



# **Lake Elsinore Unified School District**

## **Fiscal Services Review**

January 8, 2009

Joel D. Montero  
Chief Executive Officer





**CSIS California School Information Services**

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January 8, 2009

Dr. Frank Passarella, Superintendent  
Lake Elsinore Unified School District  
545 Chaney Street  
Lake Elsinore, California 92530

Dear Superintendent Passarella:

In June 2008, the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for a fiscal services review with the Lake Elsinore Unified School District. The request specified that FCMAT would:

1. Conduct a review of the district's Fiscal Services Department procedures and operations and provide recommendations for improvements, if necessary, in the following areas:
  - Accounts Receivable
  - Accounts Payable
  - Budgeting and Accounting
  - Student Attendance Reporting
  - Payroll Services

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

Sincerely,

Joel Montero  
Chief Executive Officer

c: Sue Roberts, Director of Fiscal Services

**FCMAT**

Joel D. Montero, Chief Executive Officer

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# Foreword

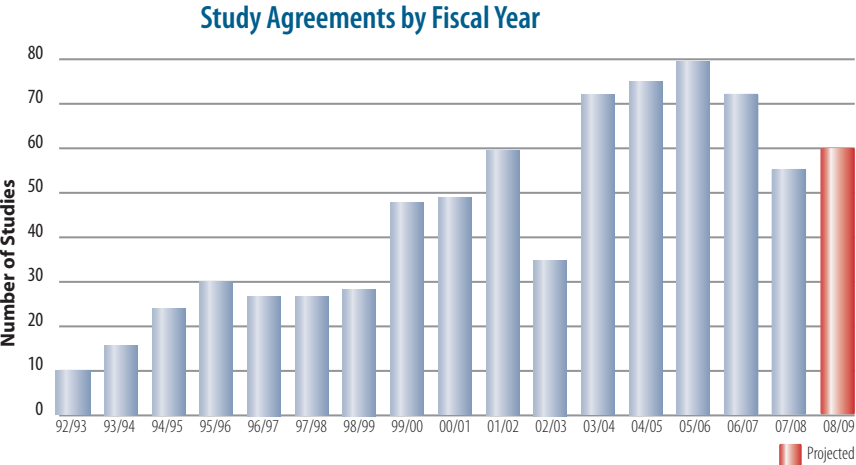
## FCMAT Background

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

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

Since 1992, FCMAT has been engaged to perform nearly 700 reviews for local educational agencies, including school districts, county offices of education, charter schools and community colleges. Services range from fiscal crisis intervention to management review and assistance. FCMAT also provides professional development training. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The agency is guided under the leadership of Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

<b>Total Number of Studies.....</b>	<b>711</b>
<b>Total Number of Districts in CA .....</b>	<b>982</b>
● Management Assistance.....	675 (94.9%)
● Fiscal Crisis/Emergency .....	36 (5.1%)
Note: Some districts had multiple studies.	
● Districts (7) that have received emergency loans from the state.	
(Rev. 7/30/08)	







# Introduction

Located in Riverside County, the Lake Elsinore Unified School District serves approximately 22,000 kindergarten through 12th grade students. The district also operates an adult education program. The district's enrollment has increased annually since 1993-94. However, based on the preliminary October 2008 CBEDS count, the district's enrollment is projected to decline for the first time in 15 years in the 2008-09 fiscal year.

In May 2008 the Fiscal Crisis and Management Assistance Team (FCMAT) received a request for management assistance from the district. The study agreement specifies that FCMAT will complete the following:

1. Conduct a review of the district's Fiscal Services Department procedures and operations and provide recommendations for improvements, if necessary, in the following areas:
  - Accounts Receivable
  - Accounts Payable
  - Budgeting and Accounting
  - Student Attendance Reporting
  - Payroll Services

## *Study Guidelines*

FCMAT visited the district on September 15-17, 2008 to conduct interviews, collect data and review documentation. This report is the result of those activities and is divided into the following sections:

- Executive Summary
- Internal Controls
- Accounts Receivable
- Accounts Payable
- Budgeting and Accounting
- Student Attendance Reporting
- Payroll Services
- Appendices

### ***Study Team***

The FCMAT study team was composed of the following members:

Diane Branham  
Fiscal Intervention Specialist  
Fiscal Crisis and Management  
Assistance Team  
Bakersfield, California

Margaret Rosales  
FCMAT Consultant  
Kingsburg, California

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

Laura Haywood  
Public Information Specialist  
Fiscal Crisis and Management  
Assistance Team  
Bakersfield, California

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

## Executive Summary

The Lake Elsinore Unified School District's Fiscal Services Department provides budget, payroll, and accounting services to all district sites and departments. The department consists of five sections: accounts receivable, accounts payable, budgeting and accounting, student attendance reporting, and payroll services. In an effort to continually enhance its processes and procedures, the district asked FCMAT to conduct a review of the Fiscal Services Department and provide suggestions for possible improvements.

### *Internal Controls*

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

One component of a good internal control system is to ensure that more than one employee is trained in each area of responsibility. Some key functions in the Fiscal Services Department appear to have had minimal or no cross-training. The district could be at risk because other employees have not been cross-trained in some of the functions on these desks.

### *Accounts Receivable*

Additional procedures need to be implemented that provide for appropriate segregation of duties for invoicing and the receipt and recording of cash. Currently, one employee is responsible for preparing invoices, collecting cash, coding transactions to the appropriate accounts in the Galaxy system, and preparing and making bank deposits.

A more formal process should be implemented for handling small amounts of cash. Department and site personnel should ensure that they receive and reconcile receipts from the district office to confirm all funds sent to the district office for deposit have been deposited.

The district should ensure that the bank used for district and school site accounts provides drop box services for deposits after regular banking hours.

### *Accounts Payable*

Proper internal control procedures should prevent the same person from initiating, processing and mailing transactions. The district's current system presents an internal control weakness by allowing the A/P clerk custody of the warrants once they have been issued by the Riverside COE. The Fiscal Services Department should change this procedural step so that custody of warrants does not return to A/P clerks after warrants are issued.

The district should consider implementing cost saving measures such as use of the waiver of the transient occupancy tax and state government rates for hotels for employees traveling on school business. Although the district requires receipts for meal reimbursements, its per diem rate for meals is \$50, which is higher than some of the amounts listed for California cities in IRS Publication 1542. The district should discuss its procedures with its independent auditor and ensure they comply with the IRS regulations.

The use of credit cards must be monitored closely to ensure conformity to proper policies and procedures. Before a district credit card (Cal-Card) is given to an employee or board member, the district should execute an agreement with each person to acknowledge receipt of the card and the district's terms for use and reimbursement procedures. The district should consider requiring purchase orders to be issued and approvals to be obtained prior to Cal-Card usage, and reducing the monthly transaction limits.

The district's Administrative Regulation 3300 sets the limit for the purchase of equipment, materials, or supplies at \$21,000. The district should review this policy and consider revising it to reflect the higher bid limit allowed by law.

The district should provide additional training to school site personnel responsible for ASB accounts to make sure they understand the regulations and timelines that affect the reporting of sales and use tax and consultant/independent contractor payments. Periodic district audits of the ASB funds should be conducted to ensure compliance.

The district utilizes the Galaxy software program provided through the Riverside COE to process its vendor payments for every fund except the cafeteria fund because the Galaxy system does not easily provide for profit and loss reporting. The Food Services Department utilizes Quick Books for its financial activities, and payments are processed by a department clerk. Journal entries are then completed to reflect the payments in the Galaxy system. The district should consider converting the Food Services Department to the Galaxy system and revise its procedures so that custody of warrants does not return to the food services clerk for mailing or further processing once they are issued.

### ***Budgeting and Accounting***

The district should investigate a more streamlined, time-effective process to produce the annual Budget Book. The district should also review its budget and board meeting calendars to determine if a later date in June could be used for budget adoption to allow additional time for budget revisions following the Governor's May Revise.

The district should consider including additional charts and graphs in the Budget Book to depict year-over-year trends in key areas such as net ending balances and funds/programs that require a contribution from the general fund. District staff should provide additional training to the Governing Board regarding the budget development process, state budget deadlines, reasons for budget changes throughout the year, and how to interpret budget documents.

Budgets for redevelopment agency (RDA) revenue and charter schools' in-lieu taxes should be consistently reported on all state budget documents. The district should ensure that it consistently reports the RDA revenue in the proper accounts to ensure that the appropriate percentage is being applied to the revenue limit offset.

The district utilizes two databases for position control. The Fiscal Services and Personnel Services departments must enter information into both systems, thus doubling the time spent in initial data entry. Both systems must be balanced monthly, which is labor-intensive and costly. The district should convert to one system for position control that integrates with the budget and payroll modules of Galaxy.

The district's October 14, 2008 estimated cash flow statement projects the June 2009 general fund cash balance at negative \$779,000. The district should pay careful attention to and monitor its general fund cash flow monthly to ensure that cash needs are met. The district also should comply with Education Code 42603 when borrowing between funds.

It was reported that the district's independent auditors are preparing the GASB 34 conversion entries as well as a portion of Forms ASSET and DEBT for the district. Preparation of these items is considered a management function and may impair the auditor's independence in providing auditing services. The district should consult with its auditors to review this process and ensure that government auditing standards are being followed.

### ***Student Attendance Reporting***

The SASI student information and attendance system utilized by the district is being phased out by and will soon have limited support from the software vendor. The district currently plans to implement a new system in 2010. Based on the anticipated decline in vendor support and limited in-house staff resources, the district should consider implementing the new student information system sooner.

An attendance technician position has been approved by the Governing Board but has been left unfilled due to the current budget issues. The district should consider moving forward with filling the position, which should help pay for itself by reducing and/or eliminating the need for overtime and temporary part-time help. With the addition of a staff member, more cross-training should occur in the areas of student attendance and ASB accounting and more internal auditing functions and mandatory site training could be provided for the ASBs.

### ***Payroll Services***

The district should consider using the Galaxy system for employee attendance tracking and post the leave balances on the employees' monthly pay stubs. This should reduce staff time spent responding to phone inquiries for updated leave information.

The current pay cycle for certificated staff and a delay in receiving updated information from the Personnel Services Department on time were noted as concerns. Returning certificated staff members are paid beginning in July for a work year that begins in August. This leads to overpayments. The district should consider working with the certificated bargaining unit to adjust the monthly payroll cycle to more closely align with the work year. The district should also ensure that timelines for submission of payroll data are followed.

Payroll warrants are processed by the Riverside COE and returned to the district for distribution. The payroll technicians responsible for month-end payroll sort the checks by site and prepare them for delivery. Proper internal controls and separation of duties should prevent the same person from initiating and distributing payroll warrants. This process should be reviewed and adjustments made.

Monthly meetings between Personnel Services and Payroll staff members have resumed recently and representatives of the two departments are meeting to discuss personnel issues after each district board meeting. These meetings should continue to ensure effective communication. The departments should work to solidify the timelines necessary for providing employee information, such as resignations, to the payroll staff.

# Findings and Recommendations

## Internal Controls

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

All educational agencies should establish internal control procedures to: (1) prevent internal controls from being overridden by management, (2) ensure ongoing state and federal compliance, (3) provide assurance to management that the internal control system is sound, (4) help identify and correct inefficient processes and (5) ensure that employees are aware of the proper internal control expectations.

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

- **System of checks and balances.** Formal procedures should be implemented to initiate, approve, execute, record and reconcile transactions. The procedures should identify the employee responsible for each step and the time period for completion. Key areas of checks and balances include payroll, purchasing, accounts payable and cash receipts.
- **Segregation of duties.** Adequate internal accounting procedures must be implemented and necessary changes made to segregate job duties and properly protect the district's assets. No single employee should handle a transaction from initiation to reconciliation and no single employee should have custody of an asset (such as cash or inventory) and maintain the records of related transactions.
- **Staff cross-training.** There should always be more than one person able to perform a job. All staff should be required to use accrued vacation time, during which time another staff member performs those duties. Inadequate cross-training is often a problem even in the largest central business offices.
- **Use of pre-numbered documents.** Checks, sales/cash receipts, purchase orders, receiving reports and tickets should be preprinted by an outside printer. Physical controls should be maintained over the check stock, cash receipt books and tickets. It is not sufficient to simply use pre-numbered documents. A log of the documents and numbers should be maintained and reconciliation performed periodically.
- **Asset security.** Cash should be deposited daily, computer equipment should be secured, and access to supplies/stores, food stock, tools and gasoline should be restricted to designated employees.

- **Timely reconciliations.** Bank statements and account balances should be reconciled monthly by a person independent from the original transaction and recording process. For example, a central office accountant should reconcile ASB accounts every month and the district office employee reconciling the revolving checking account should not be the same person who maintains the check stock.
- **Comprehensive annual budget.** The annual budget should include sufficient detail for revenues and expenditures (by school site, department and resource) to identify variances and determine whether financial goals were achieved. Material variances in revenues and expenditures should be investigated promptly and thoroughly. This includes ensuring that potential revenues and expenditures for ASB funds are identified at the start of each year.
- **Inventory records.** Inventory records should be maintained that identify both the items and quantities purchased and the items and quantities surplus/sold. Periodic physical inventory should be taken and reconciled with inventory records. Typical inventoried items include computer equipment, warehouse supplies, food service commodities, maintenance and transportation parts and student store goods.

Minimal or no cross training appears to be occurring with some key functions in the Fiscal Services Department. Examples include some of the tasks associated with student attendance and ASB accounting. These tasks are essential to operations, and the district could be at risk because other employees have not been cross-trained in these functions.

Desk procedure manuals are important to ensure proper internal controls and provide for a better process and understanding of position responsibilities. The Fiscal Services Department does have procedures manuals that include step-by-step procedures for some of the job duties, and screens that outline the steps for processing transactions in the Galaxy system. However, the district should include additional information in the desk manuals, such as step-by-step procedures outlining all the duties for which staff members are responsible.

## Recommendations

*The district should:*

1. Ensure that solid internal control processes are in place and that employees are cross-trained in all key areas of responsibility.
2. Ensure that each employee includes the step-by-step procedure for all assigned duties in their desk manual.



## Accounts Receivable

The accounts receivable section of the Fiscal Services Department consists of one employee. This employee is responsible for preparing invoices, collecting cash, coding transactions to the appropriate accounts in the Galaxy system, and preparing and making bank deposits. A sound internal control structure requires job duties to be segregated to properly protect the district's assets. No single employee should handle a transaction from initiation to reconciliation and no single employee should have custody of an asset (such as cash) and maintain the records of related transactions.

Additional procedures need to be implemented that provide for appropriate segregation of duties for the receipt and recording of cash. As an example, the employee that opens the mail could make a control list of all receipts and endorse all checks received "for deposit only." Marking the checks "for deposit only" would help to prevent unauthorized endorsement of checks prior to deposit. Once the funds have been processed and deposited to the bank by accounts receivable, a separate employee should compare the deposit slips to the control list to ensure all funds have been deposited.

The facilities department is responsible for collecting developer fees, and the risk management office is responsible for collecting health insurance premiums from retirees. The Transportation Department collects transportation fees. The district reported that funds are double counted by the departments and then forwarded to accounts receivable for deposit. The departments should also reconcile receipts from the district office to confirm that all funds have been deposited.

School sites are allowed to send cash in amounts of \$25 or less to the district office through the regular district mail process. This procedure should be stopped and a different method implemented for cash collections from the sites to safeguard cash. For example, the mail courier could obtain the cash from the site secretary in a separate bag and sign a receipt for pickup. When delivering the mail to the district office, the courier should take the deposit bags directly to the staff member assigned for processing. Site personnel should also ensure that they receive and reconcile receipts from the district office to confirm that all funds have been deposited.

The district utilizes a clearing account at a local bank to deposit funds until the funds can be transferred to the county office. The current weekly deposits to the clearing account are scheduled for transfer to the county office the following day. If receipts are significant, the district should ensure that daily rather than weekly bank deposits are made.

Board Policy 3450 states, "All banks used by the schools shall provide for bank deposits after regular banking hours in order to avoid leaving money in school overnight." In keeping with the policy, the district should ensure that the bank used for the district and school accounts provides drop box services.

## Recommendations

*The district should:*

1. Provide a system of checks and balances so that no single employee handles a transaction from initiation to reconciliation, or has custody of an asset and also maintains the records for the related transactions.
2. Separate duties in the invoicing and cash receipts process.
3. Endorse all checks received “for deposit only.”
4. Discontinue the process of sending cash through the regular district mail and implement a separate method for cash collections from the site.
5. Ensure that site and department personnel reconcile receipts from accounts receivable to confirm that all funds have been deposited.
6. Ensure that daily rather than weekly deposits are made, if receipts are significant, to further safeguard assets.

## Accounts Payable

The accounts payable section of the Fiscal Services Department has four staff members. The accounts payable duties are separated alphabetically by employee as follows:

- A-K
- L-R, partial S
- Partial S, T-Z, Contracts, Credit Cards
- Conferences, Utilities

The assigned duties rotate among employees approximately every two years.

### *Processing Warrants*

The district's Board Policy 3314 allows the Superintendent or designee to pay invoices in excess of previously approved purchase order amounts without further board approval when the excess amount is sales tax, transportation charges or charges made for the detention of a shipment during loading or unloading. The board policy does not reference a specific dollar amount. The Fiscal Services Department allows invoices to be processed without further board approval if the invoice amount does not exceed \$50 of the original purchase order amount. The overage may be due to sales tax, transportation charges or shipment detention charges, or it could be due to incorrect pricing in the purchase order. The district should either conform its practice of processing invoices to its current board policy or revise the board policy to reflect actual practice.

The district's warrants are processed by the Riverside COE. Once the COE has issued the warrants, they are returned to the district for further processing, mailing and/or distribution. The A/P clerks match the warrants received to the batch list and provide the warrants and a copy of the batch list to the Business Department secretary for mailing. Should a warrant require further processing, such as delivery instead of mailing or items that need to be attached to the warrant for the vendor to properly apply the payment, a note is made on the front of the warrant and it is returned to the A/P clerk. Utilization of the concepts of internal control and separation of duties should prevent the same person from initiating, processing and mailing transactions. It should also prevent that same person from posting the transaction into the accounting records. The district's current system presents a control weakness by allowing the A/P clerk custody of the warrants once they have been issued by the Riverside COE. There is no control in place that would detect whether the A/P clerk processes the warrant as noted. The Fiscal Services Department should review this procedural step and make adjustments so that custody of warrants does not return to A/P clerks after warrants are issued.

## *Conference Forms*

The district uses a Request to Attend Workshop/In-Service/Training form for employees wishing to attend conferences, trainings and workshops. This form serves as both the authorization to attend and as a purchase order to capture and encumber the costs associated with the event. Many districts implement cost saving procedures such as requiring two employees of the same gender to share rooms if overnight accommodations are necessary, and to share automobile transportation if multiple people are attending the same event. The form utilized by the district does not provide sufficient information regarding other employees attending to ensure that cost savings are utilized. The district should consider revising the Request to Attend Workshop/In-Service/Training form to include information on other employees attending workshops to maximize the possible savings presented from multiple people attending the same event.

Employees of the district are considered government employees, so hotels may allow the waiver of the transient occupancy tax. Utilizing this waiver can result in a substantial savings for the district over the course of a fiscal year. When making hotel reservations, employees should ask whether the hotel will allow a waiver. If so, a Hotel/Motel Transient Occupancy Tax Waiver Exemption Claim for Governmental Agencies form (see Appendix A to this report) should be faxed to the hotel or taken with the attendee for use at time of arrival. The district should modify its procedures to require the employee making hotel reservations to inquire about the hotel's policy regarding waiver of the transient occupancy tax and should provide the form to employees for use where the waiver is granted.

Many hotels also offer a state government rate to employees of local education agencies when traveling for school business. The district should implement procedures to ensure that the employee making hotel reservations inquires about and obtains this discounted rate when available.

Per IRS Revenue Ruling 2006-56 (dated November 13, 2006), organizations are required to properly track and record employee per diem meal reimbursements. Those per diem reimbursements higher than the federal per diem rates must be included as gross wages on the employee's W-2. Additionally, per diem rates cannot be used for non-overnight travel. Actual receipts are required but may be subject to district policy as to the maximum dollar amount applicable per type of meal. Federal per diem rates are set in Table 4 of IRS Publication No. 1542 at \$39 per day to all locations unless specifically listed in that publication. The district has a per diem rate of \$50 per day and requires itemized receipts for all meal reimbursements. Because the per diem rate is higher than the rate for some of the California cities listed in Publication 1542, the district should confer with its independent auditors to determine if its procedures comply with IRS regulations.

## *Credit Cards*

The typical purpose of issuing credit cards to employees is to assist them in purchasing from vendors who may not accept purchase orders, or to expedite a purchase such as the registration fees for a conference. Credit card purchases should be accompanied by a purchase order (for encumbrance) and receive prior approval. The district issues credit cards (Cal-Cards) to all of its board members, the superintendent, assistant superintendents and executive directors, with transaction limits ranging from \$5,000 to \$10,000 per month. When the card is initially given to an employee or board member, it is accompanied by the standard information issued by Cal-Card. The superintendent reviews each monthly statement and the board president reviews the superintendent's monthly statement. While credit cards provide flexibility in purchasing, some educational agencies have experienced misuse. The use of credit cards must be monitored closely to ensure conformity to proper policies and procedures. The district should develop a user agreement and execute it with each person before issuing a district Cal-Card. The agreement should require the employee to acknowledge receipt of the card and agree to the district's terms for use and reimbursement procedures (see example in Appendix B to this report). The district should also consider requiring purchase orders to be issued and approvals for purchases over a specific dollar amount to be obtained prior to Cal-Card usage. The district should consider reducing the monthly transaction limits to strengthen internal controls and reduce exposure to unauthorized expenditures.

## *Cell Phones*

The IRS has defined employer issued cellular phones as "listed property" (IRS Code Section 280F (d)), which are items obtained for business purposes that lend themselves easily to personal use. Listed property includes such items as automobiles, computers, entertainment or recreation-related items. Cellular phones were added to this list in 1989. If the cell phone is used exclusively for business purposes, all use is excluded from the employee's gross income. If a portion of the phone usage is for personal calls, the employee must maintain records of the calls so that they can be separated between business and personal use. Personal call charges as well as a portion of the cell phone's monthly service charge are to be included in the gross income of the employee or the employee may reimburse the employer monthly to avoid inclusion in W-2 wages (IRS Code Section 274).

The district issues cellular phones to various employees to conduct district business during both business and non-business hours and allows employees who are issued district cell phones to use those phones for personal calls. The district requires each person issued a district cell phone to annually complete a Personal vs. Business Use of Cell Phone form, which allows the employee to make one of three choices: (1) 100% of the district's cost of the cell phone plan is added to the employee's W-2 wages; (2) the cell phone is used for business only and no personal calls are made resulting in no additional amount added to the employee's W-2 wages; or (3) the phone usage is divided between

district/business use and personal use. If option 3 is selected, the employee determines the percentages to be applied and further certifies that appropriate records are maintained to document the division between business and personal use. The form should be revised to include a determination by the employee of whether they wish to reimburse the district monthly for the personal use or have the amount included in W-2 wages.

### ***Construction/Facilities Issues***

Many construction/facility issues are subject to bidding under Public Contract Code Section 20111. Those bidding limits are \$15,000 for public works projects and \$72,400 (for calendar year 2008) for equipment, materials, or supplies to be furnished, sold or leased to the district (Public Contract Code 20111, 20651, 22002). The limit attached to public works projects has not been adjusted for many years. However, the limit associated with equipment, materials or supplies is adjusted annually for inflation, with the new limit issued each December and effective the following January 1. The district's Administrative Regulation 3300 sets the limit for the purchase of equipment, materials, or supplies at \$21,000 and does not appear to have been updated since 1990. The district should review this policy and consider revising it to reflect the bid limit allowed by law rather than a set dollar amount.

Should disputes arise during the performance of a service or the delivery of goods, the district is allowed by Public Contract Code 9203 to make payments to the vendor of up to 95% of the value of the material delivered or services completed. While the district's Administrative Regulation 3314 follows the letter of the law, the district should consider revising this regulation to reflect that the district would make payment of up to 90% of the value of the material delivered or services completed to ensure a larger safety margin should disputes arise.

When purchase orders are prepared based on a separate agreement the district has entered into with a vendor, the executed contract should be attached to the purchase order. It was reported to FCMAT that executed copies of the agreement are not always attached to the purchase order and, at times, the agreement is not completed until an invoice has been issued. The district should revise its procedures to reflect that, when applicable, an executed contract must be in place before a purchase order is issued.

### ***Sales and Use Tax***

In general, retail sales of tangible personal property in California are subject to sales tax. Likewise, a use tax is applied to merchandise purchased without California sales tax and then used, stored, or otherwise consumed in California. The district is responsible for all sales and use taxes associated with purchases that are made on its behalf. This is a requirement whether it is the district or ASB clubs making the purchase, as ASB clubs are legally a part of the district. The most common example of a purchase subject to use tax is one made via the Internet from a vendor located outside of California. When an A/P

clerk encounters this situation, she will pay the vendor the invoiced amount and then set up a liability so that the sales/use tax can be paid via the Sales and Use Tax Return filed annually by the district. It was reported that this procedure is not being followed by the ASBs, and there are instances where the sales/use tax has not been paid. This puts the district at risk for interest and penalties should the State Board of Equalization investigate a particular transaction. The district should ensure that this topic is included in the training provided to ASB personnel and conduct periodic audits of the ASB funds to ensure compliance.

### *Consultants/Independent Contractors*

Effective January 1, 2001, California law requires any business or government entity that is required to file federal Form 1099-MISC for services received to also report specific independent contractor information to the Employee Development Department (EDD) on EDD Form DE 542. The information must be reported within 20 days of entering into a contract for \$600 or more; if there is no contract, within 20 days of when the payments total \$600 in any calendar year, whichever is earlier. The independent contractor information is used by the EDD to locate parents who are delinquent in their child support obligations. Should the EDD find that an independent contractor hired by the district is delinquent with child support, the EDD will notify the district regarding the steps to be taken regarding payment to the independent contractor. The district has not been timely in filing independent contractor information with the EDD and could incur a penalty of \$24 for each failure to comply within the required time frames. The district should revise its procedures to immediately file EDD Form DE 542 at the same time it enters into a contract with an independent contractor to avoid the penalties associated with failure to comply with filing deadlines. The district should ensure that this topic is included in the training provided to ASB personnel and conduct periodic audits of the ASB funds to ensure compliance.

### *Cafeteria Fund*

The district utilizes the Galaxy software program provided by the Riverside COE to process its vendor payments for every fund except the cafeteria fund (Fund 13). While the district discloses activity for the cafeteria fund in all of its required state reports, Fund 13 is not recognized in the district's Chart of Accounts. Instead of utilizing the Galaxy software program and making use of the oversight functions provided by the COE in processing and auditing warrants, the Food Services Department utilizes Quick Books for its financial activities because the Galaxy system does not easily provide for profit and loss reporting. Payments are processed by a department clerk. The clerk generates the checks from Quick Books, provides them to her supervisor to review and the supervisor signs the batch. The batch is then sent to the Fiscal Services Department where it is reviewed, the checks are signed by two employees (as they require dual signatures) and are sent back to the food services clerk for mailing. As with the accounts payable process outlined above, the concepts of internal control and separation of duties should prevent

the same person from initiating, processing and mailing transactions as well as posting the transaction into the accounting records. The district's current system presents a control weakness by allowing the food services clerk to process and mail the checks once the district has signed them. There is no control in place that would detect whether or not the food services clerk processes the check for mailing. The district should consider requiring the Food Services Department to convert to the Galaxy system to process its warrants and revise its procedures so that custody of warrants does not return to the food services clerk for mailing or further processing once they are issued.

## Recommendations

*The district should:*

1. Conform its practice regarding overages in processing invoices to its current board policy, or revise the board policy to reflect actual practice.
2. Review its warrant processing procedures to ensure that custody of warrants does not return to A/P clerks for further processing once they are issued.
3. Revise the Request to Attend Workshop/In-Service/Training form to include information regarding other employees attending workshops to facilitate the savings presented from multiple people attending the same event.
4. Modify conference attendance procedures to require the employee making hotel reservations to inquire about the hotel's waiver of the transient occupancy tax and provide a Hotel/Motel Transient Occupancy Tax Waiver Exemption Claim for Governmental Agencies form to employees when the hotel grants a waiver of the tax.
5. Implement procedures to obtain the state government rate discount when available for hotel accommodations.
6. Confer with its independent auditors to determine if its procedures comply with the IRS regulations regarding per diem meal reimbursements.
7. Obtain an executed agreement from each person issued a district Cal-Card acknowledging receipt of the card and agreeing to the district's terms for use and reimbursement procedures.
8. Consider requiring purchase orders to be issued and approvals for purchases over a specific dollar amount to be obtained prior to Cal-Card usage.
9. Consider reducing the monthly transaction limits on Cal-Cards to strengthen internal controls.
10. Revise the Personal vs. Business Use of Cell Phones form to include a determination by the employee whether he/she wishes to reimburse the district monthly for the personal use or have the amount included in W-2 wages.



11. Review AR 3300 and consider revising it to reflect the bid limit allowed by law rather than a set dollar amount.
12. Consider revising AR 3314 to reflect that the district would make payment of up to 90% of the value of the material delivered or services completed to ensure a larger safety margin should disputes arise.
13. Revise its procedures to reflect that, when applicable, an executed contract must be in place before a purchase order is issued.
14. Ensure that training at the ASB level includes information related to sales/use tax, and conduct periodic audits of the ASB funds to ensure compliance.
15. Revise its procedures to immediately file EDD Form DE 542 at the same time it enters into a contract with an independent contractor to avoid the penalties associated with failure to comply with filing deadlines.
16. Ensure that training at the ASB level includes information related to EDD Form DE 542, and conduct periodic audits of the ASB funds to ensure compliance.
17. Consider converting the Food Services Department to the Galaxy system to process financial transactions, and revise procedures so that custody of warrants does not return to the food services clerk for mailing or further processing once they are issued.



## Budgeting and Accounting

The budgeting and accounting section of the Fiscal Services Department consists of three employees; the director of fiscal services, the accounting supervisor and a senior accountant. The major duties of this section include staff supervision, budget development, position control, state reporting, purchase order review and approval, budget transfers and journal entries.

### *Budget Development Process*

The district adopts its annual budget within the statutory time lines established by Education Code Section 42127, which requires that on or before July 1, the Governing Board shall hold a public hearing on the budget to be adopted for the subsequent fiscal year. No later than five days after that adoption or by July 1, whichever occurs first, the Governing Board shall file that budget with the County Superintendent of Schools. The budget should reflect the district's goals and objectives that are developed annually and approved by the board. School district budgets are not static. Revenue, expense, and the estimated ending balance of each fund changes during the year because of items such as the state-adopted budget, changes in personnel and negotiation settlements.

The district provides the board with a lengthy and in-depth analysis of its budget. The Budget Book contains over 400 pages of information including charts, graphs, budgets for each of the district's schools and departments as well as for district-wide instructional, operational and development/construction components. The amount of detail contained in the Budget Book makes it an extremely time-intensive project, taking approximately two weeks to complete. The budgets presented require hand entry to convert the information from the Galaxy system reports to Excel spreadsheets. The 2008-09 budget development calendar requires the Budget Book to be available for public review within a few days after the Governor's May Revise and subsequent adoption by the Governing Board in early June. The short amount of time between the May Revise and the deadline for public inspection increases the risk of errors in the budget.

The district's 2008-09 adopted budget projects general fund revenue at \$164.3 million. A cursory review of the 2008-09 budget development documents revealed some errors, including the use of incorrect global variables for calculating the district's revenue limit, community day school and adult education. This resulted in the state aid portion of the revenue limit being underreported by \$3,970, community day school funding being overreported by \$45,649 and adult education funding being underreported by \$1,438. In addition, the state-wide excused absence factor was not applied to the restricted portion of Lottery funding, resulting in approximately \$15,000 of anticipated revenue that was not included in that resource. While some of these errors are not material to the district's total budget, changing the board meeting to a date later in June would provide additional time for completion of budget adjustments following the Governor's May Revise and should help to provide the most up-to-date information in the budget document.

The district should investigate a more streamlined, time-effective process in producing the Budget Book, such as programming Excel spreadsheets to automatically populate from Galaxy information. The district should also review its budget and board meeting calendars to determine if a later date in June could be used for budget adoption to allow additional time for budget revisions after the Governor's May Revise. District staff should include topics in the annual training provided to the board such as: the budget development process, state budget deadlines, typical reasons for budget changes throughout the year, and how to interpret budget documents, including the state-required budget forms.

Recognizing budget trends is essential in maintaining the fiscal health of a school district. The Budget Book includes charts and graphs depicting budget year expenditures, enrollment history and projections, and average daily attendance (ADA) history. The district should consider including additional charts and graphs to depict year-over-year trends in key areas such as net ending balances for both the unrestricted and restricted general fund, net change in the ending balance/deficit spending for both the unrestricted and restricted general fund, special education encroachment and any other programs or funds that require a contribution from the general fund.

During 2007, the State Controller's Office began conducting audits of school districts' reporting of redevelopment agency (RDA) funds. Those audits found that the percentage of the RDA funding received by school districts that is subject to revenue limit offset was not always reported correctly, and that some districts were not receiving all the RDA funds they are entitled to receive. When either of these situations occur, the state's cost to backfill its portion of the revenue limit is greater than it should be. The district has retained the Dolinka Group to ensure that it is collecting its full share of RDA funding and that it is divided, when applicable, pursuant to Health and Safety Code Section 33607.5(a)(4)(A) and Education Code Section 42238(h)(6). The district should ensure that it consistently reports the RDA revenue in the proper accounts. For the portion of RDA payments received that are subject to revenue limit offset, the correct object code is 8047, Community Redevelopment Funds. For the portion of RDA payments received that are not subject to revenue limit offset, the appropriate object code is 8625, Community Redevelopment Funds Not Subject to Revenue Limit Deduction. RDA funds should be consistently reported on all state budget documents, including Form RL.

It was also noted that charter schools' in-lieu taxes were reported on the 2007-08 second interim report, Form 01 and Form RL, but were not reported on the 2007-08 unaudited actuals, Form 01 and Form RL. Charter schools' in-lieu taxes should be consistently reported on all state budget documents.

### ***Position Control***

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

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

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

The district currently utilizes two position control systems: FileMaker, which provides more of the functions needed by the Personnel Services Department and Galaxy, which meets the needs of position control and the Fiscal Services Department. Both departments must enter information into both systems, thus doubling the time spent in initial entry of data. FileMaker generates an authorized position control number for each position; Galaxy assigns a type-title sequence number for each position; and both systems allow usage of employee numbers. In addition to the large amounts of time spent by the Fiscal Services and Personnel Services departments to maintain these two systems, both departments must spend extraordinary amounts of time monthly to balance FileMaker to Galaxy and vice versa. The district should convert to the use of one system for position control that integrates with the budget and payroll systems.

### ***Budget Monitoring***

The Education Code states that amounts budgeted in each major object category shall be the maximum amount that can be expended under each classification. Budgets should be monitored and adjustments made during the fiscal year to ensure that appropriations are not overspent and that revenues received and expenditures made are the same as projected. If revisions need to be made, they are subject to board approval. The budget should be reviewed and updated monthly to reduce the chance of overspending. The review should be at both the resource and object levels to ensure the district knows its

projected fund balance at any given time. Budget transfers, adjustments and journal entries should be completed monthly.

An encumbrance is a commitment to purchase goods and services, including salary and employee benefit obligations. Encumbrances are a major source of budgetary control and are important in preventing overspending of an appropriation and budget line. They are also an excellent way to monitor budgets to ensure that monies that have been committed are protected from being spent in any other manner. Encumbrances are key to providing a full picture of the district's finances. Encumbering payroll (salary and benefits) is also essential so that any differences between position control and payroll are readily recognized. Statutory and health and welfare benefits should follow the salary accounts for each employee to ensure that each program is charged correctly.

Revenues and expenditures for categorical programs should be reviewed and evaluated in the same manner as the unrestricted general fund. Categorical program budget development should be integrated with the district's goals and used to address student needs. Deferred revenue and fund balances of categorical programs should be similarly monitored to avoid spending unrestricted dollars while restricted dollars remain idle, and to ensure that time limitations for the deferred revenue or fund balance are not violated. It is important to ensure that funds are specifically allotted to cover expenditures that are consistent with categorical funding guidelines and restrictions. Categorical funding should be spent in the year it is earned whenever possible. In some cases there is a plan in place for carryover to be used for a large future purchase. These types of exceptions should be approved by district administration, and sites should understand that carryover of large restricted balances is an exception.

The school sites and departments are provided online access to the Galaxy system and are able to run budget reports as needed for monitoring purposes. The district provides some site training as well as a CD that contains training information regarding Galaxy. The district office has started sending monthly budget reports to the sites this fiscal year. District office personnel also conduct a "site blitz" whereby they visit one site per week and provide hands-on training if needed. This appears to be well received and has helped to open the lines of communication.

In reviewing the deferred revenue and fund balances contained in the 2007-08 Form CAT from the unaudited actuals, FCMAT noted that while there was a reduction in the carryover/fund balances in some programs, other program balances had increased significantly since 2006-07 (see Form CAT Analysis below). For example, the district reports a \$193,200.96 increase in the carryover balance in Title II, Part A. This program is part of the list of federal programs that allow funding to be transferred in or out to better align resources to the district's needs. If the district's technology needs are not being met, the district might consider taking advantage of the federal flexibility rules and transfer funds from Title II, Part A to Title II, Part D. It should be noted that non-Program Improvement districts have greater federal flexibility options available than do Program Improvement districts.

**LAKE ELSINORE UNIFIED SCHOOL DISTRICT  
2007-08 FORM CAT ANALYSIS**

**RESOURCES WITH INCREASING DEFERRED REVENUE/CARRYOVER BALANCES**

<u>Resource</u>	<u>Program Name</u>	<u>Beginning Carryover Balance</u>	<u>Ending Carryover Balance</u>	<u>Carryover Increase</u>
3386	Special Education Quality Assurance	\$ 9,183.00	\$ 31,466.80	\$ 22,283.80
3550	Veal IIC	\$ -	\$ 15,964.81	\$ 15,964.81
4035	Title II Part A	\$ 447,613.46	\$ 640,814.42	\$ 193,200.96
4045	Title II Part D	\$ 1,851.00	\$ 25,324.27	\$ 23,473.27
4050	CAMSP	\$ 353,717.61	\$ 906,120.98	\$ 552,403.37
4110	Title V	\$ 44,929.22	\$ 63,516.50	\$ 18,587.28
4201	Title III	\$ 4,446.60	\$ 62,082.42	\$ 57,635.82
5810	Arts Linc	\$ 49,809.12	\$ 56,291.67	\$ 6,482.55
6020	CSIS	\$ -	\$ 113,939.23	\$ 113,939.23
6340	Neil Soto	\$ -	\$ 6,237.69	\$ 6,237.69
7386	Fiscal Solvency Plans	\$ -	\$ 6,172.11	\$ 6,172.11
<b>TOTAL</b>				<b>\$ 1,016,380.89</b>

**RESOURCES WITH INCREASING FUND BALANCES**

<u>Resource</u>	<u>Program Name</u>	<u>Beginning Fund Balance</u>	<u>Ending Fund Balance</u>	<u>Fund Balance Increase</u>
5640	Medi-Cal	\$ 35,976.88	\$ 125,812.89	\$ 89,836.01
6050	Pre-Kinder	\$ -	\$ 49,359.04	\$ 49,359.04
6258	PE Teacher Incentive Grant	\$ -	\$ 136,660.15	\$ 136,660.15
6286	ELAP	\$ 215,209.81	\$ 248,130.82	\$ 32,921.01
6300	Lottery Materials	\$ 290,774.30	\$ 874,644.24	\$ 583,869.94
6377	Career Tech. Ed Equip/Supplies	\$ -	\$ 6,256.40	\$ 6,256.40
6760	Arts & Music Grant	\$ 233,629.94	\$ 423,487.95	\$ 189,858.01
7056	CASHEE Intervention	\$ -	\$ 6,997.15	\$ 6,997.15
7080	Supplemental School Counselors	\$ 585,500.51	\$ 726,069.81	\$ 140,569.30
7090	EIA	\$ 1,066,714.89	\$ 1,216,897.88	\$ 150,182.99
7140	GATE	\$ 111,056.01	\$ 165,846.29	\$ 54,790.28
7157	Supplemental Materials - EL	\$ 2,396.00	\$ 90,539.87	\$ 88,143.87
7271	PAR	\$ -	\$ 34,553.61	\$ 34,553.61
7390	Pupil Retention Block Grant	\$ 81,260.29	\$ 130,077.38	\$ 48,817.09
7395	SLBG	\$ 328,418.48	\$ 449,388.79	\$ 120,970.31
9012	CFD Formation	\$ 19,156.76	\$ 36,230.99	\$ 17,074.23
<b>TOTAL</b>				<b>\$ 1,750,859.39</b>

The 2007-08 Form CAT also reflects that the district is not using its mega-item and AB 825 block grant flexibility transfer options to the fullest extent allowed, particularly in the Agricultural Vocational Incentive Grant, Gifted and Talented Education, Peer Assistance and Review, and the School and Library Improvement Block Grant. The district should review its categorical programs to ensure that restricted dollars are being used to the greatest degree possible and determine whether further utilizing the federal, mega-item and AB 825 block grant flexibility options would provide additional funding flexibility.

### *Cafeteria Fund (Fund 13)*

While the district discloses activity for the cafeteria fund in all of its required reports, Fund 13 is not recognized in the district's Chart of Accounts. All positions that should be coded to Fund 13 are first coded to the restricted portion of the general fund (Fund 06). This causes manual entries to have to be made in budgets and actual expenses to properly reflect the budgets and activities of both funds. In reviewing various comparison spreadsheets used by the district to identify variances between the projected budget and expenses at first interim, there were \$2,166,461 in salaries and benefits that were incorrectly assigned to Fund 06 that belonged to Fund 13. Additionally, the Food Services Department's use of the Quick Books software program causes the district to have to manually charge the department for payroll expenses at each payroll cycle and the Food Services Department to write a check back to the district for those salaries and benefits. The district should consider requiring Food Services to convert to the Galaxy system to process all its financial transactions to alleviate the manual transfer of budget and actual expenses into the cafeteria fund and provide more accurate reporting.

The financial reports issued by the district and the audited financial statements prepared by the district's independent auditors have each identified a cafeteria fund. However, each is reporting it as a different type of fund. The district reports it as a special revenue fund and the auditors report it as an enterprise fund. Pursuant to the California School Accounting Manual, a cafeteria special revenue fund receives its principal revenues from Child Nutrition Programs (both state and federal), food service sales, interest and other local revenue and is "...used only for those expenditures authorized by the Governing Board as necessary for the operation of the LEA's food service program" while a cafeteria enterprise fund should be used "...only if the LEA's Governing Board intends to operate its cafeteria program in a manner similar to that employed by private business enterprises and to fully recover all costs of providing services, including depreciation of capital assets" even though its primary source of funding comes through child nutrition programs. The district should examine its intentions toward the cafeteria fund and, in conjunction with its auditors, determine on which basis the fund is to be operated so that both the district and its auditors are in agreement on the type of fund to be used.

### *Capital Facilities/Developer Fee Fund (Fund 25)*

Pursuant to Education Code Sections 17620-17626, a capital facilities fund otherwise known as the developer fee fund (Fund 25) is used primarily to account for funds received from fees levied on developers or other agencies as a condition of approving a development. Expenditures from this fund are limited to the purposes specified in Government Code Sections 65970-65981 or to specified items contained in agreements with developers (Government Code Section 66006). Several positions are charged to this fund. The district should review the duties assigned to these positions to determine if they are being charged appropriately. The district is allowed to charge up to 3% of the annual developer fees collected for administrative costs and transfer those funds into the general fund. It does not appear that the district currently makes this transfer.



## *Cash Flow Statements*

Following FCMAT's on-site review, the district provided a cash flow statement for the general fund dated October 14, 2008. The statement projects a negative cash balance of \$779,000 in June 2009.

The district should pay careful attention to and monitor its general fund cash flow monthly. The economic crisis at the state and national levels and the continued cash deferrals and shifts passed on to school districts by the state make this task extremely important. Pursuant to Administrative Regulation 3110 and Education Code Section 42603, the district must ensure that all loans between funds are repaid within statutory time lines. The October 14, 2008 cash flow reflects a loan of \$500,000 made in July to another fund, but it is not projected to be repaid by June 30, 2009. District staff members reported that this is an annual loan made to the Child Development Fund and will be repaid by June 30.

## *Interim Reports*

Pursuant to Education Code Section 42130 and 42131, school districts are required to "... submit two reports to the governing board of the district during each fiscal year. The first report shall cover the financial and budgetary status of the district for the period ending October 31. The second report shall cover the period ending January 31. Both reports shall be approved by the district governing board no later than 45 days after the close of the period being reported." It was noted that the district's Governing Board did not approve the 2007-08 second interim report until its March 20, 2008 meeting. The district should review its annual board meeting calendar to ensure that interim reports are submitted to the board by the deadlines prescribed in the Education Code.

FCMAT found in its review of the 2007-08 first interim report that the amounts used in the column titled Board Approved Operating Budget did not match the adoption budget. Unless the district's board has approved another budget between budget adoption and the first interim report, budget adoption numbers should be reflected in the Board Approved Operating Budget column. In the 2007-08 second interim report, FCMAT found that the amounts used in the column titled Board Approved Operating Budget did not match the projected year totals approved in the first interim report. Unless the district's board has approved another budget between the first and second interim reports, first interim projected year totals should be reflected in the Board Approved Operating Budget column of the second interim report. The district should carefully review the amounts reported in the Board Approved Operating Budget column of its reports to ensure that the last board-approved budget is reflected.

FCMAT's review of the district's cash flow analysis for both the 2007-08 first and second interim reports found that the cash flow did not reflect the same revenue, expenditure and net increase/(decrease) in fund balance totals as reflected in Form 01, thereby giving

an inaccurate picture of the district's cash flow. The district should carefully review the revenue, expenditure and net increase/(decrease) in fund balance amounts reported in its cash flow statements to ensure that they match the numbers reflected in Form 01.

### *Unaudited Actuals*

Pursuant to Education Code Section 42100, by September 15, the governing board of each district shall approve a statement of all receipts and expenditures of the district for the preceding fiscal year. This statement of all receipts and expenditures of the district for the preceding fiscal year and an estimate of the district's total expenses for the current year is also known as the unaudited actuals report, which is filed with the county superintendent's office and the California Department of Education. This report is also the basis on which the district's independent auditors start their review of the district's books to issue their audited financial statements. In the 2007-08 unaudited actuals report, the columns for the 2008-09 budget contained zeros. The district should consider including the budget year information in future unaudited actuals reports so that the Governing Board is apprised of how the prior year ending fund balances affect the budget year and can compare the prior year totals to the current year budget information.

The 2007-08 unaudited actuals and other accounting spreadsheets provided by the district revealed that the amounts billed to the T.E.a.M. Transportation co-op members do not balance with the amount reported on Form TRAN, Schedule II, Item I. Additionally, the Form TRAN reports in Schedule II, Item D that payments are being made for the purchase of buses. The portion of those payments that relate to bus payments for the transportation of the district's students should be entered in Form TRAN, Schedule III, Item D.1.; however, that cell is blank. This omission causes the cost per mile, cost per pupil and approved transportation expense lines of Form TRAN to be overstated. The district should carefully review the information provided in Form TRAN to ensure that amounts in all cells are correctly reported.

As noted above, the Governing Board is required to approve the unaudited actuals by September 15 each year. The district's Governing Board did not approve the 2007-08 unaudited actuals until its September 18, 2008 board meeting. The district should review its annual board meeting calendar to set its September board meeting so that the approval of the unaudited actuals occurs before September 15 to comply with Education Code Section 42100.

Per Chapter 3, paragraph 3.26 of Government Auditing Standards, July 2007 Revision issued by the Comptroller General of the United States regarding organizational independence when performing nonaudit services, "Nonaudit services in which auditors provide technical advice based on their technical knowledge and expertise do not impair auditor independence with respect to entities they audit and do not require the audit organization to apply the supplemental safeguards. *However, auditor independence would be impaired if the extent or nature of the advice resulted in the auditors' making management decisions or performing management functions.*" (Emphasis added) In conversations with

various district employees, FCMAT became aware that the district's independent auditors were preparing such items as the GASB 34 conversion entries as well as preparing a portion of Forms ASSET and DEBT for the district. Preparation of these items is considered a management function and may impair the auditor's independence in providing auditing services. The district should consult with its auditors to review this process and ensure that Government Auditing Standards are being followed.

### ***Reporting to the Governing Board***

The district routinely prepares variance analyses as a part of its daily activities in reviewing accounts and budgets to investigate discrepancies. In reporting variances to the Governing Board and the public for first and second interim reports only, the district provides a document titled Budget Adjustments. This document reports the amount of the adjustment but does not always provide a detailed explanation for the increase or decrease, which may leave the Governing Board and public with questions as to why the adjustment was made. The district should analyze the Budget Adjustments document, consider incorporating a more detailed explanation for each increase/decrease, and provide that information at each reporting period. An example of a method used by another school district is provided as Appendix C to this report. If significant budget adjustments need to be made between required reporting periods, the district should consider providing that information to the board monthly.

## **Recommendations**

*The district should:*

1. Investigate a more streamlined, time-effective process in producing the Budget Book, such as programming Excel spreadsheets to automatically populate from Galaxy information.
2. Review its budget and board meeting calendars to determine if a later date in June for budget adoption could be instituted to allow additional time for budget revisions after the Governor's May Revise.
3. Provide additional training to the Governing Board regarding the budget development process, state budget deadlines, typical reasons for budget revisions throughout the year, and how to interpret budget documents.
4. Consider including additional charts and graphs reflecting year-over-year budget trends in key areas such as net ending balances, the net change in the ending balance/deficit spending and encroachments in the Budget Book.
5. Report the RDA revenue and any charter schools' in-lieu taxes consistently on state budget reports.

6. Convert to the use of one system for position control that integrates with the budget and payroll systems.
7. Review categorical programs with increasing carryover/deferred revenue or fund balances to ensure that restricted dollars are used to the greatest degree possible.
8. Investigate the feasibility of further utilizing the federal, AB 825 and mega-item flexibility transfer options to determine whether they would provide additional funding flexibility.
9. Consider converting the Food Services Department to the Galaxy system to process all its financial transactions.
10. Determine on what basis the cafeteria fund is to be operated and, in conjunction with its auditors, come to an agreement on the type of fund to be used.
11. Review the duties assigned to positions expensed to the capital facilities fund and determine if they are appropriately charged to this fund.
12. Consider charging a 3% administration fee on developer fees that are collected, and transfer those revenues to the general fund.
13. Ensure that all loans between funds are repaid within the statutory guidelines.
14. Pay careful attention to and monitor its general fund cash flow monthly.
15. Carefully review the amounts reported in the Board Approved Operating Budget column of its state budget reports to ensure that the correct operating budget is reflected.
16. Carefully review the revenue, expenditure and net increase/(decrease) in fund balance amounts reported in its cash flow statements to ensure that they match the numbers reflected in Form 01.
17. Consider including the budget year information in future unaudited actuals reports.
18. Review the information provided in Form TRAN to ensure that all amounts are correctly reported.
19. Review its annual board meeting calendar to ensure that interim and unaudited actuals report are provided to the board by the deadlines prescribed in the Education Code.
20. Consult with its auditors regarding the preparation of items such as the GASB 34 conversion entries and a portion of Forms ASSET and DEBT and ensure that Government Auditing Standards are being followed.
21. Analyze the Budget Adjustments document, consider including a more detailed explanation for each increase/decrease, and provide this information at each budget reporting period. If significant budget adjustments need to be made between required reporting periods, consider providing that information to the board monthly.

## Student Attendance Reporting

There are two staff members in the student attendance section of the Fiscal Services Department. Their responsibilities include student attendance reporting, support for and maintenance of the student information system, California School Information Services (CSIS) implementation and maintenance, assistance with annual enrollment projections, calculation of school site instructional minutes, district-level support and oversight for ASB accounting, and site training on attendance and ASB accounting. Staff members in this department appear to have a wide base of knowledge regarding their functions and provide a variety of technical services and reporting needs.

Increased daily responsibilities with accompanying workloads during peak reporting periods, special requests for specific data and periodic software updates appear to be managed through working extra hours beyond the regular work day and work week. The district has also used a temporary part-time staff member to provide support for CSIS implementation and maintenance.

The SASI student information and attendance system utilized by the district is being phased out and soon will have limited support from the software vendor. This may increase the in-house staff's day-to-day responsibility for maintaining the system and ensuring data integrity. The district is taking steps to review its upgrade options and investigate other available student information system software packages that will meet the district's current and anticipated needs, with a reported implementation date of 2010. Based on the anticipated decline in vendor support and limited in-house staff resources, the district should consider accelerating its timeline to implement the student information system sooner. The software should include a seamless conversion of data, and the vendor should have a reputation for a quality product that meets the needs of California school districts. The software should include modules that can perform a wide variety of student applications for attendance, testing, demographic information and the implementation of the California Longitudinal Pupil Achievement Data System (CalPADS) that will meet the district's current and anticipated future needs.

The district has recognized the department's staffing shortfall, and the Governing Board has approved an additional position for an attendance technician. However, due to the current budget issues, the position has been put on hold. The district should consider filling this position, which should help to pay for itself by reducing and/or eliminating the need for overtime and temporary part-time help. With the addition of a staff member, more cross-training should occur in this section of the Fiscal Services Department to provide for better internal controls, take full advantage of the years of experience and expertise of the current administrative software specialist, and provide more internal auditing functions and mandatory site training for the ASBs.

The district utilizes a manual student attendance accounting process for hourly programs. The district should investigate the use of its automated student attendance system for tracking and recording the hourly programs to reduce the amount of time necessary for reporting attendance.

## Recommendations

*The district should:*

1. Accelerate the timeline to upgrade or replace the current version of the SASI student information system.
2. Consider filling the additional technician position that has been approved by the Governing Board.
3. Investigate the use of its automated student attendance system to track the hourly programs.

## Payroll Services

There are five payroll technicians in the payroll services section of the Fiscal Services Department. Employees in the payroll section have longevity in the district and come to the department with a variety of work experience obtained from a multitude of site-based classified positions. Payroll personnel are currently processing three payrolls per month:

- Classified substitute payroll paid at mid-month
- Certificated substitute payroll paid at the first of the month
- Contracted employee payroll paid at the end of the month

Three payroll technicians are responsible for contracted certificated and classified pay functions for their assigned A-F, G-M and N-V alpha letters. A fourth payroll technician is assigned the W-Z alpha section, along with processing the payroll functions for the transportation department and classified substitute pay. The fifth payroll technician is responsible for processing payroll for the certificated substitutes, and monitors and reports certificated and classified employee attendance.

The Supervisor of Accounting Services is responsible for supervising the payroll section of the Fiscal Services Department. Supervisory duties include budget responsibility for employee salary and employer paid benefits, payroll-related one-on-one and group training for site personnel, analysis for bargaining unit contract negotiations, and monthly district-wide expenditure reports for management review. This position is also responsible for verifying the data integrity between two databases (Galaxy and FileMaker) that are used for position control.

Two database systems are maintained in the district office for position control and employee-related information. Galaxy is the district's financial and payroll system, which is used county-wide and supported by the Riverside COE. FileMaker is used by Personnel Services as a separate employee database, and also houses the employee attendance system. To use these systems, the Personnel Services and Fiscal Services departments must enter information into both systems. This doubles the time spent in initial entry of data and ensuring that the two systems are in balance.

Employee attendance information is not currently tracked or updated in Galaxy's payroll module. Therefore, current sick leave and vacation accruals are not printed on employees' pay stubs. This results in numerous inquiries for this information from employees and/or site timekeepers, who must call or e-mail the payroll technician to access accumulated leave balances. This constant stream of inquiries can be disruptive and is an unproductive use of staff time at the site and district level. The district should consider using the Galaxy system for employee attendance tracking and should post the leave balances on the employees' monthly pay stubs. This would reduce staff time spent responding to

phone inquiries for updated leave information and could satisfy bargaining unit contract language stating that employees are to receive a statement of their leave balances. If the Galaxy system does not meet the employee attendance reporting needs of the district, the district should continue to work with the Riverside COE to implement any necessary revisions.

The payroll section is driven by internal and external deadlines for each pay cycle. It was reported that staff members frequently report for work early, stay after normal work hours and work through their lunch hour and breaks to accomplish their normally assigned tasks. The additional time is not always recorded as overtime or compensated time due to lack of funding for overtime and the lack of time available for use of comp time. FCMAT conducted a cursory review of three unified districts in Riverside County of similar size and found that they each have three to four payroll technicians. Two of the districts surveyed reported that they also have a full-time payroll supervisor. Based on this cursory review, it appears that the district's payroll section is adequately staffed. However, the district should consider contacting districts of similar size to conduct a more in-depth review of payroll staffing and to determine if payroll department responsibilities in Lake Elsinore are similar to those of the comparison districts.

Based on the recommendation of the district's external auditors to improve department efficiency and provide more effective backup and a better system of checks and balances, the district decided to rotate the payroll technicians' alpha responsibilities every two years. This rotation began in November 2007. While FCMAT would encourage a rotation system, staff reported that the November timing was difficult due to a contract settlement and accompanying retroactive pay calculation that occurred during the year-end closing cycle. Implementing future rotations in July or August, near the beginning of the fiscal year, would provide the same result and might be less disruptive to the normal flow of information.

The current pay cycle for certificated staff and a delay in receiving updated information from the Personnel Services Department were noted as concerns regarding overpayments to employees. Returning certificated staff members are paid beginning in July for a work year starting in August. This lends itself to overpayments since an employee may be paid in the month of July and may not return to work in August. An example provided to FCMAT was that of a teacher that came to work on the first day of the school year, but did not return to work after the first day. In addition, the personnel action form noting the termination date was not received in the payroll department timely, causing the employee to be paid for the months of July and August while only working one day in the fiscal year. The district should consider working with the certificated bargaining unit to adjust the monthly payroll cycle to more closely align with the work year (for example, an August-June or August-July cycle for employees who do not work in the month of July). Personnel Services and Payroll should work together to improve communication between the two departments to solidify the timelines necessary for providing employee information, such as resignations, to the payroll staff. Working together on the flow of informa-



tion should help to reduce the number of overpayments to employees and the number of last-minute adjustments to payroll.

The district has implemented a Payroll Overpayment Repay Agreement to address the issue of salary overpayments to employees. However, there appears to be some confusion regarding whether Personnel Services or Payroll is to contact the employee regarding an overpayment. Processes and procedures should be more clearly defined regarding which department is responsible to contact the employee and the procedures to follow if an employee does not repay the district. The district should also implement a form letter for use in notifying employees of salary overpayments.

A system of checks and balances is necessary between every district's personnel and payroll departments. In an effort to reduce errors and provide for proper internal controls, the district should ensure that payroll technicians verify all calculations they receive before processing for payment. In addition, all district staff should be made aware of the deadline for submitting monthly time sheets and required to adhere to the established deadlines.

The district's payroll warrants are processed by the Riverside COE. Once warrants have been issued by the COE, they are returned to the district for distribution. The payroll technicians responsible for month-end payroll sort the checks by site and prepare them for delivery. Proper internal controls and separation of duties should prevent the same person from initiating and distributing payroll warrants. The district's current system presents a control weakness by allowing the payroll technicians custody of the warrants once they have been issued by the COE. The Fiscal Services Department should review this step in its procedures and make adjustments so that the staff member processing a particular payroll warrant does not have access to the warrant when it is received from the COE.

Monthly meetings between Personnel Services and Payroll staff members have not always been productive and were suspended for several months. Monthly meetings have resumed recently, and representatives of the two departments are meeting to discuss personnel issues after each district board meeting. It appears that these department debriefings have assisted in developing better and timelier communications between these two departments. The departments should continue these meetings in an effort to further improve communication.

## Recommendations

*The district should:*

1. Discuss the use of one system to house position control information. Together with district technology support staff and the county office, explore the capabilities of the Galaxy system to determine if it can be further utilized to eliminate non-essential duplicate data storage.

2. Consider utilizing the Galaxy system to post employee leave data and print leave balances on the employees' pay stubs. Work with the county office to implement any necessary revisions so that the Galaxy system may be used for employee attendance tracking.
3. Consider contacting unified districts of similar size to conduct a more in-depth review of payroll staffing.
4. Consider changing the alpha rotation for payroll staff to the beginning of the fiscal year.
5. Consider working with the certificated bargaining unit to adjust the monthly payroll cycle to more closely align with the work year.
6. Further clarify the salary overpayment process and implement a form letter for use in notifying employees of salary overpayments.
7. Ensure that payroll technicians verify all calculations they receive prior to processing for payment.
8. Make all district staff aware of the deadline for submitting monthly time sheets and adhere to the established deadlines.
9. Ensure that the staff member processing a particular payroll warrant does not have access to the warrant when it is received from the county office of education.
10. Continue department meetings with Personnel Services and Payroll staff to identify and resolve communication issues, improve the flow of information and help prevent employee payroll errors and overpayments.

## Appendices

Appendix A - Hotel/Motel Transient Occupancy Tax Waiver Exemption Claim For Government Agencies

Appendix B - District Cal-Card Usage Policies & Procedures

Appendix C - Variance Analysis

Appendix D - Study Agreement



**Appendix A**

**EXAMPLE**

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

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

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

Employed By: \_\_\_\_\_ UNIFIED SCHOOL DISTRICT  
(Federal Tax I.D. No. \_\_\_\_\_)

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

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

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

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

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

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

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

\_\_\_\_\_  
Date

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

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

## Appendix B

### EXAMPLE

#### District Cal-Card Usage Policies & Procedures

Congratulations! You have been selected as a site/department for the District's CAL-Card Program. The broad intent of the program is to assist the District in allowing additional flexibility for your site/departmental purchasing needs. The card's intent is that it be used for conferences (advance approval for conferences must still be obtained through the Conference Attendance Form process and POs will be necessary for the items to be paid with the CAL-Card) and Internet purchases only at this time (POs must still be submitted and approved in advance of making the purchase in order to encumber the funds property). By accepting the attached CAL-Card and signing below, you agree as follows:

1. To read, review and abide by the terms of the attached Cardholder Guide.
2. To sign the back of the card and call U.S. Bank Customer Service at the telephone number on the front side of the card to activate. Be aware that you might be asked for your "CVV" numbers, which stands for "Card Verification Value." The "CVV" number is a three-digit number following the account number within the signature block on the reverse side of your card. You may also be asked for the following information:
  - a. Single Purchase Limit:
  - b. 30-Day Limit:
  - c. Telephone Number Assigned to Card:
  - d. Zip Code Assigned to Card:

Once this has been accomplished, your card is ready for use.

3. To allow no one, other than yourself, to use the card and to retain physical custody of the card in a safe and secure location at all times.
4. To retain physical, hard copy proof of all purchases made with your card. In the event that the receipt cannot be located, you agree to notify me in writing of such circumstances. You further agree to include in the notification all facts surrounding the missing receipt as well as all documentation available to provide evidence of receipt of the merchandise. Due to audit requirements, recurring and/or frequent instances of missing receipts may result in forfeiture of your card.
5. To review, reconcile and sign your monthly statement immediately upon receipt but in no circumstances later than 5 days after receipt of the statement – our billing cycle date is the 22<sup>nd</sup> of each month and we typically receive statements around the 1<sup>st</sup> of the next month. You are also to provide a complete description of each item purchased on the appropriate description line of the monthly statement and attach the original receipts. The executed, reconciled statements should then be forwarded to me. The sooner these reconciled statements are processed and sent to me for review and then forwarded to Accounts Payable for payment, the larger the payment rebate received by the District and the larger your site's/department's portion of the rebate. For example, if the rebate was \$100 based on total District purchases of \$3,000 and your purchases totaled \$600, your portion of the rebate would be calculated as follows:  $\$600/\$3,000 = 20\% \times \$100 = \$20$ .
6. You understand that should interest charges be incurred due to your failure to process your monthly statement in accordance with item number 4 above, those charges will be applied first to directly reduce your portion of the rebate and any remainder will be applied against budgeted amounts. Recurring and/or frequent instances of untimely submission of monthly statements may result in forfeiture of your card.

7. If, because of travel or extended leave, you are scheduled to be away for more than 5 days at the time you would normally receive the monthly statement, you agree to contact me so that we can make arrangements for your monthly statement to be processed on a timely basis.
8. Should there be an error on the statement, you agree to be responsible for the completion of the Cardholder Statement of Questioned Item form (CSQI) and forwarding it to the U.S. Bank Government Services address or fax number listed below. A copy of the CSQI is also to be included with your executed and reconciled monthly statement. Keep in mind that the District will lose its dispute rights if the CSQI is not submitted within 60 days from the cycle date.

U.S. Bank Government Services  
P.O. Box 6346  
Fargo, ND 58125-6346

Fax: (701) 461-3910

Toll free: (800) 227-6736

Outside the U.S., call collect: (701) 461-2020

You further agree to attempt to resolve the dispute directly with the vendor and keep detailed records of those attempts. This documentation will be required by U.S. Bank and must be submitted along with the cardholder CSQI form.

9. Once disputes are resolved and you have received notification from U.S. Bank, you agree that you are responsible for instructing the Billing Office (Accounts Payable) to either apply a credit or certify a payment to the original Statement of Account where the dispute occurred.

Purchases are to be for work-related expenses only. Please refer to page 7 of the Cardholder Guide for a list of Prohibited Purchases. Your CAL-Card has been programmed so that use of it for these Prohibited Purchases will be disallowed at the time of the transaction. Keep in mind that should you use the card for meals while traveling on District business, no alcohol can be purchased using the CAL-Card – ask your waitress for a separate bill and use another means for payment (e.g. cash or your personal credit card). Additionally, should you use the card for business related meals while traveling, your per diem will be adjusted accordingly. For example, if you were to receive 3 complete days of meals (\$43/day x 3 = \$129) and used the CAL-Card for lunch (spending \$16 on that lunch), the per diem payable to you at the end of the trip would be \$113 (\$129 - \$16). In the event that you received the per diem in advance, you would be required to submit your personal check for all meals purchased at the time of submission of your executed and reconciled statement.

Use of the CAL-Card for personal items will result in termination of your CAL-Card privileges and confiscation of the card. Should you inadvertently use the CAL-Card for a personal charge, you should notify me immediately (e-mail or voice mail messages are perfectly acceptable given you may be out of town at the time) and payment for the charge should be submitted upon your return.

10. To immediately report lost or stolen cards to U.S. Bank Government Services at the number provided in the Cardholder Guide. You are also to immediately notify me via telephone or e-mail of such loss.
11. Likewise, any fraudulent activity must be immediately reported to the U.S. Bank Government Services -- see your Cardholder Guide for contact information. The activity must also be reported to me with the following particulars:
  - The account number on which the fraud has been detected;
  - The date and dollar amount of the fraudulent transaction(s);
  - The date the cardholder first contacted, or was contacted by, U.S. Bank regarding the fraud;
  - The name of the U.S. Bank Fraud Representative investigating the account; and
  - The new account number (if established).

You should reconcile your Statement of Account by circling any unauthorized items and writing "fraud" next to the item(s). Deduct the fraudulent charges from the total amount owed and process the statement as usual. Do not submit a cardholder CSQI for fraudulent transactions.

You are also responsible to:

- Monitor future statements for (a) any trailing fraudulent charges; and (b) credits for previous fraud charges; and
- When the credit appears on the statement, provide written instructions on the Statement of Account for the Billing Office to apply the credit to the previous Statement of Account where withheld the payment(s) and/or fraudulent charge(s) originally appeared.

Again, welcome to the CAL-Card Program. We hope that you will find it to be a more convenient system to aid you in making purchases. Should you have questions or concerns, please do not hesitate to contact me.

I hereby acknowledge receipt of CAL-Card Number \_\_\_\_\_ and the Cardholder Guide. I also hereby acknowledge that I have read the foregoing and agree to the conditions therein.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

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



**EXAMPLE**  
2007/08 VARIANCE ANALYSIS -- ESTIMATED ACTUALS TO UNAUDITED ACTUALS

Description	2007-08 Estimated Actuals		Fund Total (1)	2007-08 Unaudited Actuals		Fund Total (2)	Difference (2) - (1)	Explanation (see Attached Pages)
	Unrestricted	Restricted		Unrestricted	Restricted			
<b>REVENUES</b>								
Revenue Limit Sources	25,842,996.00	1,438,069.00	27,281,065.00	25,887,184.40	1,405,956.00	27,293,140.40	12,075.40	
Federal Revenue	75,000.00	1,872,885.00	1,947,885.00	95,723.04	1,728,416.11	1,824,139.15	(123,745.85)	(A)
Other State Revenue	1,954,719.00	5,409,248.00	7,363,967.00	1,979,178.91	5,374,449.39	7,353,628.30	(10,338.70)	
Other Local Revenue	638,078.00	637,655.00	1,275,733.00	827,891.26	630,007.51	1,457,898.77	182,165.77	(B)
TOTAL REVENUES	28,510,793.00	9,357,857.00	37,868,650.00	28,789,977.61	9,138,829.01	37,928,806.62	60,156.62	
<b>EXPENDITURES</b>								
Certificated Salaries	14,249,543.00	3,363,921.00	17,613,464.00	13,928,663.66	3,469,658.50	17,398,322.16	(215,141.84)	(C)
Classified Salaries	2,833,809.00	2,838,063.00	5,671,872.00	2,803,041.97	2,884,777.02	5,687,818.99	15,946.99	(D)
Employee Benefits	6,030,378.00	2,186,139.00	8,216,517.00	5,890,180.20	2,153,069.43	8,043,249.63	(173,267.37)	(E)
Books and Supplies	398,227.00	1,971,156.00	2,369,383.00	366,377.72	1,439,214.00	1,805,591.72	(563,791.28)	(F)
Services and Other Operating Expenditures	2,835,673.00	1,261,304.00	4,096,977.00	2,713,297.44	616,801.37	3,330,098.81	(766,878.19)	(F)
Capital Outlay	55,526.00	71,417.00	126,943.00	45,356.09	81,532.78	126,888.87	(54.13)	
Other Outgo	2,724.00	636,757.00	639,481.00	2,724.00	636,756.76	639,480.76	(0.24)	
Transfers of Indirect/Direct Support Costs	(588,115.00)	534,773.00	(53,342.00)	(538,887.64)	486,892.95	(51,994.69)	(1,347.31)	
TOTAL EXPENDITURES	25,817,765.00	12,863,530.00	38,681,295.00	25,210,753.44	11,768,702.81	36,979,456.25	(1,701,838.75)	
<b>OTHER FINANCING SOURCE/USES</b>								
Transfers Out	100,000.00	190,182.00	290,182.00	100,000.00	190,182.00	290,182.00	0.00	
Contributions	(3,059,656.00)	3,059,656.00	0.00	(3,050,078.68)	3,050,078.68	0.00	0.00	
TOTAL OTHER FINANCIAL SOURCE/USES	(3,159,656.00)	2,869,474.00	290,182.00	(3,150,078.68)	2,859,896.68	290,182.00	0.00	
<b>NET INCREASE/(DECREASE) IN FUND BALANCE</b>	(466,628.00)	(636,199.00)	(1,102,827.00)	429,145.49	230,022.88	659,168.37		
<b>FUND BALANCE</b>								
Beginning Fund Balance	2,685,131.27	1,513,209.11	4,198,340.38	2,685,131.27	1,513,209.11	4,198,340.38	0.00	
Ending Fund Balance								
Reserved for								
Revolving Cash	16,000.00		16,000.00	16,000.00		16,000.00	0.00	
Stores	24,476.86	877,010.11	24,476.86	14,375.31	1,743,231.99	866,221.88	(G)	
Legally Restricted Balance								
Designated Amounts	2,075,715.88		2,075,715.88	2,941,479.30		885,763.42	(H)	
Designated for Economic Uncertainties				600.51		600.51		
School Site Block Grant			0.00	117,826.01		117,826.01	15,515.48	
Daycare	102,310.53		102,310.53	23,527.55		23,527.55		
JHHS Water Damage			0.00	468.08		468.08		
Payroll Dispute		877,010.11			1,743,231.99	4,857,508.75		
TOTAL ENDING FUND BALANCE	2,218,503.27	877,010.11	3,095,513.38	3,114,276.76	1,743,231.99	4,857,508.75		

Differences in excess of \$75,000 of the amounts shown at Adoption Budget and 1st Interim Report are explained as follows:

- (A) The decrease in Federal Revenues is due to our not having used the year's full allocation (consisting of the current year allocation and carryover from the 06/07 fiscal year) for particular programs. These amounts can be seen on line 15 of Form CAT (pages 19 and 20). The carryover then becomes available for use in 08/09. The full decrease as shown in Form CAT is offset by other programs which had small increases/decreases in revenues.
- (B) The primary reason for the increase in Other Local Revenue is due to larger than expected receipts from interest (\$25,443), IRS/tax issues (\$13,357), refund from GE Capital (\$6,667), California Commission on Teacher Credentialing Intern revenue (\$3,400), increases in reimbursements for ASB subs (\$4,285.96) and mileage (\$36,090.79), a \$10,000 donation from the GH PTO, revenue from the insurance settlement for JJHS water damage (\$23,527.55) as well as an outside donation for the ASES program (\$2,300).
- (C.) The decrease in Certificated Salaries is due to the inclusion of the entire negotiation settlement for both the Certificated unit and Management/Confidential unit in the area of salaries. This was done due to the timing of settlements in conjunction with budget deadlines as well as not having sufficient staff to make the necessary calculations to place amounts in every account line. There were also not insignificant decreases in the use of substitutes (\$27,172) and extra duty pay (\$35,445).
- (D) The primary reason for the decrease in Employee Benefits is that the estimated OPEB Allocation is based on last year's actual allocation of retiree health and welfare payments made by the District and the actual allocation is based the current year expense for retiree health and welfare payments. A decrease in current year of the actual retiree health and welfare payments will result in a decrease over the expected expense.
- (E) & (F) Decreases in these areas are attributable to the Purchase Order cut-off implemented in January of 2008 which greatly limited spending in these areas.
- (G) The increase is a function of the deficit spending expected and the actual result with revenues exceeding expenditures.
- (H) The increase is a function of the deficit spending expected and the actual result with revenues exceeding expenditures.

## Appendix D

# FCMAT

FISCAL CRISIS & MANAGEMENT  
ASSISTANCE TEAM

CSIS California School Information Services

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## FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM STUDY AGREEMENT June 2, 2008

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

### 1. BASIS OF AGREEMENT

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

### 2. SCOPE OF THE WORK

#### A. Scope and Objectives of the Study

The scope and objectives of this study are to:

- 1) Conduct a review of the District's Fiscal Services Department procedures and operations and provide recommendations for improvements, if necessary, in the following areas:
  - Accounts Receivable
  - Accounts Payable
  - Budgeting and Accounting
  - Student Attendance reporting
  - Payroll Services

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

- 1) Orientation Meeting - The Team will conduct an orientation session at the District to brief District management and staff on the procedures of the Team and on the purpose and schedule of the study.

- 2) On-site Review - The Team will conduct on-site meetings at the District office to gather documentation and conduct interviews. The Team will request assistance from the District in setting up interview schedules with staff.
- 3) Progress Reports - The Team will hold an exit meeting at the conclusion of the on-site reviews to inform the District representatives of significant findings and recommendations to that point.
- 4) Exit Letter - The Team will issue an exit letter approximately 10 days after the exit meeting detailing significant findings and recommendations to date and memorializing the topics discussed in the exit meeting.
- 5) Draft Reports - Sufficient copies of a preliminary draft report will be delivered to the District administration for review and comment.
- 6) Final Report - Sufficient copies of the final study report will be delivered to the District following completion of the review.
- 7) Follow-Up Support – Six months after the completion of the study, FCMAT will return to the District, if requested, to confirm the District’s progress in implementing the recommendations included in the report, at no costs. Status of the recommendations will be documented to the District in a FCMAT Management Letter.

### 3. PROJECT PERSONNEL

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

- A. FCMAT Fiscal Intervention Specialist
- B. Two FCMAT Fiscal Consultants

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

### 4. PROJECT COSTS

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

- A. \$500.00 per day for each Team Member, while on site, conducting fieldwork at other locations, preparing and presenting reports, or participating in meetings.
- B. All out-of-pocket expenses, including travel, meals, lodging, etc. Based on the elements noted in section 2 A, the total cost of the study is estimated at \$10,500. The

District will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon acceptance of the final report by the District.

C. Any change to the scope will affect the estimate of total cost.

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

5. RESPONSIBILITIES OF THE DISTRICT

A. The District will provide office and conference room space while on-site reviews are in progress.

B. The District will provide the following (if requested):

- 1) A map of the local area
- 2) Existing policies, regulations and prior reports addressing the study request
- 3) Current organizational charts
- 4) Current and four (4) prior year's audit reports
- 5) Any documents requested on a supplemental listing

C. The District Administration will review a preliminary draft copy of the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the Team prior to completion of the final report.

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

6. PROJECT SCHEDULE

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

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

7. CONTACT PERSON

Please print name of contact person: Dr. Frank Passarella, Superintendent

Telephone 951 273-7005 FAX

Internet Address frank.passarella@leusd.k12.ca.us

Frank W. Passarella 6.20.08  
Dr. Frank Passarella, Superintendent Date  
Lake Elsinore Unified School District

Barbara Dean June 2, 2008  
Barbara Dean, Deputy Administrative Officer Date  
Fiscal Crisis and Management Assistance Team

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