holding them for the full day instead of partial days. This change could easily decrease earned attendance by 10% to 15% and have an annual fiscal impact of more than \$300,000 for a site with 200 students. This type of problem can often be small enough to go undetected based on classroom observations, but program wide can be large enough to have significant fiscal implications. This is just one of many factors that can decrease operational efficiency, but can be easily identified and corrected with a sound monitoring system.

The most critical aspect of monitoring budget integrity is ensuring ongoing attendance is consistent with projected attendance. However, the juvenile court school and alternative education program administration has no system or structure in place to accomplish this. As a result, there is no detailed attendance tracking that can be used to monitor budget integrity.

Because of the absence of budget monitoring, budget revisions occur as the result of significant program changes that require action (institution closure, etc), rather than because of anticipating trends.

## Recommendations

*The county office should:*

1. Emphasize to all levels of administrators that monitoring enrollment and attendance in their programs is a critical part of their job duties.
2. Develop structure for regularly monitoring enrollment, attendance and implications for the current year budget at several levels. An example of a very basic, but functional monitoring structure used in Kern County can be found in Appendix GG. This simple weekly document allows the administrator to very quickly determine if the operational and fiscal integrity of the program is sound at various levels, as well as providing a vehicle for quickly identifying any problems. This monitoring should take place weekly, annually and during the reporting period. Administrators should receive this budget information and be able to respond to questions about the information as they relate to their programs.
3. Assign the primary responsibility for making all program decisions at the director level. Directors should have support staff immediately available to manage raw data, produce reports, monitor trends, and work with the director(s) responsible for the budget.

## Purchasing Procedures

According to LACOE policies, procurement's primary purpose is "serv[ing] and support[ing] LACOE programs by obtaining the materials and services required while receiving the maximum value for each dollar expended." Board Policy 3300 requires all procurement transactions to comply with applicable laws and sound business practices and requires the Division of Business Operations to implement and enforce adequate controls.

Purchasing procedures are established by LACOE, and the process is published in the administrative section of the juvenile court and community schools handbook. These procedures dictate that materials and supplies may be requested from the district warehouse through a warehouse stock requisition, and items that are unavailable from there may be requested via a purchase requisition. The Purchasing Department publishes a document called "How to Make a Purchase" that details the responsibilities of the site administrator, which include ensuring the program budget can pay for the purchase, assigning proper budget codes, and approving the requisition before sending it to the Purchasing Department. In addition, the procurement accounting handbook provides a requisition workflow approval form that provides the levels of authority for approval.

The requisition workflow approval form provided to FCMAT is dated and was reviewed and approved by the division director in October 2008. According to this document, the principal and assistant director have the authority to approve requisitions of as much as \$5,000. Requests that exceed this threshold require approval from positions of higher rank up to and including the superintendent.

## Purchasing Practices Alignment with Policy

FCMAT sampled and tested purchases made in the JCS and CDS programs using the authorization for the individual purchases. In some instances, the process provided in the procurement accounting handbook was not followed and the purchase did not have the required authorization. While there is no indication of serious issues based on FCMAT's limited review, the LACOE staff should follow the effective policies and practices that have been established.

Program and accounting staff members were interviewed to gain an understanding of processes and established controls. Based on this understanding, FCMAT designed a test to determine whether these processes and controls were effective and consistently used.

To ensure a review of the full transaction cycle from authorization to disbursement, five sample groups were taken from the juvenile court system and community day school warrants issued from May 2010 through April 2011. A combination of judgmental and random selection methods was used. The first sample group consisted of warrants exceeding \$100,000. The second, third, and fourth samples were judgmental as to sample size, but selected at random within dollar stratifications: those from \$5,000 through \$100,000; those from one cent through \$5,000; and those less than zero. The fifth sample was a random selection of vendors. The samples were evaluated to confirm that they appeared to be representative of the warrant population for May 2010 through April 2011. In all, FCMAT reviewed 198 warrants.

The sample warrants were subjected to the following series of tests. An affirmative response to all the tests indicated an appropriately controlled purchasing transaction. A negative response suggested a failure in internal control.

| Test # | Transaction Type | Test   |
|--------|------------------|--|
| 1      | All              | Were the goods or services to be acquired consistent with the requirements and objectives of the resource/goal/function for which they were requested? |
| 2      | All              | Were calculations used to determine the dollar amount of the request accurate?   |
| 3      | All              | Was the request within budget parameters?  |
| 4      | All              | Was the request properly documented?   |
| 5      | All              | Was the request properly authorized?   |
| 6      | All              | Was the account coding appropriate?  |
| 7      | All              | Did the disbursement elements match the request?   |
| 8      | All              | Was the disbursement executed by an authorized individual?   |
| 9      | Purchase         | Was the vendor selection based on an appropriate competitive process, if required?   |
| 10     | Purchase         | Was the purchase evidenced by a purchase order or other appropriate contract executed by an authorized individual?                                     |
| 11     | Purchase         | Was receipt of goods or services properly documented?  |
| 12     | Employee Expense | Was the reimbursed employee a valid active employee?   |

| Test # | No. of Issues Identified | Main Issues Identified  |
|--------|--------------------------|---|
| 1      | 0*                       | *No support documentation available on several samples.   |
| 2      | 0*                       | *No support documentation available on several samples.   |
| 3      | 5                        | Items were purchased outside of budget allowances.<br>One line item budget was overdrawn by \$10,000 when purchase was approved.                                    |
| 4      | 6                        | No support documentation available on several samples.  |
| 5      | 13                       | Approver's signature not identifiable. Approver "initialed" to approve and initials not identifiable.<br>A disbursement was made on a contract that was not signed. |
| 6      | 3                        | Improper coding as direct cost transfer (5710) when a warrant was disbursed.  |
| 7      | 4                        | No support documentation available on several samples.  |
| 8      | 28                       | No support documentation available on several samples.<br>School secretary approved purchase for over \$5,000.  |
| 9      | 3                        | No support documentation regarding selection process. FCMAT could not verify a competitive process was followed.  |
| 10     | 10                       | No support documentation available on several samples.  |
| 11     | 25                       | Documentation not available to verify receipt of goods and/or services.   |
| 12     | 0                        | No issues found.  |

## Recommendations

*The county office should:*

1. Provide the training and monitoring necessary to ensure compliance with existing purchasing policies.
2. Maintain proper support documentation for all disbursements and transfers.
3. Ensure purchase requests are not approved without proper authorization, budget allowance, and competitive process.
4. Ensure all approvals are legible and traceable to an authorized approver.
5. Ensure all disbursements are properly recorded.
6. Review internal control processes and implementation of processes for purchases, disbursements, and internal transfers.

## Purchases Outside of Approved Budget

LACOE policy (BP 3170) requires all expenditures to be within the approved budget appropriation; however, FCMAT found that some approved purchases did not conform to this policy. Failure to adhere to this policy exacerbates an already serious overexpenditure problem. A programmatic belief is that a structural funding issue at the state level is the cause of budget problems, resulting in a failure to accept any responsibility at the local level.

## Recommendations

*The county office should:*

1. Make it a priority to operate a balanced budget in the juvenile court, community and community day school programs.
2. Ensure that expenditures beyond the approved budget are rare and require multiple approvals from senior management at LACOE.

## Title I Expenditures

LACOE frequently does not expend its entire Title I budget, resulting in requests for waivers.

Carryover of Title I funds is predicted to occur again for the 2010-11 school year. Careful and deliberate planning would have allowed the county office to use its \$7,334,592 in Title I funds for the year as well as the carryover funding from prior years to help offset some of the programmatic and fiscal issues experienced by the juvenile court schools over the past decade.

## Recommendations

*The county office should:*

1. Maximize the use of Title I funds to support some of the new and restructured services that are determined to be critical to student achievement. These could be used to offset potential program costs if this use complies with Title I guidelines.
2. Regularly review the Title I fund budget and increase involvement of program staff in expending the funding available. Identify funds obligated by the purchasing process (encumbered) that may be unintentionally held and may go unexpended. Expending funds should become a higher priority so funding is not lost, and pupils benefit from these resources in a timely manner.

## Reimbursements

In several instances, FCMAT was unable to verify compliance with reimbursement procedures because of the lack of documentation. Several mileage reimbursements involved reporting mileage electronically and the only documentation provided was the number of miles driven and a copy of the reimbursement check. An effective policy on employee reimbursement should be a priority given LACOE's size, the number of juvenile court, community and community day schools the county office operates, the variety of services provided, the number of staff members who serve several sites, and the amount of funds involved in employee reimbursements for these programs.

## Recommendation

*The county office should:*

1. Develop and enforce a policy and practice in which all employee reimbursements meet the following criteria:
  - Consistent with the employee's duties.
  - Legitimate and consistent with the employee efficiently fulfilling his or her responsibilities.
  - Reviewed and approved by an administrator who can make these judgments.

## Contributions from the County School Service Fund

The relationship between income (attendance) and expenditures (staff) has the greatest impact on the budget and the level of encroachment. The findings and recommendations focused on these areas. Some related issues surfaced and were incorporated into the study.

A few important qualifications regarding the fiscal implications of some of the following findings are as follows:

- Some analysis was based on state CBEDS data that does not disaggregate staff count by role. For instance teachers are aggregated regardless of their specific assignment. Therefore, there was some difficulty in developing precise calculations for cost savings and estimations are provided.
- LACOE has limitations in its ability to fully and immediately realize the savings because of terms in the current bargaining agreements and commitments made by the county office as a result of legal settlements. That said, many recommendations could be implemented incrementally with a goal of more complete implementation over time.
- Recommendations are based on data from a specific period in time, data obtained from a different period could result in slightly higher or lower staffing, revenue, and expenditure patterns.

There is a growing acceptance among practitioners, statewide organizations involved in educational services to students in juvenile detention facilities, and county superintendents that it may be possible to satisfy minimum statutory and regulatory requirements at current funding levels. However, it is not possible to provide what would commonly be judged to be a safe comprehensive educational program for the pupils and staff of a California juvenile court school program at the current funding levels.

The sources of LACOE's encroachment and potential cost savings identified in the report are listed below:

- Improved attendance based on facility population with a potential income of \$4,632,022.
- Improved efficiency in special education with a potential savings of \$3,577,548.
- Reductions in administration in the juvenile court and community day school program with a potential savings of \$2,342,098.
- Reduction in counselors with a potential savings of \$1,852,763 to as much as \$4 million.
- Improved efficiency in class size with potential a savings of \$1,872,471 to as much as \$3 million.
- Increased MAA and Medi-Cal reimbursements with potential revenue increase of as much as \$4 million.
- Improved community school independent study practices with potential income of \$1 million.
- Renegotiation of the terms of the certificated contracts with unknown but real fiscal benefits.

It is difficult to fully determine the primary cause of the existing encroachment associated with the juvenile court, community day and county community school programs. However, inefficient operations and overstaffing are contributing factors. Current state funding levels are also inad-

equate and contribute to encroachment as determined by the Juvenile Court School Associations' funding analysis (Appendix Z).

## **AB 825 Flex Funding**

The state's passage of AB 825 and creation of flex funding was intended to offset the effects of significant revenue limit deficits. Given this intent, it underscores the legitimacy associated with the use of these funds to support the alternative education budgets (juvenile court, community day and community schools) in that manner and could be considered the appropriate and responsible use of these funds. Any use of these funds for this purpose should be accompanied by calculations to determine the relationship between the amount of flex funds used and the amount of the revenue limit deficit. This ensures no long-term operational shortfall is created in the process of employing these funds.

## **Recommendations**

*The county office should:*

1. View the AB825 flex funding associated with programs previously operated in the juvenile court, community and community day school programs as legitimate income for these programs to use to maintain a balanced budget.
2. Complete calculations annually to compare flex fund amounts, revenue limit deficit amounts, and program operational implications associated with the comparison.

## Juvenile Court School Funding

Many of this study's findings were based on comparisons to other county offices throughout the state. While these comparisons provide the foundation for identifying and quantifying differences, no judgment is made on whether the safety and quality of these comparison counties would satisfy the administrators of those programs. In fact, the incarceration structure and education of these incarcerated youth has changed dramatically in the past decade, and the state has not made the changes in funding necessary to guarantee they continue to receive a quality education in a reasonably safe environment.

County offices, school administrators and teachers involved in juvenile court schools are committed to providing incarcerated youth with a quality education. This has been shown through the California County Superintendents Educational Services Association, which has informed state leaders of the unrealistic expectations related to current funding. However, the state has failed to provide county offices with funding sufficient to offer a safe, credible, quality education to incarcerated youth consistent with the increasing expectations and challenges that have developed over the past decade.

## Recommendations

*The county office should:*

1. Make the adjustments to the structure of the juvenile court school program necessary to demonstrate fiscal efficiency. This puts LACOE in a position to demonstrate that even a fiscally efficient juvenile court school program may fall short of expectations regarding a safe, comprehensive, credible educational program and/or be unable to maintain a balanced budget.
2. Continue efforts, in conjunction with the California County Superintendents Educational Services Association, to attain sufficient funding for juvenile court school pupils incarcerated in county facilities.

# Glossary of Terms and Acronyms

**AB 602**

Assembly Bill 602, passed by the state Legislature in 1997 to fund special education

**ADA**

Average Daily Attendance

**ADA**

Americans with Disabilities Act, federal legislation passed in 1990 that prohibits discrimination on the basis of disability in employment, state and local government, and other areas

**ADP**

Average Daily Population, the population in juvenile facilities determined by counting the number of juveniles in detention each day of the month, adding the daily counts, and dividing the sum by the number of days in the month

**AIA**

American Institute of Architects

**APE**

Adaptive Physical Education

**ARRA**

American Recovery and Reinvestment Act, a stimulus bill passed in 2009 that provides grants for various agencies, including school districts

**AVID**

Advancement via Individual Determination

**BPO**

Blanket Purchase Order

**BSC**

Business Service Consultant

**BTSA**

Beginning Teacher Support and Assistance

**CALPADS**

California Longitudinal Pupil Achievement Data System, a state system used to maintain extensive student data

**CalPERS**

California Public Employees' Retirement System

**CalSTRS**

California State Teachers' Retirement System

**CASEMIS**

California Special Education Management Information System

**CBA**

Collective Bargaining Agreement

**CBEDS**

California Basic Educational Data System, an annual data collection administered in October

**CBO**

Chief Business Official

**CCBE**

California County Boards of Education

**CCC**

Certificated Contract Consultant

**CCR**

California Code of Regulations

**CCS**

County Community School, a public school run by county offices of education that educates K-12 students in who are expelled from school or have attendance or behavior problems

**CCSESA**

California County Superintendents Educational Services Association

**CDOL**

Center for Distance and Online Learning, a Los Angeles County Office of Education program that provides online courses for teachers and hires outside consultants to film instruction in the field

**CDE**

California Department of Education

**CDP**

Career Development Program

**CDS**

Community Day School, schools run by a county office or district for students who were expelled or had attendance or behavior problems

**COE**

County Office of Education

**COLA**

Cost-of-Living Adjustment

**COPs**

Certificates of Participation

**CSAM**

California School Accounting Manual

**CSEA**

California School Employees Association

**CSP**

Community School Program

**CTAP**

California Technology Assistance Program

**CUPCCAA**

California Uniform Public Construction Cost Accounting Act

**CYA**

California Youth Authority

**DAIT**

District Assistance and Intervention Team

**DIS**

Designated Instructional Services

**DHOH**

Deaf and Hard of Hearing

**DMR**

Daily Movement Report, a report prepared by the probation department daily recording the population of wards. The report includes total wards assigned to the site and detail regarding wards removed for medical reasons, detained by court action, and others not physically present.

**DOF**

Department of Finance

**DOF**

Director of Finance

**DOJ**

Department of Justice

**DPSS**

Department of Public Social Services

**EASE**

Employee Assistance Service for Education

**EC**

Education Code

**ESA**

Earned Salary Advance

**EPIC**

Educational Programs Information Connection, a Web-based student information system

**ESEA**

Elementary and Secondary Education Act, federal legislation passed in 1965 that emphasizes equal access to education and establishes high standards and accountability

**FCMAT**

Fiscal Crisis and Management Assistance Team

**FOC**

Financial Operations Consultant

**FLSA**

Fair Labor Standards Act, legislation that established minimum wage, overtime pay, and other provisions affecting employees in government and the private sector.

**FTE**

Full Time Equivalent

**GAAP**

Generally Accepted Accounting Principles

**GAIN**

Greater Avenues for Independence, a state program that provides training to welfare recipients to help them gain employment

**GC**

Government Code

**GROW**

General Relief Opportunities for Work, a program funded by Los Angeles County that provides financial assistance to those ineligible for federal or state programs

**HRS**

Human Resources System

**ICC**

Independent Contract Consultant

**IDEA**

Individuals with Disabilities Education Act, a law ensuring services to children with disabilities throughout the nation.

**IFB**

Invitations for Bid

**IS**

Independent Study, a program in which a student is guided by a teacher but usually does not attend classes with other students every day

**JCS**

Juvenile Court School, a school that provides an educational program for incarcerated students

**JPA**

Joint Powers Authority

**LACEA**

Los Angeles County Education Association

**LACHSA**

Los Angeles County High School for the Arts

**LACOE**

Los Angeles County Office of Education

**LACSTA**

Los Angeles County School Trustees Association

**LAUSD**

Los Angeles Unified School District

**LEA**

Local Educational Agency

**LEC**

Local Educational Consortium

**LSH**

Language, Speech, Hearing

**MAA**

Medi-Cal Administrative Activities, a state program that reimburses school districts for the federal share of certain costs for administering the Medi-Cal program

**MAR**

Monthly Attendance Register, a detailed record of student attendance as recorded in the EPIC system. For a specific period and site, this report lists each student and indicates the days the student was enrolled, days in attendance, and days absent.

**MOU**

Memorandum of Understanding, a document that functions as a legal agreement between two parties

**MSR**

Material Stock Request

**MYFP**

Multiyear Financial Projection, financial projections that are required by AB1200 and AB2756 and are part of the adoption budget and interim reporting process

**NCLB**

The No Child Left Behind Act of 2001, education reform legislation that focuses on student achievement

**PAU**

Principal Administrative Units, units determined by geographical service areas and headed by a principal that make up part of the administrative structure of juvenile court schools and community day schools in Los Angeles County.

**PCC**

Public Contract Code

**PERB**

Public Employee Relations Board

**PE**

Professional Expert

**RSDSS**

Regional System of District and School Support

**Revenue Limit**

The amount of general-purpose revenue a school district may receive per pupil

**RFP**

Request for Proposals

**RFQ**

Request for Qualifications

**RIF**

Reduction in Force

**RMA**

Routine Restricted Maintenance Account

**RMT**

Relation Management Team

**ROP**

Regional Occupational Program, a state-funded program that provides students with training in entry-level jobs, job-related counseling, and upgrading skills.

**RSP**

Resource Specialist Program

**RST**

Resource Specialist Teacher

**RTI**

Response to Intervention, an approach to intervention developed to provide early assistance to children who are experiencing difficulty learning

**SACS**

Standardized Account Code Structure

**SARB**

School Attendance Review Board, boards composed of school and community members who meet to discuss and resolve student attendance or behavior problems.

**SDCOE**

San Diego County Office of Education

**SEIU**

Service Employees International Union

**SELPA**

Special Education Local Plan Area, a regional consortium that provides services for all special education children that live within its region boundaries

**SDC**

Special Day Class

**SPI**

Superintendent of Public Instruction

**SPMMS**

School Preventive Maintenance Management System

**TDA**

Teacher's Daily Attendance report

**Title I funds**

Funds for high-poverty schools and districts and used to provide educational services to students who are educationally disadvantaged or at risk of failing to meet state standards

**TRANS**

Tax Revenue Anticipation Notes

**QEIA**

Quality Education Investment Act, legislation that established a state program to assist the lowest-performing schools

**VPSS**

Verification Process for Teachers in Special Settings, a program for teachers to attain highly qualified teacher status to meet the requirements of the No Child Left Behind Act of 2001

## LOS ANGELES COUNTY OFFICE OF EDUCATION SUMMARY OF CHANGES SINCE COMPLETION OF FCMAT STUDY

The Los Angeles County Office of Education (LACOE) contracted with the Fiscal Crisis and Management Assistance Team (FCMAT) to conduct a detailed management review of its operations. LACOE requested the review to study how best to improve its effectiveness and efficiency as a public educational services agency.

The review involved FCMAT staff conducting meetings and interviews with LACOE executive leadership, certificated and administrative staff, external clients, and members of the Los Angeles County Board of Education from April through July 2011. The report is a “snapshot” of conditions and reflects the operations of LACOE as they existed before July 2011.

Since the fieldwork ended in July, LACOE has made operational and other changes in many of the areas studied and addressed in the FCMAT report.

LACOE, under the direction of County Superintendent of Schools Arturo Delgado and his Executive Cabinet, fully accepts the report’s findings and recommendations and the challenge it faces in dedicating itself to prioritizing and undertaking the many recommended reforms. The FCMAT study can guide LACOE in implementing new strategic organizational opportunities.

With the support of the County Board of Education, the Office is committed to change and bringing about smart improvements to programs and services. LACOE appreciates the opportunity to present a summary of the changes it has made to date since FCMAT completed its fieldwork.

### BUSINESS SERVICES

- **Business Services Recommendation #2 (page 90):** Study the feasibility of reorganizing the divisions and reducing the number of separate departments.

Business Services initiated consolidation of three internal business divisions into two divisions, eliminating a layer of administration and support services in September 2011. Business Services continues to analyze the business functions within the two reconfigured divisions to eliminate redundancies of service and identify areas that could benefit from an expanded use of technology. The Grants Project Management Unit has been moved from the Controller’s Office into Accounting and Budget Development to provide for better communication and collaboration with the accounting departments.

- **Business Operations Recommendation #1 (page 95):** Conduct a desk audit of secretarial support positions in the Business Operations department to determine the number of hours required to complete the work assigned to each position, and rebalance workload and adjust staffing as needed.

As part of the consolidation of the internal business divisions, a study of clerical positions was conducted. Duties were consolidated and several clerical positions will be eliminated as of December 31, 2011. Clerical support will be shared by two or more managers, eliminating the current one-to-one ratio of support. Clerical support staff will be cross-trained and reassigned to areas of need during peak periods to eliminate the need for temporary staff.

- **Business Services/Board recommendation #1-3 (page 166):** (1) Utilize staff input as well conduct a board survey to guide staff in developing the content and format of routine supplementary information that

accompanies the budget and interim reports. Set a specified period of time during which the format of the supplementary information remains unchanged, thus ensuring familiarity with the information by the users and comparability of information between time periods. (2) Use a consistent format and content throughout the organization for budget presentation materials prepared for the board and delivered by staff. Provide ongoing training by the Communications department on effective presentation styles to the staff that are responsible for making budget presentations. Allocate adequate time during meetings to ensure board members and the public have appropriate access to the information. (3) Provide board members with ongoing training and guidance on reading and assessing financial information on state reports and specially developed supplementary reports so they gain sufficient mastery to make informed decisions. Provide an overall orientation of budget reports and financial statements to all new board members.

Business Services is currently delivering budget information to the Board in a revised format that provides a more comprehensive and transparent representation of the county office budget. This new format was implemented in July 2011. All Board members receive training on the LACOE budget subsequent to their appointment. The most recently appointed Board members were provided with an expanded orientation and training to assist them in understanding the new budget presentation format. This expanded training is available to all Board members on request.

- **Budget Development Recommendations #6 (page 189):** Ensure all staff responsible for budget development and monitoring have access to online financial information.

The Office will present budget materials in electronic form for development of the 2012-13 budgets. LACOE is moving toward the elimination of printed financial reports for budget monitoring and is expanding training opportunities for staff to be able to navigate the PeopleSoft system. Budget trainings will be presented to Educational Programs site principals and staff that focus on the specific needs of site budgeting, with an emphasis on balancing revenue to expense in the budget process.

- **Fiscal Management Recommendation #19 (Page 178):** Provide ongoing training on internal control, good business practices, and strategies for categorical or restricted funds management to managers responsible for effective and timely use of program dollars.

As part of the restructuring of Business Services, the Grants Projects Management (GPM) unit was moved from the Controller's Office to the division of Accounting and Budget Development (ABD) to better align those functions with ABD's accounting and budgeting functions and provide more comprehensive fiscal oversight of the restricted programs. GPM, in collaboration with the Budget Section, is planning budget development workshops specifically for managers of grant- and restricted-funded programs.

- **School Financial Services Recommendation #5 (page 111):** Consider conducting a desk audit of the work of the positions identified in the narrative.

The firm of Vavrinek, Trine, and Day has been engaged to perform an efficiency study of all business processes used by the division of School Financial Services to determine that these processes are current and comprehensive, that there are appropriate internal controls, and that the staffing pattern and alignment are adequate but not excessive.

- **Business Operations Recommendation #2 (page 95):** Consider consolidating the Transportation Unit's two transportation planner positions to one position while one of them is vacant.

Positions are being studied in the Transportation Unit. The position of Transportation Officer has been eliminated. A lead position is being developed to handle daily operations, communications, and administrative duties and one planner/specialist position will be eliminated.

- **Business Operations Recommendation #6 (page 95):** Consider assigning facility department staff to oversee construction projects from start through closeout.

A construction manager position that oversees construction projects through completion has been added to the Facilities department.

- **Payroll Recommendation #3 (page 113):** Consider implementing employee absence tracking software that is capable of printing leave balances on each employee's monthly payroll stub.

The Office has sent out a Request for Proposal for development of an automated leave balance tracking system, with a closing date of November 17, 2011. Evaluations of proposals will be completed by the end of November.

- **Business Operations Recommendation #7 (page 95):** Provide sites and departments with access to the business operations work order software so that work order requests may be submitted electronically.

Business Operations has contracted with a vendor to customize the School Preventive Maintenance Management System to be able to provide web-based electronic building facility requests. The system is anticipated to roll out as a pilot in January 2012. Training will be provided office-wide prior to full implementation.

- **Purchasing Recommendation #6 (page 216):** Evaluate end of year purchase cut-off periods and warehouse procedures to reduce costly end of year bottlenecks and excessive overtime in the warehouse.

An overall assessment of the warehouse has been initiated to evaluate current processes for receiving and delivery to identify more effective ways to expedite the receipt of goods at LACOE sites. Cross training of staff in Business Operations units will provide additional assistance during peak periods and avoid the need for overtime or temporary workers. In addition, Business Services will work with other divisions to create a more reasonable flow of requests for goods processed through the warehouse and avoid year-end bottlenecks.

- **Purchasing Recommendation #9 (page 217):** Consider grouping JET mail and warehouse deliveries and installing on-board GPS tracking devices, computerized routing, and off-hour driving and delivery times.

The Office has researched the cost of installing on-board GPS tracking devices in the Joint Educational Transit (JET) mail and warehouse delivery vehicles. Installation should be completed by February 2012.

- **Multi-year Projections and Cash Flow (Appendices)**

The multi-year projection presented by FCMAT varies significantly from LACOE's final audit for 2010-11 due to varying factors, including the differing assumptions used for development, timing factors, varied methodologies in recognition of revenue, the absence of closing adjustments, and the treatment of grant-funded positions going forward when funding is no longer available.

LACOE is cognizant of the ongoing impact to the budget due to revenue reductions, declining enrollment, and revenue deferrals. In 2010-11, adjustments were made that reduced the overall budget in 2011-12 by \$10 million and resulted in a significant increase to the ending balance for 2010-11. The Office will continue its restructuring effort to develop the 2012-13 budget to deal with ongoing fiscal challenges presented by Educational Programs and in anticipation of additional reductions to the revenue limit.

## EDUCATIONAL PROGRAMS

- **Educational Programs Recommendation #2 (page 343):** Contact the juvenile court school programs and county probation departments in other counties to determine the strategies they employ to maximize enrollment and attendance.

LACOE staff has joined a county office of education email listserv. This resource provides opportunities to discuss and review strategies to maximize enrollment and attendance and address ongoing Educational Programs' challenges. Additionally, the LACOE superintendent and assistant superintendent of Educational Programs visited the Harris County Juvenile Probation Department in Texas on October 28, 2011, to review and discuss their teaching, learning, and classroom program.

- **Educational Programs Recommendation #1 (page 347):** Prepare budgets in consideration of the goals and priorities of LACOE and the program.

The goals and priorities in the Single Plan for Student Achievement (SPSA) are now aligned with the Board-approved Local Educational Agency Plan (LEA) Plan and District Assistance and Intervention Team (DAIT) recommendations. The LEA Plan specifically outlines the priorities for expending these funds. Each of LACOE's Principal's Administrative Units (PAU) is required to write a SPSA.

LACOE's Consolidated Application delineates all state and federal categorical funding for the current and previous year.

The aforementioned alignment will help provide for the appropriate and timely expenditure of state and federal funding.

- **Educational Programs Recommendation #3 (page 317):** Implement a system of monitoring attendance. This system should monitor attendance at all levels beginning with the individual site reports, intermediate principal administrative unit, and region reports and ending with a compiled report at the assistant superintendent level. Reports should be completed annually, weekly, and during the reporting period. The county office should standardize reports on EPIC that can provide the level of detail necessary to provide daily monitoring at the site level.

LACOE has designed a new set of EPIC screens specific to student attendance monitoring. The new screens will provide principals with information on daily attendance accounting by individual teachers. Principals will be able to identify classrooms where attendance is incomplete. As such, they can contact the teacher to review and accurately update his/her daily attendance records. Additionally, principals will be able to review individual student-level attendance data. The director and regional directors will have the capacity to monitor the attendance reporting process daily, weekly, and monthly.

- **Educational Programs Recommendation #1 (page 356):** Maximize the use of Title I funds to support some of the new and restructured services that are determined to be critical to student achievement. These could be used to offset potential program costs if this use complies with Title I guidelines.

Several new and restructured services were identified in the DAIT recommendations and written into the LEA Plan. These new services will help address student achievement needs and priorities identified in the LEA Plan. They include the hiring of seven math specialists who will provide professional development and technical assistance to teachers and principals. Additionally, positive behavior intervention and support specialists will be hired to help address classroom discipline and student management issues. Data specialists will be hired to help instructional staff analyze student-, classroom-, and school-level data to improve practice.

- **Educational Programs Recommendation #8 (page 128):** Implement security procedures for educational technology to ensure that technology is used for appropriate educational purposes.

Computer profiles at the camps and halls have been updated to include additional security systems. These profiles will make it more difficult for students to access computer software programs without appropriate teacher direction and support. Furthermore, students will be unable to access Internet services.

- **Educational Programs Recommendation #3 (page 343):** Develop a process for the county probation department and county office to jointly make decisions on the exclusion (lock-out) of county office employees assigned to a juvenile detention facility.

LACOE staff has developed a draft process for addressing the problems that arise when teachers are prohibited from working in the camps by the Department of Probation. This process will provide for a more collaborative response to effectively address incidents that result in a teacher being locked out from the camps and halls. The ultimate goal is to expedite the investigation process and establish agreed upon criteria for reentry into the work setting.

## EDUCATIONAL SERVICES

- **Educational Services Recommendation #1 (page 152):** Review the programs and services provided by Educational Programs and Educational Services divisions for opportunities to consolidate. Consider reorganizing the Division of Educational Programs and the Division of Educational Services and organizing the various programs and services based on whether they are provided to students served directly by LACOE or externally to school districts. Review the organizational structures from Class II county offices to provide models to consider for consideration.

A reorganization plan was developed in July and will undergo evaluation by Executive Cabinet. The divisions have taken the first steps in consolidating LACOE services provided directly to students. The assistant director and literacy curriculum and instructional consultant from Educational Services have been providing direct services to principals and teachers in Juvenile Court Schools. ROP programs are established at some schools sites with plans for further expansion. Additionally, parent-training consultants from the Parent and Community Services department in Educational Services provide parent training at all Juvenile Court Schools.

- **Curriculum and Instructional Services Recommendations #4 (page 134):** Review the longitudinal attendance records of workshops and determine if attendance has remained strong or declined and if warrants continued workshops in specific areas.

Attendance information and workshop evaluations are now reviewed for follow-up needs, for elimination, or for continuation on the next year's schedule of workshops. A web-based survey tool ("Survey Monkey") and discussions with district instructional leaders are used to obtain direct feedback on specific workshops and seminars. Through this review/feedback process, the focus of training on the Common Core State Standards was established.

- **Curriculum and Instructional Services Recommendation #6 (page 134):** Consider alternate methods of delivering training to reduce costs, such as through the CDOL and LACOE's television studio.

Educational Services and Technology Services collaboration meetings were established in the summer of 2011 and continue to be productive in identifying and implementing alternative training delivery systems.

The collaboration with Technology Services has produced joint projects that use electronic delivery systems, such as the Student Mental Health Project. The Center for Distance and Online Learning has provided for cost-saving delivery platforms for curriculum/instruction and teacher training such as the English Language Methodology series.

Conversion from face-to-face training to online training, streaming, and webinars has provided clients with time-saving alternatives and the office with cost reductions.

- **Head Start Recommendation #1 (page 146):** Work with the Personnel Commission to create job titles and descriptions that reflect the unique job responsibilities and background for the employees assigned to its fiscal operations and support unit.

The interim Head Start director is now working with the Personnel Commission to develop and revise job titles and descriptions for employees in fiscal operations, monitoring, and key management positions.

- **Head Start Recommendation #3 (page 146):** Implement recommendations related to internal controls and oversight.

Since August 2011, administrative staff has begun to develop a plan to analyze the internal controls and oversight units in terms of the number of employee hours required to complete site compliance reviews. This will involve analyzing the number of site visits required and the projected number of technical assistance visits needed. Data will be used to adjust staffing requirements. Internal fiscal controls and program compliance will also be studied. Review of the Head Start staffing structure will be guided by the federal Office of Head Start requirements.

## HUMAN RESOURCE SERVICES

- **Human Resource Services Division Recommendation # 2 and #3 (page 71):** Conduct desk audits of the workload and responsible level of each position in the Human Resource Services Division. Adjust workloads and eliminate positions as appropriate.

Human Resource Services (HRS) has started a comprehensive review of employee workloads and job descriptions, which will be aligned with desk audits. The review and results will be reflected in the HRS Strategic Plan. Many management positions in the division were eliminated during the 2010-11 fiscal year. HRS will continue to reorganize and redistribute work accordingly during the 2011-12 fiscal year.

- **Human Resource Services Division Recommendation #6 (page 71):** Reconsider the need to maintain a separate technology unit within the Human Resource Services Division. Review its technology needs in conjunction with LACOE's Technology Services Division to determine if its needs can be met through that division without a reduction in technology-related services but at a reduction cost to LACOE.

An assessment of technology-based projects and needs in HRS has been initiated jointly with Technology Services. This ongoing evaluation will consider the potential benefits of transitioning elements of the HRS Information Services unit to TS for more efficient delivery of services.

- **Human Resource Services Division Recommendation #9 (page 72):** Immediately take steps to more closely manage and control Workers' Compensation costs, including the following:
  - Investigate the validity of Workers' Compensation claims.
  - Require fitness for duty examinations, and review claims regularly for any needed follow-up including settlement of claims where warranted.
  - Use knowledge from past experiences to help ensure workplace safety.

Recently transferred to HRS (as part of Business Services' reorganization), the current Workers' Compensation team has developed new practices to ensure efficiency in the unit. Workers' Compensation claims are now reviewed with the assistant superintendent of Human Resources on a weekly basis. Recommendations from the team are considered and communicated to LACOE's Workers' Compensation carrier. The unit is working closely with LACOE's general counsel on fitness for duty examinations as well as interactive process meetings for reasonable accommodations. A section will be added to the HRS strategic plan regarding Workers' Compensation.

## TECHNOLOGY SERVICES

- **Technology Services Recommendation #2 (page 83):** Research the feasibility of a fully integrated financial software system that can provide all aspects of accounting, positions control, payroll, budgeting, and report generation for both LACOE and school districts that contract with LACOE for financial, budget, and payroll services. Involve both internal and external users in the feasibility study.

Technology Services (TS), in collaboration with the School Financial Services department of Businesses Services, has initiated a modernization project to develop and implement a software upgrade to LACOE's HRS payroll system. When fully implemented, the system will provide leave accounting, payroll warrants, and retirement reporting.

TS has initiated a study to determine whether to acquire a new enterprise resource planning software solution or continue modernization of existing financial/information systems.

- **Technology Services Recommendation #3 (Page 83):** Review the technology division's role, responsibility and structure, and the technology services provided by departments other than the TS division.

In August 2011, TS completed a LACOE-wide assessment identifying the hardware and software used throughout the Office. This study, although not part of the Technology Master Plan, was necessary to determine the feasibility of consolidation and to develop implementation requirements.

- **Technology Services Recommendation #5 (Page 84):** Develop a plan for staff development, particularly in regard to technology and software programs necessary to complete assigned tasks.

TS has begun implementation of an internal training curriculum, including Information Technology Infrastructure Library (ITIL v3) certification and online technical software training.

The Instructional Technology Outreach department (ITO) offers all LACOE staff Microsoft Professional- and Apple-certified employee software training.

- **Technology Services Recommendation #5 (Page 84):** Consider reorganizing the division and reducing staffing as part of the division's budget reductions.

The Network Operations, Telephone Services, and Personal Computing units were restructured and assigned to one division, resulting in two FTE reductions. Educational Technologies Network consolidated with multimedia distribution services, resulting in the reduction of one FTE. PeopleSoft billing returned to Business Services with the reduction of two FTE. The above changes resulted in five FTE reductions effective July 1, 2011.

Due to consolidation of operations and greater use of digital and web resources, Library Services relocated to the Education Center, a move that reduced building lease costs. In addition, TS reduced its budget for non-mandated services by 25 percent in FY 2011-12. This resulted in the reduction of non-salary hours and the elimination of six vacant FTE positions.

- **Technology Services Recommendation #8 (Page 84):** Develop timelines and actions for implementing critical portions of the Technology Master Plan such as the standardization of technology equipment.

Since July 1, 2011, TS began the first year of a multi-year implementation of the TMP. Division heads and their direct reports are now required to include appropriate sections of the TMP in their annual performance objectives.

- **Technology Services Recommendation #16 (Page 84):** Establish a plan and timeline for replacing and supporting the LACOE telephone system that ensures these tasks will be accomplished no later than 2015.

TS has established a timeline and identified requirements to develop an upgrade plan of LACOE's telephone system by FY 2014-15.

- **Technology Services Recommendation #17 (Page 85):** Establish a technology hardware and infrastructure replacement program and timeline

TS has developed and is now implementing a plan to conduct an inventory of all technology infrastructure (e.g., servers, switches, routers, storage system). Results of the inventory will help establish a replacement plan.

## CLOSING

This summary of operational and other changes at LACOE since FCMAT completed its fieldwork represents the beginning of a reform process. The Office takes to heart and embraces the recommendations offered, and will take full advantage of this opportunity to improve its effectiveness. The result will be an organization better able to serve students and enhance public education in Los Angeles County.