



Oakland Unified School District

Financial Management

Comprehensive Review

March 2004

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FINANCIAL MANAGEMENT

Summary of Findings and Recommendations

During 1999, Oakland Unified School District underwent a comprehensive review of its financial management. Significant deficiencies in the district's financial management policies, procedures, and/or practices were noted in the Oakland USD Assessment and Recovery Plan, January 31, 2000 that was subsequently issued. In the intervening four years, Oakland's financial condition continued to deteriorate.

Another comprehensive review was performed in the fall of 2003 to evaluate the district's progress on implementing the original recommendations. The Assessment and Recovery Plan Update, September 30, 2003 reported that the district had not made any significant progress in addressing the deficiencies noted or implementing the proposed recommendations. In fact, in several areas, the district's condition had gotten worse, and the problems or deficiencies were noted in the key areas of budget development and monitoring, projection of net ending balances and maintenance of required reserves, closing the books, multiyear financial projections, projecting and funding the cost of collectively bargained contracts, special education encroachment, and management information systems.

In the six months since the September 2003 report, the district has achieved some measure of stability. Since July 1, 2004, one full-time equivalent staff member on loan from FCMAT, under the direction of the State Administrator, has provided on-site technical assistance and training support for the finance department staff. A reorganization of the Finance Department has created an emerging role for district senior managers, bringing needed technical support and coordination to the organization. Structure and oversight have been provided for basic fiscal operations and reasonable expectations for staff competence and productivity have been established. Nevertheless, there are still issues of technical capacity at both the staff and first-line supervisory levels. The FCMAT staff and at least one key Financial Services Officer of the district will exit the organization at the end of the fiscal year. As a result, stability and management oversight will once again be tested. Filling key management and staff positions must be among the highest district priorities in the near term.

The magnitude of the myriad problems facing the district—the large size of the deficit, the ongoing decline in enrollment, continuing issues of special education compliance and maintenance of effort, and management information system needs—and the day-to-day operational needs make the establishment of a comprehensive and coordinated response to the findings and recommendations in the Recovery Plan difficult. The district has made some progress and is making a good faith effort to address its fiscal issues. However, the district has not yet identified a multiyear plan to resolve its fiscal problems.

The primary challenge the district faces is reducing its expenditures to the level that revenues will support. That challenge is exacerbated by its steep and continuing decline in enrollment. In order to meet that challenge, accurate and timely financial information will be necessary. Therefore, it is imperative that the district:

- Project its finances over a longer, multiyear period in order to provide information to develop a long-range plan to eliminate its structural operating deficit and repay its state loan.
- Address pending issues related to documentation, training, controls, and data integrity and completeness for the newly implemented human resources/payroll system.
- Implement the position budgeting capabilities of the new human resources/payroll system in order to ensure the accuracy of budgeted personnel costs.
- Formally document all fiscal policies and procedures, particularly those related to budget development and monitoring and financial accounting to ensure the accurate projection of revenues and expenditures, and the correct recording and reporting of financial information.
- Continue to improve budget controls and monitoring to prevent budget overruns.
- Reduce special education encroachment, which is a significant drain on the unrestricted general fund, while still meeting federal maintenance-of-effort requirements.
- Implement internal control procedures that will prevent or detect financial irregularities.

Budget Development and Monitoring

The budget is a school district's single most important planning document. It is the key document that correlates the district's educational goals and priorities with the financial resources available and budgeted to meet those goals and priorities, and is the primary vehicle by which the district explains to staff, parents, and the community its financial plan for meeting educational goals. The budget is also the key document for controlling district finances and ensuring fiscal solvency. Therefore, the development of the budget and its monitoring during the course of the fiscal year are two of the most important financial management activities that the district performs.

The district's budget development process is now more actively managed by the Budget and Finance departments. The oversight by fiscal administrators provides a greater level of critical review and evaluation of budget information and assumptions. As a result, the district appears to be budgeting more accurately. This issue will be more fully assessed in the next review period after the close of the fiscal year.

The district has not yet formally established written policies and procedures. The quality of the budget and the budget process relies entirely on the knowledge and involvement of the senior fiscal administrators. Further complicating the budget process is the migration to "results-based budgeting," which decentralizes a significant portion of the budget development process. At least in this first year, this change will likely make the budget development process more difficult to manage and will increase the potential for errors. Therefore, the need to establish policies, procedures, and systems to ensure that the budget is accurate, meets standards, and sustains any progress made is increased by this migration to a site-based budgeting model.

In order to improve monitoring and control of its budget, the district:

- Implemented a new human resources/payroll module in January 2004, which will integrate personnel, payroll, and position control,

- Implemented budget blocking to prevent overrides of the encumbrance system, which precludes expenditures if sufficient funds are not available, and
- Increased monitoring of special education expenditures and participation of budget staff.

Notwithstanding the progress made, the district still has issues to address in all these areas. For example, the new human resources/payroll module needs to have documentation developed, additional staff training provided, seniority and credential information loaded, the automated substitute-calling system established, and position budgeting implemented.

With regard to expenditure controls, even with the implementation of budget blocking, there were still instances when encumbrances and expenditures exceeded budget authority. Therefore, the district still has issues of controls being overridden, which in turn undermines its efforts to effectively monitor and control the budget.

While the district is working to control special education expenditures, it still has a very high level of general fund encroachment and many issues to resolve to bring program expenditures under control.

Accounting Policies, Procedures, and Controls

The key to monitoring and controlling the budget is the ability to produce accurate and timely financial information. Accounting policies, procedures, and controls are the tools used by districts to ensure that transactions are processed timely and accurately, financial information is reported appropriately and is free from misstatement, and assets are protected from theft or misappropriation. The district has made some progress in improving its accounting processes as evidenced by:

- Elimination of accounts payable backlog,
- Reduction in payroll errors,
- Performance of monthly cash reconciliations,
- Monthly review of cash flow, and
- Timely completion of the year-end closing.

Nevertheless, the district has not established formal accounting policies and procedures. While staff technical skill and capacity is improving, additional staff training is warranted. In addition, the district does not consistently evaluate its employees. Annual staff evaluations are integral to establishing high expectations for employee job performance. The evaluations help to facilitate the development of effective annual training plans for individual staff members, as well as for the department as a whole.

Management Information Systems

The most important tools in managing district finances are appropriate and effectively utilized management information systems. Integrated budget, financial, and personnel systems assist the district in preparing and monitoring its budget, projecting and controlling personnel costs, and recording and reporting accurate financial information in a timely manner. In the past, the district operated with antiquated and ineffective nonintegrated systems which contributed to the lack of timely and accurate financial information, and undermined budgetary controls.

The district has made some progress in the area of management information systems. The district had previously converted to a new financial management system, and, in January 2004, the district implemented the human resources/payroll module of its information management system. These system upgrades are encouraging.

However, as was noted in the September 2003 report, there are still instances where the district is not utilizing all of the system capabilities and other instances where controls have not been implemented or are being overridden. For example, online budget transfer capabilities are still not being utilized as the district has not implemented sufficient controls to prevent transfers between restricted resources. Additionally, instances were noted where encumbrances and expenditures exceeded established budget authority or no amount had been budgeted.

While the district has implemented the human resources/payroll module, it still has significant issues to address before the module is fully implemented. Specifically, the district needs to develop documentation and implement security controls. Further, critical information related to seniority and credentialing is not yet loaded onto the system. In addition, the automated substitute-calling system is not yet functional and the position budgeting function likely will not be available to develop the 2004-05 budget. As a result, while some progress has been made, budget development and control over personnel expenditures is still an area in which the district needs to significantly improve.

Additionally, while the district is in the process of evaluating new student data systems, it likely will not implement any new system until 2005-06.

Special Education

Special education is typically one of the largest categorical programs operated by a school district. Legal requirements, unique program needs, and insufficient funding make the financial management of this program problematic. In fact, most districts' special education expenditures exceed their special education revenues. This "encroachment" of special education costs on unrestricted general fund revenues is virtually unavoidable. Nevertheless, as excess program costs use the districts' relatively scarce unrestricted general fund money, minimizing encroachment is important for all districts.

The district has historically run a significant deficit in its special education program. Currently, the district is attempting to better control costs through measures such as reducing NPS/NPA placements, controlling staffing ratios and number of staff, recouping costs for LCI and charter school students, and improving the intervention and assessment processes. Nevertheless, the district continues to run a large deficit in the current fiscal year. Factors contributing to the deficit include:

- Higher-than-average percentage of students identified for special education,
- Large numbers of students served through NPS/NPA providers, and
- Greater levels of service than necessary provided to students.

Districts have a particularly difficult balancing act in managing special education programs and resources. While the district needs to reduce its special education general fund encroachment,

such reduction might violate federal maintenance of effort requirements. This in turn could result in the district losing federal funds, which might result in increased general fund encroachment.

1.2 Internal Control Environment—Governing Board and Audit Committee Participation

Professional Standard

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

Progress on Implementing the Recommendations of the Recovery Plan

1. The district did not implement the general recommendation regarding the establishment of an audit committee, or any of the related recommendations regarding:
 - Defining the reporting relationship for the audit committee (sub-recommendation 1)
 - Determining the composition of the audit committee (sub-recommendation 2)
 - Establishing the audit committee’s charge (sub-recommendation 3)
 - Determining the frequency of the audit committee’s meetings (sub-recommendation 4)
 - Establishing the authority of the audit committee (sub-recommendation 5).
2. The district should implement the original recommendation to form a standing audit committee based on the following considerations:

Reporting Lines

The audit committee would exist at the pleasure of the district’s Governing Board and Superintendent. Organizationally, the committee stands apart from all other district departments and functions. Any internal auditors, whether district employees or contracted audit firms, should report to the audit committee regularly.

The Governing Board and Superintendent should establish a charter and bylaws for the audit committee that define:

- a. Functions and objectives
- b. How members are appointed
- c. Terms for members
- d. Voting and quorum requirements
- e. How the members are to involve and communicate with district management and the Governing Board

Composition

Typically, an audit committee is composed of five to seven people. Ideally, committee members should have business or legal backgrounds. While the committee may include members from the district, those district members should not dominate it. To ensure independence, a majority of the committee’s members should be from outside the district. In accordance with district policy, minimal compensation and expense reimbursements may be given to committee members.

Committee Charge

Typically the audit committee's does the following:

- a. Oversee the independent audit and reporting process. This includes the selection of the independent auditor, preferably through a bid process that focuses primarily on qualifications before price.
- b. Ensure timely attention is paid to control and compliance weaknesses. The external and internal auditors are required to communicate all findings to the committee. Management is responsible for responding to the findings, as part of the resolution process.
- c. Encourage legal and ethical conduct of management and employees through the audit process. The audit committee, through its assignments to internal audit staff or by its evaluation of external audit findings, should hold the management and staff accountable for adhering to board policy regarding legal and ethical conduct.
- d. Increase confidence in the financial reporting process. The audit committee helps ensure that the financial reports are adequately reviewed and accurately stated, as verified by the auditors.
- e. Provide an annual report to the Governing Board, Superintendent, and management. The report should identify significant issues related to financial statements, the annual audit and internal audits (including findings), and the audit committee's recommendations.

Frequency of Meetings

There are obvious times during the year when the audit committee should meet, such as:

- a. To select the independent auditor. This may not be an annual task, since most agencies have multiyear contracts for audit services.
- b. To meet with the independent auditor to review the audit findings. This is an annual task that includes follow-up on prior audit findings.
- c. To meet with management regarding the audit findings and resolutions resulting from external and internal audits.
- d. To meet with the internal auditor to make annual work assignments and to review the internal audit reports.

Committee Authority

Any organization brings with it various political realities and the potential for misdirected agendas. While there is the potential for the committee to overstep its delegated powers, the committee process in its nonpublic setting involves, by nature, more behind-the-scenes work. Thus, the committee has the responsibility to sift through the facts for accuracy and, as appropriate, offer management an opportunity to act on the facts or even resolve the issues.

Standard Implemented:

January 2000 Rating:	0
September 2003 Rating:	0
March 2004 Self-Rating:	0
March 2004 New Rating:	0

Implementation Scale:

1.6 Internal Control Environment – Hiring Policies and Practices Governing Financial Management and Staff

Professional Standard

The district should have procedures for recruiting capable financial management and staff, and hiring competent people. [SAS-55, SAS-78]

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has taken steps to improve the hiring process, with the goal of attracting and retaining qualified and technically proficient staff. The district created new job classifications/job descriptions for positions such as Financial Services Officer, Fiscal Services Manager, Fiscal Analyst, Information Technology Officer, and Risk Management Officer to align them with the actual tasks performed. In addition, the district also has evaluated the minimum qualifications/experience and educational requirements for these new positions to align them with the required levels of knowledge. In addition, the district has begun to advertise these positions in both local newspapers and professional publications.

However, the majority of positions cited are at the upper management level. It is not clear that the same changes have been made across the basic supervisory and working level positions. Accordingly, the district still needs to evaluate the rest of its accounting and budget positions to ensure that job classifications, job duties, and experience and educational requirements are aligned with the actual functions. Further, the process for advertising and evaluating/interviewing candidates—including an interview by the prospective employee’s supervisor—should be formalized in policies/procedures.

The district needs to determine whether it can advertise represented positions outside the district. If so, a policy and procedures should be adopted for advertising all vacancies outside the district to ensure a large pool of qualified candidates for all positions.

The district should continue efforts to evaluate positions in the business office to ensure that job classifications, job duties, and experience and educational requirements are aligned with the actual duties that prospective employees will perform.

The Business Department is considering the implementation of a process to test core competencies for entry-level positions. However, such a process is only in the discussion phase.

2. The district has not provided formal training to its managers and supervisors regarding the legal and technical aspects of the hiring process, conducting hiring interviews and evaluating the qualifications of candidates.

The district needs to implement the previous recommendation to provide training to supervisors and managers regarding the legal and technical aspects of the hiring process, including the areas of interviewing candidates and evaluating qualifications.

3. For recent hires, the district appears to be checking references. However, there is nothing to indicate that the district has adopted and implemented formal policies and procedures related to verifying credentials, work history, and references of employment candidates.

The business office should work with the Personnel Department to develop formal policies and procedures regarding the verification of employment history, credentials, and references for employment candidates. Those policies and procedures should establish a consistent system of background and reference checks that designates the employee responsible to perform the check, what checks are made, and how the records are documented for the results of the checks.

Standard Implemented:

January 2000 Rating:	2
September 2003 Rating:	2
March 2004 Self-Rating:	4
March 2004 New Rating:	3

Implementation Scale:

1.7 Internal Control Environment – Employee Performance Appraisals

Professional Standard

All employees should be evaluated on performance at least annually by a management-level employee knowledgeable about their work product. The evaluation criteria should be clearly communicated and, to the extent possible, measurable. The evaluation should include a follow-up on prior performance issues and establish goals to improve future performance.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has not implemented the recommendation to require and ensure that all business employees are evaluated at least annually, and that such evaluations adequately measure job skill and performance related to the individual job.
2. The district should implement the prior recommendation to work with the personnel staff to ensure that all staff is evaluated at least annually. Evaluation of staff members should be the responsibility of each supervisor and manager, and completion of those evaluations should be one of the criteria for evaluating individual supervisors/managers. The district needs to implement a process to track and monitor outstanding evaluations for all employees.
3. The evaluation process and related form(s) should be adequate to evaluate the employees' skill and performance related to their specific job. In addition, the evaluation should identify areas for future improvement and establish goals and methods related to improvement areas. The evaluation, and specifically any areas identified for improvement, ideally should tie to the staff training plan developed for the employee.

Standard Implemented:

January 2000 Rating:	3
September 2003 Rating:	2
March 2004 Self-Rating:	not rated
March 2004 New Rating:	2

Implementation Scale:

2.4 Inter- and Intra-Departmental Communications – Communication of Illegal Acts

Professional Standard

The district should have formal policies and procedures that provide a mechanism for individuals to report illegal acts, establish to whom illegal acts should be reported and provide a formal investigative process.

Progress on Implementing the Recommendations of the Recovery Plan

1. The Governing Board has not implemented the prior recommendation to adopt policies regarding its commitment to :

- Legal and ethical conduct by all employees
- Implementing a system of policies and procedures to prevent and detect fraud
- Pursuing all instances of fraud to the full extent of the law

The district should implement the prior recommendations to establish policies to prevent and detect fraud.

2. The district has hired a consultant to draft policies and procedures for the business functions. However, the consultant is just beginning the process of developing those policies and procedures. At the time of the review, the district had not modified previously existing policies and procedures or adopted new ones in order to prevent and detect fraud.

The accounting office should review the procedures being drafted by its consultant to ensure those procedures provide sufficient controls to greatly reduce the likelihood that fraudulent activity could occur and not be detected in the normal processing of transactions. Appropriate activities include separation of duties, supervision and review of work, adequate ongoing job training, job rotations, and mandatory vacation policies.

3. The district has not implemented the prior recommendation to establish a hotline for reporting suspected fraud.

The district should implement an anonymous fraud hotline that provides easy access for reporting suspected fraudulent activity. The hotline should be a function of the Internal Audit Unit. All hotline calls should be logged, evaluated by the internal audit manager, prioritized, and assigned for investigation. The Internal Audit Unit would be responsible for coordinating activities with the other district and external entities.

4. The district has not implemented the prior recommendation to establish an internal audit unit that is organizationally independent. The district should establish an Internal Audit Unit that is organizationally independent and reports either to the Superintendent or the audit committee.

Standard Implemented:

January 2000 Rating:	0
September 2003 Rating:	0
March 2004 Self-Rating:	Not rated
March 2004 New Rating:	0

Implementation Scale:

4.2 Internal Audit – Organization and Management of Internal Audit Functions

Professional Standard

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

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has not implemented the prior recommendation to establish an independent audit function to review and evaluate district programs and operations on an ongoing basis.
2. The district should implement the prior recommendation to establish an independent internal audit function that is staffed by qualified employees, and which is under the direction of an independent body, such as an audit committee. Specifically:
3. The board should adopt policies establishing an internal audit function for the district. The policies should address necessary qualifications for both the manager/supervisor and staff positions. The minimum qualifications should include a four-year degree and CPA, CIA, CISA, or CFE certification, or equivalent audit experience.
4. The Internal Audit Unit should have from one to three staff members. One position should have supervisory/management experience and be responsible for the daily oversight and management of work. Duties for this manager position would include:
 - Acting as liaison to the Superintendent, CBO, Audit Committee, and board
 - Preparing the annual audit plan
 - Scheduling work and coordinating with the other departments
 - Supervising work and reviewing work papers to ensure adherence to professional standards
 - Evaluating employees and preparing training plans to ensure compliance with continuing professional education requirements
5. The Internal Audit Manager should present reports to the audit committee or the board. In addition, the manager should provide periodic progress reports for projects currently in process.
6. The audits should follow standards established by the Institute of Internal Auditors. In addition, the department should:
 - Use planning memoranda to plan and manage audits
 - Use standard audit programs
 - Have standard requirements for work paper documentation, cross-referencing, and maintenance of work paper files
 - Have policies and procedures regarding sampling methodologies and materiality
 - Provide draft reports to the department/sites/programs being audited in order to obtain comments and additional information. If draft findings are not resolved, the department's comments should be included in the final report.

Standard Implemented:

January 2000 Rating:	0
September 2003 Rating:	0
March 2004 Self-Rating:	Not rated
March 2004 New Rating:	0

Implementation Scale:

4.4 Internal Audit – Organizational Placement and Establishment of Workplan

Professional Standard

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

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has hired a consultant to develop policies and procedures and provide the related staff training. This work will formalize processes for the business office's basic functions, will provide training and reference materials, and will provide basic criteria/benchmarks for supervisors, managers, and the internal audit staff to review and evaluate transactions. The district has not implemented the prior recommendation to establish an independent audit function to review and evaluate district programs and operations on an ongoing basis.
2. The district should implement the prior recommendation to establish an internal audit function that is independent of all operation areas and staff. Accordingly, the internal audit function should have reporting responsibility to the audit committee and Superintendent/State Administrator. The Internal Audit Unit should develop an annual work plan identifying areas of previous noncompliance that are otherwise considered high risk, and have the plan approved by the audit committee. Additional requests for review should be initiated by a request to the audit committee, which will either approve or disapprove such requests. In addition, the audit committee should be able to authorize additional reviews to be made by the internal audit staff during the course of the year.

Standard Implemented:

January 2000 Rating:	New
September 2003 Rating:	0
March 2004 Self-Rating:	2
March 2004 New Rating:	0

Implementation Scale:

5.6 Budget Development Process (Policy) – Projection of the Net Ending Balance

Professional Standard

The district must have an ability to accurately reflect its net ending balance throughout the budget monitoring process. The first- and second-interim reports should provide valid updates of the district's net ending balance. The district should have tools and processes that ensure that there is an early warning of any discrepancies between the budget projections and actual revenues or expenditures.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district did not implement the prior recommendation to:
 - Identify the characteristics of budget overruns that occurred in prior years.
 - Establish a task force to identify factors that allowed such overruns to occur and did not provide sufficient prior warning.
 - Establish written policies regarding fiscal operations, monitoring, and the closing process to improve control over transactions and the quality of budget monitoring.

At this point in time, the district does not intend to review and evaluate budget overruns for prior years or assemble a committee or task force to evaluate the situation. An exception to this is the prior informal review by fiscal administrators and the state controller's audit. However, the district is in the process of developing policies and procedures and providing staff training to implement needed internal controls. The completion of that project is June 2004, with initial implementation beginning for the 2004-05 fiscal year.

Given the passage of time and the limited resources, the district has to address other pressing fiscal issues. It may not be particularly critical for the district to implement the prior recommendation to assemble a task force. However, it is important for the district to establish policies and procedures regarding the requirement to monitor and evaluate budgeted and actual revenues and expenditures during the course of the fiscal year, and to determine the effect on the projected net ending balance. The district is developing and implementing policies and procedures that will provide greater oversight and control over the processing of financial transactions and the monitoring of the budget; but such items are not currently in place.

The district established written policies addressing the monitoring of revenues, expenditures, and projected net ending balances during the year. In addition, the district should formalize the processes for preparing interim reports, including a third interim report.

2. The district did prepare a third interim report for the 2002-03 fiscal year, and, given its financial situation, will likely be required to file a third interim report for the current 2003-04 fiscal year. The interim reports, particularly the use of a third interim, provide the district with a specified period of time to update its projections and evaluate its projected net ending balances. For the 2002-03 fiscal year, there were significant differences between the net ending balances projected in the interims and the unaudited actuals. In addition, the district's first interim report showed a significant change in net ending balances from the original

budget due to changes in beginning fund balances and projected revenues and expenditures. These changes show that the district is attempting to monitor changes throughout the year. As financial information is updated, staff members are further trained, policies and procedures are implemented, and supervision and monitoring are increased, the district should be better able to project revenues, expenditures, and fund balances. At this time, the effectiveness and accuracy of the monitoring cannot be evaluated. These items will be evaluated in the subsequent follow-up reviews when additional information is available.

It is recommended and required by AB 1200 that the district continue to prepare a third interim report for future fiscal years. The third interim report is used to forecast problems more accurately in the year-end closing so that the district has advance knowledge of the issues that will be faced.

The third interim report should reflect revenues and expenditures through April 30, and be delivered to the Governing Board in open session no later than May 31. While this third interim report has a shorter deadline than other interim reports, the time line is required to give the district notice regarding year-end balances.

3. The district has provided some in-house training to board members regarding the financial reporting process and how to interpret the information contained in the reports. However, a comprehensive training process has not occurred to date.

The Governing Board should be encouraged to take formal training on financial reporting, how to read financial reports such as the interim reports, and the characteristics of this reporting. Training can be obtained through various organizations such as the California School Boards Association. In addition, the district fiscal staff should continue to provide in-house training to board members, and provide study sessions as necessary for items such as the budget and financial statements.

Standard Implemented:

January 2000 Rating:	0
September 2003 Rating:	0
March 2004 Self-Rating:	4
March 2004 New Rating:	2

Implementation Scale:

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

Professional Standard

The budget office should have a technical process to build the preliminary budget that includes: the forecast of revenues, the verification and projection of expenditures, the identification of known carryover and accruals, and the inclusion of expenditure plans. The process should clearly identify onetime sources and uses of funds. Reasonable average daily attendance (ADA) and cost-of-living-adjustment (COLA) estimates should be used when planning and budgeting. This process should be applied to all funds.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has not implemented the prior recommendation to formalize its budget development process in a procedures manual and also have desk manuals for each position that specify how the various tasks should be carried out. This type of reference material would help to increase the efficiency and accuracy of the preparation of budget data, and also provide a resource to maintain continuity in the case of staff turnover. The district should implement the prior recommendation.

The district has hired a consultant to write policies and procedures for the business functions, but that process began only recently. Therefore, formal policies and procedures or desk manuals will not be completed for the 2004-05 budget-development process.

2. The district has been implementing the Bi-Tech integrated financial system over the last several years. The financial reporting modules (general ledger, accounts payable, accounts receivable, and purchasing) were previously implemented. In January 2004, the district implemented the integrated human resources/payroll module. This is a significant step for the district, and the speed with which the module was implemented is a major achievement. Concurrent with the implementation process, the district provided basic training to the human resources and payroll staff. In addition, the district has taken steps to verify its human resources/payroll database by canceling direct deposits and requiring the staff to pick up an actual pay warrant and provide proof of identification.

However, the implementation was only one of the most basic elements and functions, and a significant amount of work still needs to be completed to fully implement the human resources/payroll module. Tasks that still to be accomplished include:

- Implementing the absence reporting and substitute-calling system
- Putting seniority information on the system
- Putting credentialing information on the system
- Formalizing, documenting, and communicating the payroll process and time lines
- Formalizing, documenting, and communicating human resource processes and time lines
- Developing and documenting security codes
- Identifying and developing needed payroll reports
- Verifying and correcting payroll calculations in the system

In addition, because the system has only recently been implemented, there is no historical experience or data to indicate whether it has sufficient controls to ensure data integrity or that the district maintains control over its positions.

The district should continue to implement the human resources/payroll system to ensure that it is fully functional and provides adequate controls. Specific items need to be addressed to fully implement the human resources/payroll module. Several tasks still to be accomplished, including the items listed above.

It does not appear that the district will be in a position to use the system's position budgeting function to develop the 2004-05 budget. The district should take all steps necessary to implement and utilize the system's position budgeting function at the earliest possible date.

3. The district provided information documenting that the Human Resources Department compiled and provided cost information for the 2003-04 fiscal year regarding the early retirement incentive program, and is prepared to provide that information for preparing the 2004-05 budget. However, it does not appear that the Human Resources Department provides information regarding column movement or normal retirements for budget development purposes. Ultimately, with the complete implementation of the human resources/payroll module, and the full implementation of position control and position budgeting, a significant amount of this information will be generated by the system. However, the Human Resources Department still needs to be an active participant in the budgeting and monitoring process.

The budget office should work with the Human Resources Department to obtain the most accurate information available regarding cost effects of retirements, the early retirement incentive program, and column movement in developing the 2004-05 budget.

4. The district has changed the 2004-05 budget development process for the Special Education Department to include the Financial Services Officer and an outside consultant, as well as the Executive Director of Special Education in projecting revenues and expenditures. In addition, these administrators are reviewing and monitoring current year revenues and expenditures to identify potential reductions in costs and encroachment.

These actions are a good start in addressing program and fiscal issues for the special education program. However, their effectiveness cannot be fully evaluated at this time. In addition, these procedures should be formalized in a manual as identified in item No.1 of this section. This is necessary to ensure that the procedures are followed from year to year and to ensure the integrity and quality of the special education budget.

The district should continue to monitor the special education budget, and should formalize the process for developing the budget.

5. Per the Chief Financial Officer, the district budget process has been revised and now is based on actual revenues and expenditures rather than the prior year budget. Categorical funding is based on information contained in grant letters and the district's consolidated

application. Revenue limit funding is based on prior year P-2 ADA, due to the district's declining enrollment. Again, these procedures should be formalized in the procedures manual.

6. The district has discontinued the process of negative budgeting to balance the budget.

Standard Implemented:

January 2000 Rating:	3
September 2003 Rating:	0
March 2004 Self-Rating:	4
March 2004 New Rating:	2

Implementation Scale:

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

Professional Standard

The district should have procedures that provide for the development and submission of a district budget and interim reports that adhere to criteria and standards and is approvable by the county office.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has hired a permanent Chief Financial Officer as well as additional senior financial managers, which has brought some stability to the business office. As a result, the district submitted its first interim report on a timely basis. However, the report still had several errors, and the Alameda County Office of Education had significant questions regarding the report and the information and assumptions it contained. The district is attempting to address the issues specific to the first interim report and to the larger issue of the district's financial reporting. Some issues, such as the late submission of the audit reports for 2001-02 and 2002-03, are beyond the district's control. Nevertheless, the district has not yet achieved sufficient accuracy and consistency in its reporting necessary to receive the county's approval on its initial submission. This item will be re-evaluated in the next follow-up review.
2. Given the district's continued negative financial position and the ongoing decline in enrollment, the Alameda County Office of Education should continue its close review of the district's interim reports. This review should help the district ensure that its financial information is accurate by pointing out errors or unusual items. Similarly, the district needs to continue to improve its financial reporting processes by documenting policies and procedures, providing staff training, and increasing supervision and monitoring. These items should assist the district in monitoring its financial condition and preparing timely and accurate reports for the county.

Standard Implemented:

January 2000 Rating:	7
September 2003 Rating:	0
March 2004 Self-Rating:	4
March 2004 New Rating:	3

Implementation Scale:

7.7 Budget Adoption, Reporting and Audits – Audit Administration and Resolution, Audit Resolution

Professional Standard

The district should include in its audit report, but not later than March 15, a corrective action for all findings disclosed as required by Education Code Section 41020.

Progress on Implementing the Recommendations of the Recovery Plan

Because the district has not received its final audit report for either the 2001-02 or 2002-03 fiscal years, it has not been able to comply with the Education Code requirement. The district stated that it did respond to audit findings during the audit process, but because the audit had not been finalized or released by the auditors, the information was not available for review. Further, the State Controller's Office has stated that its audit of the 2002-03 fiscal year will not be completed until some time in March 2004. Therefore, the district likely will be unable to comply with the Education Code requirement again. As such, the district's compliance with this item will be evaluated in subsequent follow-up reviews as applicable.

When the district receives its audit report(s) it should:

1. Provide sufficient detail in its responses to all audit findings to function effectively as a comprehensive corrective action plan.
2. Provide a supplemental plan to the county office by March 15 (or within 90 days of receipt if the audit is completed after March 15) if the district does not or cannot provide a sufficiently comprehensive corrective action plan in its response to the audit report findings.
3. Implement the necessary corrective measures to resolve all findings identified in its annual audit report.

Standard Implemented:

January 2000 Rating:	3
September 2003 Rating:	0
March 2004 Self-Rating:	0
March 2004 New Rating:	0

Implementation Scale:

7.9 Budget Adoption, Reporting and Audits – Compliance with Financial Reporting Requirements of GASB 34

Professional Standard

The district must comply with Governmental Accounting Standard No. 34 (GASB 34) for the period ending June 30, 2003. GASB 34 requires the district to develop policies and procedures and report in the annual financial reports on the modified accrual basis of accounting and the accrual basis of accounting.

Progress on Implementing the Recommendations of the Recovery Plan

1. Consistent with GASB 34, the district prepared both funds and governmentwide financial statements for the 2002-03 fiscal year via the SACS year-end reporting software. However, because the district has not received its audit report for the 2002-03 fiscal years, it is unclear whether such reporting conforms to the requirements of GASB 34. This item will be evaluated in the subsequent follow-up review.

Standard Implemented:

January 2000 Rating:	New
September 2003 Rating:	0
March 2004 Self-Rating:	4
March 2004 New Rating:	2

Implementation Scale:

7.10 Budget Adoption, Reporting and Audits – Interim Reports and Projection of Ending Fund Balance

Professional Standard

The first and second interim reports should show an accurate projection of the ending fund balance. Material differences should be presented to the board of education with detailed explanations.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district did update its projected ending balance at the first interim reporting period. This information was provided to the State Administrator and Board of Education at a board retreat. The information the identification of major changes in revenues and expenditures, such as salary expenditures, benefit costs, indirect costs, and reserve requirements. The first interim report was also presented at the December 10, 2003 board meeting.

This process and the information provided will be reviewed for the second and third interim reports in the subsequent follow-up review. At that time, information about the accuracy of the projected information and the consistency of the district's process will be available.

2. The district should continue to monitor its revenues and expenditures on an ongoing basis, in order to allow it to accurately project its ending fund balances. Revisions to revenues, expenditures, and ending fund balances should be provided to the Board of Education with supporting information and an explanation of the changes. The district should formalize the process for monitoring its budget, preparing the interim reports, and presenting the information to the Board of Education.

Standard Implemented:

January 2000 Rating:	New
September 2003 Rating:	0
March 2004 Self-Rating:	4
March 2004 New Rating:	2

Implementation Scale:

8.1 Budget Monitoring – Encumbrance of Overexpenditures

Professional Standard

All purchase orders are properly encumbered against the budget until payment. The district should have controls in place that ensure adequate funds are available prior to incurring financial obligations.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district did provide training for users of the financial system during the fall of 2003. The training covered topics such as purchase requisitions, online receiving and stores requisitions, system reports and online queries, and administrator training.

For the 2003-04 fiscal year, it does not appear that the district moved to a formal process for holding principals and managers accountable for their budgets. In this process, performance appraisals would address financial management as one evaluative criterion. However, for the 2004-05 fiscal year, the district is moving to a results-based budgeting process in which budget management moves to the site and department level. It is anticipated that implementation of this recommendation will occur naturally with the new budget model.

For the 2004-05 fiscal year, the district should implement the prior recommendation to establish a formal process for holding principals and managers accountable for their budgets. In this process, performance appraisals would address financial management as one evaluative criterion.

The district has not implemented the prior recommendation to discontinue the practice of processing paper budget transfers. This is because sufficient controls have not been established in the IFAS financial system to prevent administrators and managers from transferring funds between resources either inadvertently or intentionally. Therefore, this recommendation is still pending.

The district needs to implement adequate controls in the financial system to prevent administrators and managers from transferring funds between resources either inadvertently or intentionally. After controls are in place, the district should implement the prior recommendation to discontinue the practice of processing paper budget transfers.

2. The district has not implemented the prior recommendation to research those accounts that were overexpended, in order to determine on an account-by-account, transaction-by-transaction basis why the system was overridden. Further, the district has not yet revised or developed formal policies to prohibit system overrides. However, the district has reported implementing budget blocking, which essentially prevents most administrators and managers from expending beyond the available budget. Budget blocking can be superceded, but such authority is limited to a small number of senior fiscal administrators. Budget blocking was superceded in some instances.

The district should implement formal policies and procedures prohibiting administrators and managers from exceeding their budgets without approval from the district's Chief Financial Officer or designees. In addition, the district should adopt a formal policy identifying those

administrators with the authority to override budget blocking and requiring a formal report to the State Administrator/Superintendent and Governing Board when budget controls are overridden. The district should investigate current instances where budget blocking was superceded.

3. The district has partially implemented the prior recommendation to budget substitute and overtime/extra-duty costs at the site level. The district continues to have a pool of substitutes, however, they are not assigned to specific sites. Instead, they are assigned to sites by the district office as needed to cover absences and vacancies.

The district should fully implement the prior recommendation to budget substitute and overtime/extra-duty costs at the site and department level, districtwide.

4. The district has not implemented the previous recommendation to establish policies and procedures, including limits, on the processing of purchase orders if the amount is greater than the amount identified in the purchase requisition. The district should implement the previous recommendation.
5. The district has indicated that it will eliminate the year-end practice of entering purchases as “received” on the financial system even though the items have not been delivered. This item will be evaluated in the next follow-up review.

The district should adopt a formal policy to prohibit the year-end practice of entering purchases as “received” on the financial system even though the items have not been delivered. The district should also implement policies to prohibit, and procedures to verify, that such pre-receiving is not performed at year end. This item will be evaluated in the next follow-up review.

Standard Implemented:

January 2000 Rating:	0
September 2003 Rating:	0
March 2004 Self-Rating:	4
March 2004 New Rating:	2

Implementation Scale:

8.2 Budget Monitoring – Monitoring of Department and Site Budgets

Professional Standard

There should be budget monitoring controls, such as periodic reports, to alert department and site managers of the potential for overexpenditure of budgeted amounts. Revenue and expenditures should be forecast and verified monthly.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district implemented the prior recommendation to implement the human resources/payroll module of the Bi-Tech system. This will integrate the personnel/position control functions with the financial management systems. The implementation of this module allows the integration of the budget and personnel systems and enables the budget office to enter changes directly into the budget accounts. If the district utilizes the new system appropriately, it should provide for the exchange of data that improves the efficiency of work, the accuracy of data maintained, and the quality of projections made, and allows more efficient, accurate, and timely processing of budget transactions. However, it appears that the district will not be in a position to use the system capabilities of position budgeting/rolling positions to develop the 2004-05 budget, which is one of the primary benefits of the human resources/payroll module.

The district is in the process of developing documentation, procedures, and desk manuals for users of the new system. However, those items are not in yet in place. While the position control function is in the budget office, the human resources staff can still access and modify position control. Given that personnel costs are the largest part of the district's budget and given the district's history of problems with budget overruns and controls being circumvented or overridden, the district must ensure that there is appropriate segregation of duties, and that access to the system is carefully controlled.

The district should complete implementation of the human resources/payroll system as quickly as possible. Priority items include establishing security controls, documenting the system, providing user documentation/desk manuals, and providing ongoing training for the staff. In addition, the district should implement access controls to prevent the human resources staff from being able to modify position control information.

The district also should monitor system modifications or implement other measures to identify when security protocols are changed or overridden.

2. The district has not implemented the prior recommendation to investigate instances in which transactions were processed with insufficient funds available in the budget, nor has it identified by whom and why transactions were allowed to be processed and the budgetary control overridden.

The district does have budget blocking capabilities in the financial system that will prevent budgets from being overrun. However, while the district is in the process of establishing policies and procedures to ensure that system overrides are minimized and can be authorized only by specified management staff, those policies and procedures have not yet been formalized and are not in place.

The district should implement policies and procedures regarding budgetary control and the authority to override the financial system controls to prevent budget overruns.

3. The district has revised the budget office staff duties so that each staff member is responsible for monitoring the budgets of specific sites/departments at the resource level. The Budget Analyst uses weekly reports to monitor categorical budgets by resource. Additionally, the district has created reports for principals, administrators, and department heads to assist them in monitoring their budgets. However, while the staff has assigned responsibilities, there are no formalized policies and procedures. In several instances, encumbrances and expenditures to date exceeded the working budget. Therefore, the district has not completely implemented the previous recommendation to monitor all budgets monthly for unusual spending patterns and take appropriate action.

The district should implement formal policies and procedures regarding budget monitoring and the monthly review of site/department budgets at the resource level. The district needs to review the current budget reports and address all instances where encumbrances and expenditures exceed budget authority. The district should determine how the system controls were circumvented and take appropriate measures to prevent this from happening again.

4. The district has implemented the previous recommendation to forge a closer and more active working relationship between the Special Education Department and fiscal services. However, it has not implemented the previous recommendation to establish formal written policies and procedures to preclude the department from hiring staff or entering into contracts without budget review and approval. While there is monthly monitoring of the special education budget, the district does not have scheduled monthly meetings between the Director of Special Education, the Assistant Superintendent for Human Resources, and the Controller to review the year-to-date expenditures and budget projections for the rest of the year.

The district should continue monitoring special education revenues and expenditures to prevent budget overruns. The district should also formalize the budget monitoring process and responsibilities of the Special Education Department and the budget office.

Standard Implemented:

January 2000 Rating:	0
September 2003 Rating:	0
March 2004 Self-Rating:	4
March 2004 New Rating:	2

Implementation Scale:

8.4 Budget Monitoring – Position Control

Professional Standard

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

Progress on Implementing the Recommendations of the Recovery Plan

1. The district implemented the previous recommendation to implement the Bi-Tech IFAS human resources/payroll module, which integrates the position control functions. However, as identified in prior standards, while the district is using the human resources/payroll module now, additional items must be completed before it is completely functional and provides the needed level of security and control (see standards 6.1 and 8.2).

The district needs to complete its implementation of the human resources/payroll system by addressing items such as:

- Implementing the absence reporting and substitute-calling system
 - Putting seniority information on the system
 - Putting credentialing information on the system
 - Formalizing, documenting, and communicating the payroll process and time lines
 - Formalizing, documenting, and communicating human resource processes and time lines
 - Developing and documenting security codes and other controls to ensure data integrity
 - Identifying and developing needed payroll reports
 - Verifying and correcting payroll calculations in the system
2. The district has basically implemented the previous recommendation to establish the position control function in the budget office, with all personnel transactions related to a position processed through the budget office first in order to ensure both the availability of a position and the adequacy of funding. However, the human resources office still has access to the position control screens and can modify the data. Therefore, while the recommendation has been implemented, an insufficient number of access controls are in place.

The district needs to establish access controls that will prevent human resources staff members from being able to modify information in the position control screens.

In addition, while the district did revise its personnel forms, it did not implement the previous recommendation to consolidate them.

3. The prior recommendation related to the performance of position control functions in the old system is no longer relevant because the district converted to the Bi-Tech IFAS human resources/payroll module in January 2004.

- 4. The previous recommendation related to the old personnel/position control system is no longer relevant because the district converted to the Bi-Tech IFAS human resources/payroll system in January 2004.

- 5. The district did not implement the prior recommendation to validate the personnel/position control data, such as the number of authorized, filled, and available positions and account coding, prior to being transferred to the new system. To the extent possible, the district should validate the accuracy of position control information, particularly related to funding codes and FTEs.

Standard Implemented:

January 2000 Rating:	4
September 2003 Rating:	2
March 2004 Self-Rating:	3
March 2004 New Rating:	2

Implementation Scale:

8.5 Budget Monitoring – Management of the Routine Restricted Maintenance Account

Professional Standard

The routine restricted maintenance account should be analyzed routinely to ensure that income has been properly claimed and expenditures are within the guidelines provided by the State Department of Education. The district budget should include specific budget information to reflect the expenditures against the routine maintenance account.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district budget includes approximately \$10 million for routine restricted maintenance. This amount may be slightly low based on 3 percent of the district's general fund budget. In addition, the district does not routinely analyze the account to ensure the accuracy and propriety of expenditures.
2. The district should review its calculation of the required routine restricted maintenance contribution to ensure that it is meeting its 3 percent obligation. In addition, the district should review and analyze expenditures to ensure that all expenditures meet the state's guidelines to qualify as routine restricted maintenance expenditures.

Standard Implemented:

January 2000 Rating:	New
September 2003 Rating:	1
March 2004 Self-Rating:	3
March 2004 New Rating:	2

Implementation Scale:

10.1 Investments – Investment Policy and Quarterly Approvals

Professional Standard

The Governing Board must review and approve, at a public meeting and on a quarterly basis, the district's investment policy. [GC 53646]

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has not implemented the prior recommendation to develop a formal investment policy.
2. The district should have the board adopt an investment policy that formalizes the current quarterly reporting process consistent with Government Code requirements, and is authorized annually.
3. Since the district has not developed a formal investment policy, it has not implemented the prior recommendation to have the Governing Board adopt and annually reauthorize the formal policy for the investment of surplus funds.
4. The district has implemented the prior recommendation to report to the board quarterly on its investments. However, it does not appear that the district has a specific policy requiring the quarterly reporting in accordance with Government Code Section 53646.
5. The district does not have any investments outside the county treasury. However, if such investments were held, they would be included in the quarterly investment report and reviewed at that time.

Standard Implemented:

January 2000 Rating:	0
September 2003 Rating:	0
March 2004 Self-Rating:	2
March 2004 New Rating:	2

Implementation Scale:

11.1 Attendance Accounting – Accuracy of Attendance Accounting System

Professional Standard

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

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has implemented the prior recommendation and is in the process of evaluating bids from six vendors for a new student system. However, the system will not be functional until the 2005-06 fiscal year at the earliest.

The district should continue evaluating, selecting and completing a new student system, with 2005-06 as the target date for conversion.

2. The district had a mandatory half day of training for site clerical/attendance staff. The training focused primarily on how to record and report attendance using the SASI system. In the process, the training did touch upon some of the legal requirements, but was primarily focused on the rote SASI processes

The district should expand its current attendance training program to at least a full day, and provide more information regarding compulsory education laws, reporting requirements, and pertinent definitions to provide the staff with a fuller understanding of attendance requirements and the importance of accurate reporting. This training should supplement the current information provided regarding the SASI system and hardware utilization.

3. The district has not implemented the prior recommendation to formally establish the accurate and timely completion and submission of attendance reports, an evaluative criterion in the annual reviews of teachers and principals. The district is monitoring to determine which sites are not sending attendance information to the district office on a timely basis, and this appears to have improved compliance. However, there has been no action to date to link the monitoring data with the annual review process.

The district should implement the prior recommendation to make attendance reporting an evaluative criterion in the annual performance review for teachers and principals.

4. The district has implemented the prior recommendation to continue monitoring “Unscanned Attendance Roster Reports” for the prior period, i.e., the second prior week, to ensure that all sites have scanned the sheets.
5. The district has implemented the prior recommendation to continue the process of having a person at each site verify student absences with the parent/guardian on the same day. Additionally, the district has implemented the prior recommendation to vigorously pursue its positive student attendance initiative, and place particular emphasis on students with excessive excused and unexcused absences. A large part of the effort is focused on identifying and tracking students with attendance problems and utilizing truancy notices, and student attendance review teams, and the student attendance review board.

6. The district did not provide clear evidence that it specifically addressed the prior recommendation to inform parents and the site staff of the difference between a parent-approved absence that is excused - by Education Code and board policy definitions - from one that is unexcused and subject to compulsory education legal actions. The district did undertake a public information campaign aimed at improving student attendance, but it is not clear that it specifically addressed the issue of excused versus unexcused absences.

The district should develop parent information that clearly explains the difference between excused and unexcused absences pursuant to the Education Code. This information should be distributed in a parent handbook from each site, on the district's Web page, on each school's homepage, and in the district's general public relations campaign.

7. The district did not implement the prior recommendation to develop attendance reports to identify independent study absences of less than five consecutive school days to ensure no apportionment is inadvertently claimed. The district should implement the prior recommendation.
8. The district did not implement the prior recommendation to replace/repair/service all attendance hardware, including scanners, to ensure that the equipment is in good working condition. Equipment failures result in late and inaccurate attendance reporting. The district should implement the prior recommendation.

After the 2003-04 school year, the district should evaluate all aspects of its attendance improvement efforts to determine whether they sufficiently increased attendance and revenues to justify continuing the expenditures associated with this program.

Standard Implemented:

January 2000 Rating:	4
September 2003 Rating:	3
March 2004 Self-Rating:	0
March 2004 New Rating:	4

Implementation Scale:

11.4 Attendance Accounting – Instructional Time Requirements

Professional Standard

At least annually, the district should verify that each school bell schedule meets instructional time requirements for minimum day, year and annual minute requirements.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has not implemented a formal process that documents that bell schedules meet instructional time requirements. Currently, the executive directors are responsible for verifying that the bell schedules and school calendar help the district meet the various instructional time requirements related to number of days, minimum days, and annual minutes. However, the executive directors do not submit anything to the business office showing their calculation/verification of compliance with legal requirements. Also, there is no information or process to verify that each student is scheduled for the minimum day in order to qualify for apportionment purposes.
2. The district can continue its current process of holding executive directors responsible for ensuring that instructional time requirements are met. However, the district should implement a process in which the executive directors submit the bell schedules, school calendar, and calculation of instructional time to the Attendance Analyst in the business office for verification.

Standard Implemented:

January 2000 Rating:	6
September 2003 Rating:	6
March 2004 Self-Rating:	3
March 2004 New Rating:	3

Implementation Scale:

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

Professional Standard

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

Generally Accepted Accounting Principles (GAAP) require that in order for financial reporting to serve the needs of the users, it must be reliable and timely. Therefore, the timely and accurate recording of the underlying transactions (revenue and expenditures) is an essential function of the district's financial management.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has begun to implement the prior recommendation to reorganize the Accounting Department and increase the overall technical proficiency and skill level of the staff. Specifically, the district has hired new senior fiscal administrators and established new fiscal positions in the Budget Department. The job duties and minimum qualifications for the new fiscal analyst positions were evaluated and revised to align the position requirements with the actual work. The district is also evaluating the use of standardized written tests for entry-level fiscal positions. In addition, the district has been providing training for the current fiscal staff.
2. Notwithstanding the above items, the district needs to continue to improve staff capacity to ensure that work will be processed timely and accurately and support proper financial reporting. Specifically, the district should perform a skills/training assessment for all fiscal employees and then develop an annual training plan for each staff member to improve technical skills and professional knowledge. This training plan should be supported with annual, or preferably semiannual, performance reviews that assess current performance and status of training. These reviews then provide the basis to upgrade the employee training plan. These individual training plans should be reviewed in aggregate to develop an overall training plan for fiscal services, in order to schedule and provide training in the most efficient and cost-effective manner.
3. The district has not implemented the prior recommendation to establish formal processes and procedures and desk manuals regarding accounting functions. The district appears to have addressed the backlog in processing accounts payable and receivable, and informally balances general ledger accounts of all funds monthly. However, the requirement and process is not formalized. In addition, given the issue of staff capacity and the large workload requirements on the senior administrators, it is not clear how much review and supervision is occurring. This was a significant problem in the past. The district has hired a consultant to develop policies and procedures, but that effort is only in its initial stages.
4. The district should develop formal policies and procedures for all fiscal areas. The overall policies and procedures should be supported by desk manuals for each job function/employee. These procedures and manuals provide both a reference guide and

training material, and help ensure the accurate and timely processing of financial transactions. When implemented, the district should provide training regarding the manuals.

5. With regard to the year-end closing process, the district did meet statutory deadlines for closing its books last fiscal year. Senior fiscal administrators have indicated that they intend to begin closing the books earlier this year.
6. In order to ensure that the district closes its books in a timely and accurate manner, the district needs to establish formal procedures for the year-end closing process. Those procedures should include activities, responsibilities, a calendar, and time line for the activities.

Standard Implemented:

January 2000 Rating:	9
September 2003 Rating:	0
March 2004 Self-Rating:	4
March 2004 New Rating:	2

Implementation Scale:

12.3 Accounting, Purchasing and Warehousing – Accounting Procedures: Cash

Professional Standard

The district should forecast its revenue and expenditures and verify those projections on a monthly basis in order to adequately manage its cash. In addition, the district should reconcile its cash to bank statements and reports from the county treasurer reports on a monthly basis. Standard accounting practice dictates that, in order to ensure that all cash receipts are deposited timely and recorded properly, cash be reconciled to bank statements on a monthly basis.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has partially implemented the prior recommendation to perform monthly reconciliations on a timely basis, and to monitor and update cash forecasts on a monthly basis.

The district currently has the fiscal advisors and fiscal services directly monitoring and updating cash flow forecasts monthly. The district reconciles its cash records to those of the county office monthly. However, there is a lag in the county office updating its records since it does not receive timely information from the Alameda County Treasurer's Office. As a result, the information is typically one month in arrears. The district has not yet established formal procedures for processing bank statements and reconciliations. However, the district is in the process of developing procedures and anticipates having them in place before the end of the fiscal year.

The district needs to formalize its policies and procedures regarding cash reconciliations and cash flow monitoring and projections to ensure that this function is performed timely and accurately. Given the district's current financial situation, the need to anticipate cash needs and have sufficient liquidity is very important.

There is some concern that the fiscal advisors and Fiscal Services Director that monitor and forecast cash flows may leave the district after the end of the current fiscal year. If this occurs, current skills and knowledge regarding this crucial function will be lost. Therefore, it is imperative that the district implement the policies and procedures for cash flow monitoring and forecasting as soon as possible. In addition, the district should identify the person who will assume these responsibilities in the future and ensure that he or she is appropriately trained.

The district should work with the county office and the Alameda County Treasurer to establish a process that produces more timely bank statements.

2. The district has not implemented the prior recommendation to review changes in anticipated revenues and expenditures monthly to ensure that the assumptions for cash flow projections are accurate.

The district needs to implement procedures to review revenues and expenditures monthly to identify changes that will affect the district's cash needs and/or available cash. This information should then be incorporated into the monthly process of updating the cash flow projections.

Standard Implemented:

January 2000 Rating:	7
September 2003 Rating:	0
March 2004 Self-Rating:	2
March 2004 New Rating:	2

Implementation Scale:

12.4 Accounting, Purchasing and Warehousing – Accounting Procedures: Payroll

Professional Standard

The district's payroll procedures should be in compliance with the requirements established by the Alameda County Office of Education, unless fiscally independent (Education Code Section 42646). Standard accounting practice dictates that the district implement procedures to ensure the timely and accurate processing of payroll.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has not implemented the prior recommendation to track incomplete and untimely payroll forms over a period of time to identify the problem work sites. Further, the district has not implemented policies and procedures to hold administrators and managers responsible for ensuring that paperwork for their staff is submitted timely. District leadership needs to hold those site leaders accountable. Without consequences for those managers and administrators, poorly prepared timesheets and payroll forms will continue to be a major cause of payroll errors.

The district has implemented an informal policy that employees submitting late, inaccurate, or incomplete forms will not be paid until the next payroll. This has helped to bring about some reduction in the number of payroll forms that are submitted late or do not meet requirements.

The district should track late and incomplete/inaccurate timesheets to identify the sites, and departments where problems occur as well as the responsible managers. Those administrators/managers should be held accountable for ensuring that the information is submitted timely and accurately.

2. The district has partially implemented the prior recommendation that all employee overtime be properly approved and monitored to ensure that the cost remains within budget and that all time claimed is legitimate. All overtime must be approved by the fiscal advisors or the Chief Financial Officer. However, it does not appear that the process has been formalized in policies and procedures.

The district should formalize the policies and procedures regarding who must review and approve overtime. In addition, the procedures should require that a budget amount be available to pay for the overtime.

3. The district implemented the prior recommendation to implement the Bi-Tech IFAS human resources/payroll module. However, as noted in other standards, the district has additional areas to address before the module is completely and satisfactorily installed.

The district should continue the implementation process for the human resources/payroll system, including developing documentation, developing training materials and providing training, developing desk manuals, and establishing work-flow rules and security levels.

4. The district is in the process of implementing a districtwide automated substitute calling system that is integrated with the human resources/payroll system. This system is scheduled to be implemented by April, but it is not certain that the implementation will occur that quickly. However, to date such a system has not been implemented. An interface can result in increased efficiencies and reduction of errors. If the two systems are able to interface, they will automatically pay substitutes, update employees' leave balances, and dock employees' pay as necessary. In addition, the district would be able to reconcile substitute time and pay to the central office system to ensure that only authorized transactions are processed. Using an event number on the substitute-calling system would ensure that categorical budgets are charged for substitute pay only when authorized. The district also would be able to reconcile employees' leave times to the substitute pay event.

The district should continue its efforts to implement the integrated, districtwide substitute-calling system. While the goal is to have the system in place by April, the district should definitely strive to have the system operational before the start of school for the 2004-05 year.

Standard Implemented:

January 2000 Rating:	3
September 2003 Rating:	3
March 2004 Self-Rating:	0
March 2004 New Rating:	3

Implementation Scale:

12.5 Accounting, Purchasing and Warehousing – Accounting Procedures, Supervision of Accounting

Professional Standard

Standard accounting practice dictates that the accounting work should be properly supervised and work reviewed in order to ensure that transactions are recorded timely and accurately, and allow the preparation of periodic financial statements.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has not implemented the prior recommendation to establish formal policies, procedures, and internal controls regarding the processing and reporting of financial transactions. The district has reorganized the Fiscal Department and replaced some employees. In addition, the district has eliminated the backlog of transactions to be processed. It appears that a higher level and quality of supervision is occurring. However, given the high level of demands placed on the senior administrators and middle managers, it is not clear that the supervision and monitoring are occurring consistently throughout the department.

The district needs to implement formal policies, procedures, and other internal controls to ensure that the proper checks and balances are in place so that accounting transactions and processes are timely and appropriate. Those policies, procedures, and controls should focus heavily on supervising, reviewing and monitoring staff work. In addition, the district needs to continue to improve the technical skills and capacities of the staff and supervisors through its hiring practices and staff training program.

Standard Implemented:

January 2000 Rating:	9
September 2003 Rating:	0
March 2004 Self-Rating:	3
March 2004 New Rating:	2

Implementation Scale:

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

Professional Standard

Generally accepted accounting practices dictate that, in order to ensure accurate recording of transactions, the district should have standard procedures for closing its books at fiscal year-end. The district's year-end closing procedures should be in compliance with the procedures and requirements established by the Alameda County Office of Education.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district is in the process of formalizing its policies and procedures, including those for year-end closing. As part of that process, the district should be anticipating year-end closing issues in May. This item will be further evaluated in the next follow-up review.
2. The district has implemented the prior recommendation to adopt a year-end closing calendar. The district has adopted a standard year-end closing checklist with tasks, dates, and responsible administrator/manager identified.
3. The district has not implemented the previous recommendation to establish a communication system between the Budget and Accounting departments, and the individual program departments to maintain more accurate budgets, especially in areas that encroach on unrestricted funds.

The district should establish formal modes of communication between the Budget and Accounting departments and the sites, programs and departments that provide for ongoing monitoring of budgets throughout the fiscal year. Methods such as standard reports, periodic meetings, year-to-year comparisons, or annualized current data, all facilitate budget monitoring.

Standard Implemented:

January 2000 Rating:	2
September 2003 Rating:	0
March 2004 Self-Rating:	4
March 2004 New Rating:	3

Implementation Scale:

12.10 Accounting, Purchasing and Warehousing – System Controls to Prevent and Detect Errors and Irregularities

Professional Standard

The accounting system should have an appropriate level of controls to prevent and detect errors and irregularities.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has partially implemented the prior recommendation regarding the verification of invoices to be processed without a purchase order. That is, the accounts payable staff processing the invoice will contact the administrator responsible for the purchase and require him or her to approve payment and identify the account code the purchase should be billed against. The invoice is then processed as a direct pay, and the administrator is instructed to follow the standard purchasing process in the future. This manual process is sufficient. However, to the extent that these types of items are not identified in a standard report monthly, and that report reviewed by the accounting manager, there is no assurance that the appropriate authorization and coding is provided. Further, there is no true accountability for the administrators violating the purchasing procedures.

The district should establish formal written policies and procedures for all accounting and budget processes. In addition, the district should require any invoices without a purchase order to be processed only after approval of the site/department administrator and after final approval by the Accounts Payable Manager. Further, the district should establish a report of invoices paid as direct pays or on nonstandard purchase order number references. This report should be reviewed monthly by the Accounts Payable Manager and referrals made to the Director of Financial Services for those instances where site/department administrators repeatedly do not follow purchasing procedures.

2. The district has not implemented the prior recommendation to have the manager pick a sampling of invoices and review the backup for appropriateness and completeness as part of the standard review of the warrant listing. The district should implement the prior recommendation.

Standard Implemented:

January 2000 Rating:	6
September 2003 Rating:	2
March 2004 Self-Rating:	2
March 2004 New Rating:	2

Implementation Scale:

14.1 Multiyear Financial Projections – Computerized Multiyear Projection

Professional Standard

A reliable computer program that provides reliable multiyear financial projections is used.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has implemented the prior recommendation to use commercial software that is tailored to the school district environment and has greater projection precision than the previous in-house model to develop its multiyear financial projections. The software selected allows the district to project its finances five years into the future.
2. With the adoption of the multiyear financial projection software, the district should utilize the software to analyze the financial effects of pending management decisions, such as salary adjustments or enhancements, changes in health benefits programs offered, staffing additions or reductions, and any other items that could have significant financial implications.
3. The district should develop financial projections that cover from three to five years into the future. Financial decisions that are feasible in the shorter term (current and two subsequent years) could become unsupportable over the longer period. The district should utilize the software to obtain the most information possible when making major management decisions.
4. The district should ensure that the financial staff responsible for utilizing the software and making the financial projections is adequately trained so that that the software is used effectively and financial projections are accurate.

Standard Implemented:

January 2000 Rating:	3
September 2003 Rating:	0
March 2004 Self-Rating:	4
March 2004 New Rating:	3

Implementation Scale:

14.2 Multiyear Financial Projections – Projection of Revenues, Expenditures and Fund Balances

Professional Standard

The district annually provides a multiyear revenue and expenditure projection for all funds of the district. Projected fund balance reserves should be disclosed. [EC 42131] The assumptions for revenues and expenditures should be reasonable and supportable.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district did not implement the prior recommendation to provide projections for all major funds in order to provide a more complete picture of its fiscal status.

The district should implement the prior recommendation to make projections for all major funds in order to provide a more complete picture of its fiscal status. These projections should then be used as a management tool in planning the operations and required budget allocations for expected service levels for the various programs the district operates. The projections also should be used to identify potential fiscal issues and crafting appropriate responses.

2. The district partially implemented the prior recommendation to achieve greater precision and provide additional information about its multiyear financial projections by specifically defining the general assumptions used. However, the district could be more detailed and provide more specificity by analyzing program/resource and object/sub-object code categories of revenues and expenditures and the assumptions associated with each.

To the extent possible, in building its budget and making its financial projections, the district should perform a more detailed analysis of revenues and expenditures by program/resource and object/sub-object. As more information about program/resource revenues and expenditures becomes available, the projections should be revised and the change in assumptions identified and explained.

3. The district has partially implemented the prior recommendation to improve the accuracy of its projections by improving its financial management practices. Specifically:
 - The district completed the basic implementation of the new human resources/payroll module. This should help the district manage and control personnel and related salary and benefit costs. However, because the module is not fully implemented, it does not appear that the district will be able to use the system to project salary and benefit costs for 2004-05 budget.

The district should complete its implementation of the human resources/payroll system. Particularly important are the controls put in place for the system and the ability to use the system to develop the budget and make projections.

- The district has taken steps to improve its supervision of the accounting and budget functions so that transactions are recorded and reported timely. However, the district

has not formalized policies, procedures, and internal controls. Much of the control exercised in the current control environment depends on the extensive efforts of the senior administrators/managers. The district needs to implement systems and procedures with more effective controls and improve the technical capacity of staff and first-level supervisors.

The district should implement formal policies, procedures, and controls as soon as possible. In addition, the district should attempt to use system capabilities and control mechanisms to the extent possible to improve supervision and monitoring of accounting and budget functions, and reduce the high level of reliance on the senior administrators for day-to-day monitoring.

Standard Implemented:

January 2000 Rating:	2
September 2003 Rating:	1
March 2004 Self-Rating:	3
March 2004 New Rating:	3

Implementation Scale:

16.1 Multiyear Impact of Collective Bargaining Agreements – Measurement and Evaluation of Agreement Implementation Costs and Assurance of Notice to the Public

Professional Standard

The State Administrator/Governing Board must ensure that any guideline that they develop for collective bargaining is fiscally aligned with the instructional and fiscal goals on a multiyear basis. The State Administrator/Governing Board must ensure that the district has a formal process where collective bargaining multiyear costs are identified and expenditure changes/reductions are identified and implemented as necessary prior to any imposition of new collective bargaining obligations. The State Administrator/Governing Board must ensure that there is a validation of the costs and the projected district revenues and expenditures on a multiyear basis so that the fiscal resources are sufficient to fund collective bargaining settlements on an ongoing basis. The public should be informed about budget reductions that will be required for a bargaining agreement prior to any contract acceptance by the Governing Board. The public should be given an opportunity to comment.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has not implemented the prior recommendation to establish policies and procedures that require that potential bargaining positions be identified prior to the start of negotiations, and that all settlement items be analyzed by the budget and accounting offices to identify both current and ongoing costs and the effect on the district's financial position. The district should implement the prior recommendation.
2. The district has implemented the prior recommendation to have the financial management staff involved in the negotiation process to ensure that fiscal issues are clearly delineated for the negotiator, State Administrator/Superintendent, and Governing Board.

The district should establish a formal policy that requires the financial management staff to be involved in the negotiation process.

3. The district has informally implemented the prior recommendation that any proposed settlements should be analyzed by the budget and accounting offices to ensure that the district can fund the obligations on both a current-year and ongoing basis. However, there is no formal policy or procedure requiring such review and analysis.

The district should formally adopt policies and procedures to require that any proposed settlements must be analyzed by the budget and accounting offices to ensure that the district can fund the obligations on both a current-year and ongoing basis.

4. The district did not implement the prior recommendation to establish a policy that would preclude the adoption of a proposed settlement, if such a settlement can only be financed by implementing offsetting expenditure reductions, until the necessary reductions have been identified and adopted. The district should implement the prior recommendation.
5. The district has implemented the prior recommendation to provide information regarding the financial impacts to the county office for review and comment prior to taking effect.

6. The district implemented the prior recommendation to prepare and provide to the State Administrator/Governing Board in public session financial information regarding the settlement. However, the district did not implement the prior recommendation to provide a multiyear projection that reflects revenues and expenditures that meet all requirements of the multiyear collective bargaining agreement in that public session. The district should implement the prior recommendation.
7. The district has not implemented policies that preclude the Superintendent from negotiating an agreement on labor contracts without the involvement of the district's negotiating team and fiscal manager. The district should implement such a policy.

Standard Implemented:

January 2000 Rating:	2
September 2003 Rating:	0
March 2004 Self-Rating:	2
March 2004 New Rating:	2

Implementation Scale:

19.2 Food Service Fiscal Controls – Program Compliance

Professional Standard

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

Progress on Implementing the Recommendations of the Recovery Plan

1. The district implemented the prior recommendation to have the food services program reviewed for compliance with legal and regulatory requirements. The program was reviewed by the California Department of Education, Nutrition Services Division, in January 2003. At that time, the review disclosed that the operation of the Food Services program was seriously deficient. In response to the state’s report, the district put together a corrective action plan and implemented changes consistent with the plan. The district was reevaluated by the Nutrition Service Division in November 2003 and found to no longer be seriously deficient.

However, the district needs to provide ongoing monitoring of the food services program to continue to improve its operations and controls, and ensure compliance with all laws, regulations, and reporting requirements. Specifically, the district must have policies, procedures, and controls that ensure:

- a. The department office and school sites maintain adequate eligibility documentation.
- b. New sites establish base year data for eligibility purposes.
- c. Amounts claimed for reimbursement are supported by the summarized meals counts and the supporting site meal counts.

In addition, the district should consider requesting that the state perform annual follow-up reviews for the next several years to ensure that policy and procedural changes made are sustained.

The district should provide annual training for food service workers to ensure they know and understand their job duties and obligations, and perform such in accordance with laws and regulations.

Standard Implemented:

January 2000 Rating:	0
September 2003 Rating:	0
March 2004 Self-Rating:	4
March 2004 New Rating:	3

Implementation Scale:

22.1 Special Education – Cost and Quality

Professional Standard

The district should actively take measures to contain the cost of special education services while still providing an appropriate level of quality instructional and pupil services to special education pupils.

Progress on Implementing the Recommendations of the Recovery Plan

1. The district has not implemented the prior recommendation to formally address the findings and recommendations contained in the FCMAT special education report. While the district has made changes and informally addressed some of the items in the FCMAT report, it has not established a formal process where the findings were prioritized, an action plan created, responsibility assigned to specific managers, and periodic reports made to the State Administrator.

To a great extent, the immediate job of managing the day-to-day operations of the Special Education Department, addressing the fiscal problems of the department, and attempting to ensure legal compliance have made the task of establishing a formalized process difficult. And clearly, the district is attempting to address the various issues.

Nevertheless, a corrective action plan that prioritizes issues, assigns responsibility, and establishes accountability through ongoing monitoring and periodic reporting to the State Administrator would facilitate the district's efforts to resolve its significant problems.

Given that the district has addressed some of its issues, it should have a follow-up review conducted to evaluate its progress. Then, based upon the findings and recommendations of the follow-up report, the district should implement a corrective action plan that prioritizes findings and recommendations, assigns responsibility for each item to a specific manager, and provides for periodic monitoring and reporting to the State Administrator. This approach will assist the district in efficiently effecting necessary changes.

2. The district has informally addressed the prior recommendation to have the special education office work with the personnel and budget offices to identify and reconcile all its positions, FTEs, and salary and benefit costs. The Special Education Department identified its positions, staffing, and FTE. The Special Education Department has its own Personnel Analyst, and is getting its own budget analyst. In addition, the director monitors positions every other week.

However, the personnel/position information is contained on a separate database maintained by the Special Education Department. Further, it is not clear that the Special Education Department's information was reconciled with personnel and position control records. This is particularly critical given the district's conversion to the new human resources/payroll module. If a reconciliation was not performed, then the current personnel/position control information still will contain errors and hinder the district's ability to budget expenditures and manage program costs.

The district needs to reconcile the personnel information currently maintained by the Special Education Department to the personnel/position control records. Once reconciled, all personnel actions should be processed through position control in the budget office and then through personnel. Ultimately, the district needs to be operating with only one database for personnel/positions. This will ensure that all departments and administrators are operating with the same information and will reduce the administrative burden of maintaining and reconciling multiple databases.

3. The district has not implemented the prior recommendation to have the Special Education Department, in conjunction with the budget office, evaluate its methods for projecting enrollment to ensure that all students are correctly identified. The district has been attempting to operate and staff its special education programs more effectively. Once the projected student population has been identified, a critical evaluation of student needs should be undertaken in order to determine the most effective manner for locating and operating the special education programs.

The district needs to establish formal policies and procedures for a collaborative process between the Special Education and Fiscal Services departments for the development of the special education budget and projection of special education student population.

The district has implemented the prior recommendation to evaluate the number of students in NPS/NPA programs should be evaluated to determine if those students still need to be placed in NPS/NPA programs, if the services could be delivered more effectively by district staff, and if there are more cost-effective providers for the services needed.

4. The district has implemented the prior recommendation to align staffing ratios as closely as possible with legal and contractual limits and statewide averages in order to minimize staffing costs. The district should develop a policy regarding staffing for special education.
5. The district has informally implemented the prior recommendation to have both the Special Education and Budget departments work to develop a realistic budget each year and closely monitor the budget throughout the year. For the current year, it appears that special education expenditures are tracking much more closely with the budgeted amount than in prior years. The effectiveness of the efforts will be evaluated in the next follow-up review, after the close of the current fiscal year. However, neither the fiscal office nor the Special Education Department have established policies and procedures that formalize the relationship and process for joint budget development and monitoring. Such formalization is necessary to ensure that any progress made in the current year is carried forward and sustained in future years.

The fiscal office and Special Education Department should establish formal policies and procedures. Included in those policies and procedures should be the process for the joint development and monitoring of the special education budget.

Standard Implemented:

January 2000 Rating:	0
September 2003 Rating:	0
March 2004 Self-Rating:	3
March 2004 New Rating:	2

Implementation Scale: