



Berkeley Unified School District

Financial Management
Comprehensive Review
July 2005

**Administrative Agent
Larry E. Reider
Office of Kern County
Superintendent of Schools**

Chief Executive Officer
Thomas E. Henry

FINANCIAL MANAGEMENT

The district has made measurable progress in the majority of the financial management standards reviewed in this final and fourth six month progress report.

Budget Development Process

The district has continued to improve its technical budget development processes for the 2005-06 fiscal year. Although the board policies specifically related to budgets, policy 3100 (annual operating budget) and policy 3300 (expenditure of funds), have not been updated or omitted, administrators involved in the budget process appear to be aware that the policies exist. Current practices and processes are closer to previous recommendations and requirements. Overall, the budget development process has become standardized. This helps all principals and program/budget managers receive equitable and understandable information in a timely manner to ensure that budget development is appropriately completed. The district is using zero-based budgeting to ensure that each line item and object detail by resource and function is performed.

The Director of Fiscal Services developed a budget calendar titled “Budget Development and Staffing Timelines for Fiscal Year 2005-06,” which was reviewed by the cabinet and approved by the Governing Board. The calendar is detailed and easy to understand, encompassing the period of time from January 5, 2005 to 45 days after state budget adoption. A written procedure/desk manual or other similar documentation needs to be developed and implemented to document the various steps in budget development, the specific staff members responsible for these steps and the procedures used to accomplish each individual task. This additional documentation will ensure the budget development process is understood and participants can be held accountable.

The district should consider reactivating the Budget and Finance Advisory Committee to serve as a positive forum for the discussion of budget items. The district had planned to reactivate the committee in December 2004, but this schedule was not met. The committee helps keep the community involved and informed about the district’s financial position and provides a forum for the public to ask questions and gain budget knowledge. Reactivating the committee also communicates the district’s desire to include the community as a partner in educating students.

Internal Audit

The districts' internal controls are being strengthened. Board policy 3410, which was adopted on April 21, 2004, provides for the formation of an audit committee to enhance audit functions, increase attention to audits and financial reporting, and prevent management erosion of internal controls. The policy also provides for the formation of a five-member committee, whose main focus is related to independent outside auditors. The policy also should focus on internal auditing practices and procedures.

The Director of Fiscal Services continues to review the district’s internal control processes and plans to increase monitoring each year to assist the district in attaining a sound financial condition, and to maintain checks and balances that protect district resources. The district still needs to develop and distribute an internal control manual so that a clear understanding of district processes exists, internal controls remain intact, and accountability increases.

The district is currently working with the audit committee to establish “Objectives and Procedures for the Audit Committee” and also to develop and communicate the “2005 Audit Charter.” If these two documents are approved as submitted and followed as written, FCMAT’s recommendations in the Assessment and Improvement Plan in the area of internal controls will be satisfied, with the exception of addressing how audit findings should be resolved and how follow up should be provided on audit findings.

Budget Monitoring

Budget monitoring consistently is performed in more detail at both the district office and at sites/departments. Sites and departments have the option of running their own budget reports, but also still receive reports from the district office monthly. This allows monthly monitoring to occur at the site/department level, the accountant level (by local, state and federal resources), and at the Director of Fiscal Services level.

For the past several years, the district has experienced significant differences between the amounts reported on the estimated actuals and the unaudited actual reports. These variances were positive and reflected an ending fund balance that was significantly higher than earlier estimated, but there was some concern about the impact of budgets with significantly different data when the books are closed. If these large variances continue to occur annually, confidence in the budget data may begin to erode. To avoid this, budgets should be updated throughout the year, especially at the time of the first- and second-interim reports. The budget should continue to be monitored at different levels. This monitoring should occur continuously throughout the year as new funding data becomes available. The district is focusing on budget monitoring and year-end closing, which helps provide more current and accurate knowledge of its financial position. This area should continue to be strengthened and monitored.

The district still needs to consider implementing online budget transfers for sites and departments. The current practice is to have all transfers performed by the district office. Implementing online budget transfers would provide the Business Department’s accountants with additional time to review assigned budgets in greater detail. Security measures can be implemented so that an Accountant or other assigned staff member would be required to review the information online before approval can occur. This would save considerable time that is now dedicated to filling out manual forms and sending them to another department so that another employee can enter the information.

Payroll

The district’s payroll procedures and practices have greatly improved. Appropriate fiscal and human resource controls have now been adopted and implemented so that hiring is completed only for open and approved positions. The Human Resources Department and the Payroll Department have strengthened the communication and teamwork between them, resulting in greater district accountability.

The position control system has been fully reconciled and is driving the budget for salary and benefit accounts for all contracted positions. In the future, the position control system also should drive payroll to increase checks and balances and eliminate some manual calculations and data entry.

A payroll procedures manual has been developed and is being utilized. This 44-page manual is extremely detailed and covers all aspects of payroll accounting, payroll management and human resources information and job duties for payroll specialists.

Time card submission has improved, and the number of time sheet errors has decreased. The district should conduct additional research to determine whether the system can combine different time sheets into one transaction per employee per month; or negotiate with the employee bargaining unit to determine whether the time sheet process can be simplified to further decrease the number of errors. Site and department leaders are being held more accountable for incorrect and late time cards. However, because the number of time sheets is so large, the error ratio continues to be high.

The district converted payroll processing to the QSS system in July 2003 when the rest of the financial system was implemented. The payroll revolving fund was established to track the postings of salaries, benefits, and all employee and employer deductions. The balance of this fund increases annually. A fund reconciliation should be completed before problems arise. When the position of Senior Budget Analyst is filled, it should assume responsibility for monitoring and reconciling this fund monthly.

Nutritional Services Fund

The nutritional services fund has operated at a deficit for several years. The district will not be able to stop deficit spending unless food restrictions are eased to permit the high school to serve a wider variety of foods, the campus is closed for lunch, or new innovative ways are found to increase revenues. At this time, district administration does not consider any of these options feasible. FCMAT has concerns about the fund's large deficit and encroachment upon the general fund, but these concerns do not appear to be shared by the district. Current restrictions increase food prices and decrease the types of foods that can be offered to students.

More effective software is needed in order to prepare monthly profit-and-loss statements. The 2004-05 budget indicates that deficit spending will exceed \$600,000 and similar deficits are planned for future years as well. The district's commitment to small school settings also increases food-service labor costs. Because many food service workers have more than one district assignment, they work a total number of hours that allows them to receive health benefits, further increasing labor costs.

The district anticipated that its new high school cafeteria food court, which opened in the 2004-05 fiscal year, would provide healthy food choices and flexibility, entice students to remain on campus for lunch, and assist in reducing the program's encroachment on the general fund. An increased daily participation of approximately 700 meals per day was initially projected, but only 350 to 400 additional lunches are served. Because the high school cafeteria is not permitted to serve fast foods, students prefer to leave campus for lunch, purchasing from mobile food vendors or from local restaurants or fast food establishments. Many students eligible for free and reduced meals leave campus and pay for lunch rather than eat at the new food court.

Purchasing procedures continue to be reliable and adhere to appropriate bidding rules. The warehouse is kept locked and alarmed. A new food service inventory program has been implemented and is being used. Spoilage is kept to a minimum. Overall, the program is operated effectively, and appropriate controls are in place.

The program has a new director who is expected to take a greater role in budget monitoring and development as she becomes more knowledgeable of the program. The director is already authorizing all purchase orders and monitoring spending, but will need additional training in the financial system (QSS) for greater budget accountability.

Audit Extensions

For the past several years, the district has requested audit extensions from the State Controller's Office for several reasons. In 2001-02, the staff was new, and various accounting issues arose that prevented the new business management from completing the audit in a timely manner. In 2002-03, problems developed regarding cash reconciliation, GASB 34, and the district data systems. In 2003-04, the auditors of record were unable to complete their schedule of activities on time due to the complexities of the 2003-04 financial information. With all these issues resolved, a timely audit is expected for 2004-05. It is critical that the district provide the information necessary for the audits to be completed within statutory deadlines.

Student Body Funds

Although many board policies have been revised over the past years, none cover management or oversight of student body funds. The revised policy number list shared with FCMAT indicates that a new policy will be developed to cover money held at school sites, including petty cash and student funds. The high school ASB Advisor and Bookkeeper comprehend their duties and responsibilities and seem to understand and use the ASB Accounting Manual, but they have not been provided with any board policies for guidance. School sites must be provided with board policies, and the staff should be expected to adhere to these policies at all times. Without policies and guidelines, employees cannot be held accountable for their actions.

Some ASB areas need to be addressed and strengthened. These include the submission of funds to the Bookkeeper in a timely manner, the completion of revenue potentials, and the elimination of "principal accounts" in the student funds for use on non-ASB matters. Without strong controls in place, ASB accounting can be an area of great risk. It is crucial that students always approve fund raisers and ASB fund expenditures and that only student funds be processed through the ASB. Training should continue to be provided for all parties involved with student body activities, especially the certificated club advisors, to ensure that proper business procedures are followed in handling cash. Best business practices also should be developed for all activity advisors to ensure that cash is protected at all times and submitted to the ASB Bookkeeper in a timely manner.

The high school ASB, which is the only reported ASB in the district, prepares monthly financial reports that are submitted to the district office and reviewed by the Director of Fiscal Services. This practice should continue to be followed. ASB financial reports also should be presented to the Governing Board at least quarterly, which is not occurring at present.

Additional Fiscal Issues

More than a year ago, the city of Berkeley sent the district a letter stating that the district owes the city \$1.4 million for past memorandums of understanding. The city charges 7 1/2 percent interest on all utilities. This potential liability to the district is still unresolved and needs to be addressed as soon as possible so that any impact on the general fund can be determined.

The 2004-05 fiscal year will be the first full fiscal year in which the district has been self-insured for worker's compensation. Because there are no past experience records or trends to review, the district must ensure that the activity and usage of worker's compensation benefits is monitored closely since the current activity will affect future rates.

Fiscal recovery is a lengthy and fragile process. To avoid fiscal insolvency, the district will need to remain vigilant. The county office's approval of the district's 2004-05 budget in August 2004 ended the necessity for a Fiscal Advisor. However, the district's first- and second-interim reports for 2004-05 were qualified certifications, indicating that the district may not be able to meet its financial obligations for the current or two subsequent fiscal years.

4.2 Internal Audit—Organization Structure and Frequency of Internal Audit Functions

Professional Standard

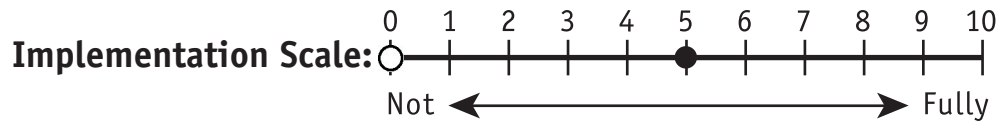
Internal audit functions should be designed into the organizational structure of the district. These functions should include periodic internal audits of areas at high risk for noncompliance with laws and regulations and/or at high risk for monetary loss.

Progress on Recommendations and Improvement Plan

1. The Director of Fiscal Services is continuing to review the district's internal control processes. Strengthening internal controls has helped the district attain a sound financial condition and maintain checks and balances that protect district resources.
2. When the Senior Budget Analyst position is permanently filled, the Director of Fiscal Services plans to develop and distribute an internal control manual throughout the district. This will promote a clear understanding of district processes that ensure internal controls are intact and increase accountability. This manual, along with increased attention to internal control issues, will help the staff ensure that business functions are performed more accurately and completely.
3. On April 21, 2004, board policy No. 3410 regarding the formation of an audit committee was submitted to the Governing Board for the final reading. The policy provides for the formation of an audit committee to enhance audit functions, increase attention to audits and financial reporting, and prevent management erosion of internal controls. The policy also provides for the formation of a 5-member committee, two members from the board and three from the community. The responsibilities of the committee are established in the policy, but not all the recommended areas from FCMAT's initial assessment and improvement plan are included. This policy primarily addresses the independent outside auditors, rather than focusing on internal auditing practices and procedures.
4. The district is in the process of submitting to the audit committee a draft titled "Objectives and Procedures for the Audit Committee" and a revised draft titled "2005 Audit Committee Charter." At the May 10, 2005 meeting, the draft's information was again shared with the committee. The committee plans to provide input on the two draft items during a meeting scheduled for June 2005. These drafts encompass all areas included in FCMAT's initial study recommendations. If implemented and followed as stated, they would satisfy the requirements.

Standard Implemented: Partially

July 2003 Rating: 0
January 2004 Rating: Not reviewed
July 2004 Rating: Not reviewed
January 2005 Rating: Not reviewed
July 2005 Self-Rating: 5
July 2005 New Rating: 5



4.4 Internal Audit—Follow Up and Response to Internal Audit Findings

Professional Standard

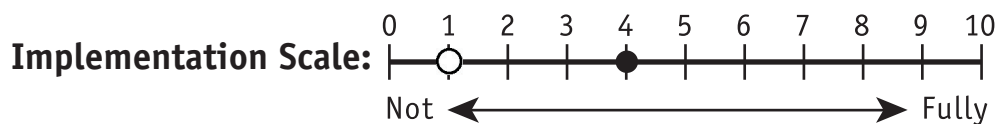
Internal audit findings should be reported on a timely basis to the audit committee, Governing Board, and administration, as appropriate. Management should then take timely action to follow up and resolve audit findings.

Progress on Recommendations and Improvement Plan

1. On April 21, 2004, board policy No. 3410 was submitted to the board for the second and final reading. This board policy, titled “Audit Committee,” provided for the formation of an audit committee to enhance the audit functions, provide increased attention to audits and financial reporting, and prevent management erosion of internal controls. This policy focuses on the independent outside auditors rather than concentrating on internal auditing practices and procedures, and does not clearly detail how internal audit findings are to be reported to the audit committee, Governing Board, and administration.
2. The district is in the process of submitting to the audit committee a draft titled “Objectives and Procedures for the Audit Committee” and a revised draft titled “2005 Audit Committee Charter.” At the May 10, 2005 meeting, the draft information was again shared with the committee. The committee plans to provide direction on the two draft items during a meeting scheduled for June 2005. These drafts detail how audit findings, including internal audit findings, should be reported to the audit committee, Governing Board, and administration.
3. The two drafts do not address how audit findings should be resolved and how follow up should be provided on audit findings.

Standard Implemented: Partially

July 2003 Rating:	1
January 2004 Rating:	Not reviewed
July 2004 Rating:	Not reviewed
January 2004 Rating:	Not reviewed
July 2005 Self-Rating:	6
July 2005 New Rating:	4



5.5 Budget Development Process (Policy)—Policy Methodology Used to Build the Preliminary Budget

Professional Standard

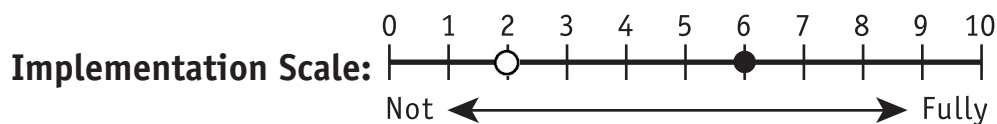
The district should have policies in place to facilitate development of a budget that is understandable, meaningful, reflective of district priorities, and balanced in terms of revenues and expenditures.

Progress on Recommendations and Improvement Plan

1. Board policies 3100, Annual Operating Budget, and 3300, Expenditure of Funds, have not been updated or deleted from the approved board policies, even though many other new policies have been implemented or revised over the past two years. These policies are not mandated by statute, and the majority of those that have been added or modified were mandated by statute.
2. Administrators involved in the budget process are now aware that these two existing policies are in place, and current practices and processes are more in line with the listed recommendations and requirements, including the following:
 - a. The Director of Fiscal Services twice a year has provided the Superintendent with reports showing programs by names/titles, resource/budget codes, expenditures, encumbrances and balances so that the Superintendent can help monitor the funds.
 - b. The Superintendent has been more involved in reviewing district categorical programs with the appropriate program managers during the fiscal year to ensure appropriate expenditures are charged and that funds are not unnecessarily carried over into the next fiscal year.

Standard Implemented: Partially

July 2003 Rating:	2
January 2004 Rating:	Not reviewed
July 2004 Rating:	Not reviewed
January 2005 Rating:	Not reviewed
July 205 Self-Rating	7
July 2005 New Rating:	6



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

Professional Standard

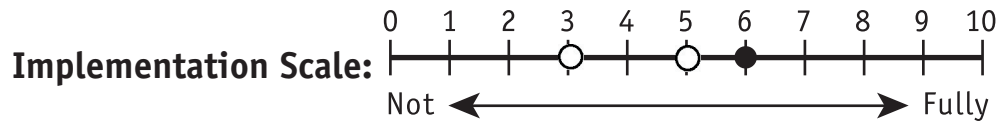
The budget office should have a technical process to build the preliminary budget that includes: the forecast of revenues, the verification and projection of expenditures, the identification of known carryovers and accruals, and the inclusion of concluded expenditure plans. The process should clearly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

Progress on Recommendations and Improvement Plan

1. The Senior Budget Analyst position remains unfilled, but when filled, it will relieve the Director of Fiscal Services of many duties, including routine budget functions. Because the position is vacant, a written procedure, desk manual or other documentation has not been developed to document the various steps in budget development, the specific staff members responsible for these steps and the procedures used to accomplish each individual task.
2. Procedure manuals are being developed for sites and departments, including accounts payable, payroll, data processing and QSS financial system processes. The completed manuals should be updated annually based on new information and helpful comments from users so that business users/customers can understand what is expected of them and why. These manuals need to be completed as soon as possible for business and accounting areas that do not yet have them.
3. Estimated carryover and deferred revenue have not been included in the adopted budget in past years, but they will be included in the 2005-05 adopted budget. Their inclusion will allow the district's financial position to be represented more accurately. Adopted budgets should include all the district's anticipated financial activities.
4. During budget development, the Director of Fiscal Services developed a budget calendar titled "Budget Development and Staffing Timelines for Fiscal Year 2005-06," which was reviewed by the cabinet and approved by the Governing Board. Principals and program managers attended meetings where the roles and responsibilities of each staff member were outlined and explained. Fundamentals such as rolling position control into the budget, filling out personnel requisitions, entering discretionary budget data, and reviewing preliminary budget reports were coordinated and carried out. The calendar is detailed and easy to understand, encompassing the period of time from January 5, 2005 to 45 days after budget adoption.
5. A position control meeting was held on April 26, 2005 to ensure that all applicable staff members understand and follow the steps involved in rolling information from the 2004-05 fiscal year to the 2005-06 fiscal year. The meeting was detailed and documented, with an agenda and minutes. The information provided at this meeting allowed data from 2004-05 to be rolled over without incident or error.

Standard Implemented: Partially

July 2003 Rating: 3
January 2004 Rating: Not reviewed
July 2004 Rating: 5
January 2005 Rating: Not reviewed
July 2005 Self-Rating: 7
July 2005 New Rating: 6



6.3 Budget Development Process (Technical)—Standardized Budget Worksheets

Professional Standard

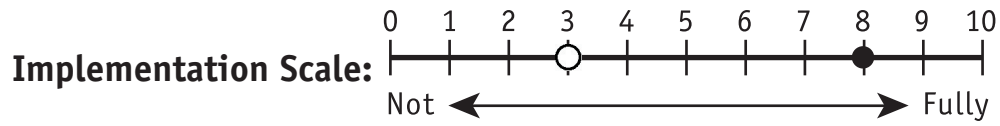
Standardized budget worksheets should be used in order to communicate budget requests, budget allocations, formulas applied and guidelines.

Progress on Recommendations and Improvement Plan

1. The budget development process has become standardized. Sites and departments know how their specific allocations were computed and how to request onetime budget augmentations. They also are able to review prior-year information to ensure that budgets are developed in an informative, inclusive manner.
2. As part of 2005-06 budget development, a set of instructions with printouts appropriate to each specific site and department were distributed to all principals and program/budget managers. The standardized information ensured that all participants received equitable and understandable information in a timely manner to ensure budget development was appropriately completed. Distributed information included:
 - a. Position Control Report Writer: This report listed each school site, the number of full time equivalents (FTE) for each certificated and classified employee, names of employees and a tally of employees by program. In addition, budget managers were provided with position control reports throughout the entire fiscal year as well as during budget development. This ensured that the information was understood and that participants were accustomed to the report format and the type of information provided.
 - b. Site Allocation Printout: This report listed all 2005-06 allocations for supplies, classified custodial hourly/substitutes and noon supervision. For the 2005-06 year, the per-pupil allocation was increased by \$5 to help defray printing and mailing charges, but this amount was listed as a onetime allocation. The information was easy to understand and compare.
 - c. Special Onetime Budget Imperatives: Each member of the cabinet, which is composed primarily of the district's budget/program managers, was provided with a special budget request form for onetime augmentations.
3. Since the Director of Fiscal Services considers each year's budget zero-based instead of rolled over, a detailed review of each line item or object by resource and function is performed.

Standard Implemented: Fully - Substantially

July 2003 Rating: 3
January 2004 Rating: Not reviewed
July 2004 Rating: Not reviewed
January 2005 Rating: Not reviewed
July 2005 Self-Rating: 8
July 2005 New Rating: 8



7.7 Budget Adoption, Reporting, and Audits—Audit Administration and Resolution: Arranging for Audit

Legal Standard

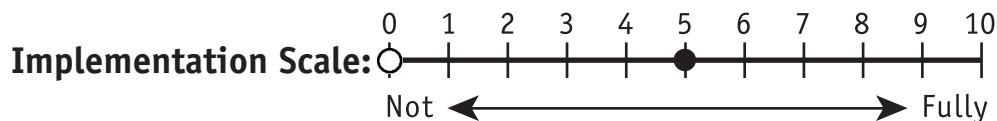
The district should arrange for an annual audit (single audit) within the deadlines established by Education Code section 41020.

Progress on Recommendations and Improvement Plan

1. The district has made significant improvements in this area since the 2002-03 fiscal year, and the annual audit is being arranged by the required Education Code deadlines.
2. For 2004-05, the district retained Vavrinek, Trine, Day and Co., LLP, the same audit firm it used for 2003-04. The initial 1-year engagement letter for June 30, 2004 was sent to the district on April 5, 2004 and was subsequently approved.
3. Board policy No. 3460 has not yet been updated to include the mandated deadlines included in Education Code section 41020.

Standard Implemented: Partially

July 2003 Rating:	0
January 2004 Rating:	Not reviewed
July 2004 Rating:	Not reviewed
January 2005 Rating:	Not reviewed
July 2005 Self-Rating:	5
July 2005 New Rating:	5



7.9 Budget Adoption, Reporting, and Audits—Audit Administration and Resolution: Audit Resolution

Legal Standard

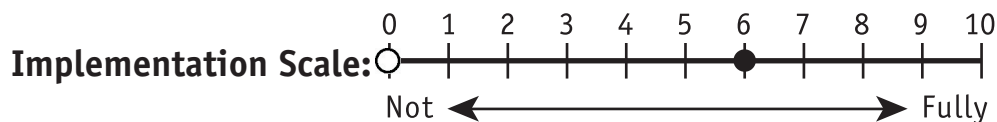
The district should include in its audit report, but not later than March 15, a corrective action for all findings disclosed as required by Education Code Section 41020.

Progress on Recommendations and Improvement Plan

1. Because the 2002-03 audit was not submitted to the Governing Board until April 14, 2004, the corrective action forms for the audit findings were not completed by the statutory deadline of March 15, 2004. The audit was late because the district requested several audit extensions after financial records closed late.
2. The 2003-04 audit was submitted to the board on February 16, 2005, which was after the statutory deadline of December 15, 2004. However, the audit finding corrective action forms were submitted to the Alameda County Office of Education on March 16, 2005, which was considered on time.

Standard Implemented: Partially

July 2003 Rating:	0
January 2004 Rating:	Not reviewed
July 2004 Rating:	Not reviewed
January 2005 Rating:	Not reviewed
July 2005 Self-Rating:	8
July 2005 New Rating:	6



7.11 Audit Review—Timeliness of Audit and Audit Review

Legal Standard

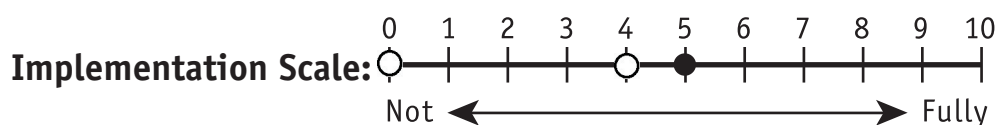
Education Code section 41020(c) (d) (e) (g) establishes procedures for local agency audit obligations and standards. Pursuant to Education Code section 41020(h), the district should submit to the county superintendent of schools in the county that the district resides, the State Department of Education, and the State Controller's Office an audit report for the preceding fiscal year. This report must be submitted "no later than December 15."

Progress on Recommendations and Improvement Plan

1. Board policy No. 3460 should be updated to include the mandated deadlines stated in the Education Code, including the time line for submitting the document to the State Department of Education, the county office and the State Controller's Office.
2. The 2002-03 audit was submitted to the board on April 14, 2004 instead of the statutory deadline of December 15, 2003.
3. The 2003-04 audit was submitted to the board on February 16, 2005, instead of the statutory deadline of December 15, 2004.
4. An on-time audit is expected for 2004-05 since the district's system issues are resolved, the general ledger no longer contains outstanding reconciliations, and no other major issue exists that would require an audit extension request.

Standard Implemented: Partially

July 2003 Rating:	0
January 2004 Rating:	4
July 2004 Rating:	Not reviewed
January 2005 Rating:	Not reviewed
July 2005 Self-Rating:	6
July 2005 New Rating:	5



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 over expenditure of budgeted amounts. Revenue and expenditures should be forecast and verified monthly.

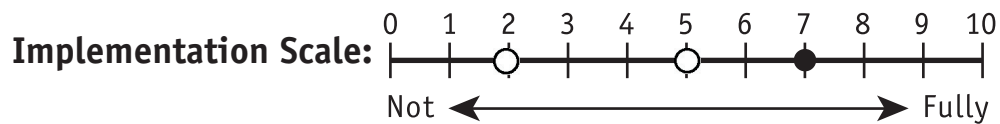
Progress on Recommendations and Improvement Plan

1. Sites and departments continue to receive monthly financial reports from the district office on the third or fourth of each month. This financial activity report is detailed and is sorted by resource and function for each site/department. Other reports, such as vendor activity reports and comparative reports, also are provided upon request.
2. All sites and departments have the option of running their own budget reports in whatever budget format they choose.
3. Budget monitoring has become consistently more detailed in the district office. Accountants review all assigned resources, which are divided by local, state and federal sources, in more detail than previously reported. Budget managers who are assigned to individual budgets also perform their own review. The Director of Fiscal Services also reviews budgets monthly.
4. The district has not implemented online budget transfers for sites and departments. All budget transfers are still completed in the Business Department. Implementing online budget transfers would provide the Business Department's accountants with additional time to review assigned budgets in a more detailed manner. Security measures could be established so that an accountant or other assigned staff member would be required to review the information online before approval. This would save considerable time that is now dedicated to filling out forms and sending them to other departments.
5. The district reviews general ledger accounts throughout the year, ensuring that financial information is current. This process also saves a considerable amount of time at year end because fewer reconciliations need to be completed. The accountants monitor the general ledger/balance sheet accounts more closely so that the Director of Fiscal Services is not the only employee performing this task. In the past, the accountants performed budget transfers and journal entries without being exposed to the general ledger or assuming responsibility for it. Because the accountants are more involved with the balance sheet, they can understand the district's overall financial condition in greater detail. In the 2004-05 year, all general ledger prior year accounts (accounts receivable, accounts payable and deferred revenue) were cleared by second interim report, which consists of actuals as of January 31. In the future, the district plans to include as part of the accountants' evaluations the task of clearing the general ledger prior year accounts.
6. A considerable amount of documentation demonstrates that more attention is being paid to budget monitoring and year-end closing, providing the district with more current and accurate knowledge of its financial condition.

7. The Senior Budget Analyst position is not permanently filled, but it is being filled temporarily by a consultant. A greater number of positions have been open in the past, so improvement has been made in this area.

Standard Implemented: Partially

July 2003 Rating:	2
January 2004 Rating:	5
July 2004 Rating:	Not reviewed
January 2005 Rating:	Not reviewed
July 2005 Self-Rating:	7
July 2005 Rating:	7



9.1 Budget Communications—Communicating Policy

Professional Standard

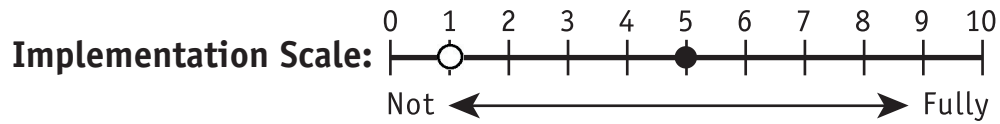
The district budget should be a clear manifestation of district policies and should be presented in a manner that facilitates communication of those policies.

Progress on Recommendations and Improvement Plan

1. A written procedure, desk manual or other documentation has not been developed to document the various steps in the budget development process and the staff members responsible for each step.
2. Although not formally documented, the budget development process has become standardized and provides sites and departments with a clear understanding of how their own specific allocations were computed and how to request onetime budget augmentations. In addition, sites and departments can review prior year information to ensure that budgets are developed in an informative, inclusive manner.
3. As part of 2005-06 budget development, a set of instructions with printouts appropriate to each specific site and department was distributed to all principals and program/budget managers. The standardized information ensured that all participants received equitable, understandable and timely information so that budget development is appropriately completed.
4. Since the budget for each fiscal year is now zero-based instead of rolled over from the previous year, all budgets are reviewed annually, and only necessary expenditures are incorporated into the adopted budget.
5. Current board policies 3100, Annual Operating Budget, and 3300, Expenditure of Funds, have not been updated or deleted from approved board policies even though many other new policies have been implemented or revised over the past two years. The Governing Board should clarify its budget priorities and expectations by developing and adopting a new policy or modifying an existing policy.
6. During budget development, the Director of Fiscal Services developed a budget calendar titled “Budget Development and Staffing Timelines for Fiscal Year 2005-06,” which was reviewed by the cabinet and approved by the Governing Board. Meetings were held to explain to principals and program managers the roles and responsibilities of each staff member. Fundamentals such as rolling position control into the budget, filling out personnel requisitions, entering discretionary budgets, and reviewing preliminary budget reports were all carefully coordinated and completed. The calendar, which is detailed and understandable, covers the period of time from January 5, 2005 to 45 days after state budget adoption.

Standard Implemented: Partially

July 2003 Rating: 1
January 2004 Rating: Not reviewed
July 2004 Rating: Not reviewed
January 2005 Rating: Not reviewed
July 2005 Self-Rating: 5
July 2005 New Rating: 5



12.4 Accounting, Purchasing, and Warehousing—Accounting Procedures: Payroll

Legal Standard

The district's payroll procedures should be in compliance with the requirements established by the county office of education, unless fiscally independent (Education Code Section 42646).

Standard accounting practice dictates that the district implements procedures to ensure the timely and accurate processing of payroll.

Progress on Recommendations and Improvement Plan

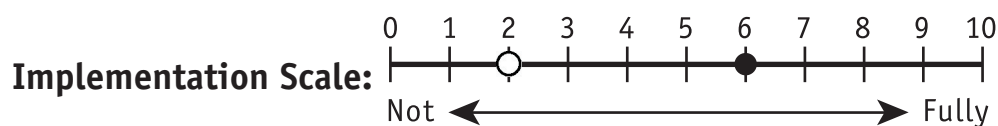
1. The district has adopted and implemented appropriate fiscal and human resource controls to ensure that all hiring is completed only for open and approved positions. The district uses forms to ensure that controls are in place, an open position exists, and there is an adequate budget amount for the expenditure. Signatures from both fiscal and human resources departments are required to hire employees.
2. The relationship between human resources and payroll has improved, and both departments are working together to share information and discuss ways to increase efficiency and accuracy. The main topic of meetings between the departments is no longer to assign blame but to improve processes and procedures for overall district accountability.
3. The position control system has been fully reconciled and is driving the budget for salary and benefit accounts for all contracted positions. The position control system is not driving payroll at this time. The district should consider making this change because it would increase checks and balances and eliminate some manual calculations and data entry.
4. Time card submission has improved. The Payroll Department has worked closely with sites and departments to decrease the number of incomplete and untimely time cards, reducing the number of payroll errors. Site and department leadership is being held more accountable for incorrect and late time cards. Administrators review timecards and ensure the information provided is correct before signing them.
5. The procedures for STRS and PERS have been validated and incorporated into a payroll procedures manual. The district has developed a document to be used by payroll staff to ensure processes and procedures are understood and correct. The 44-page manual is detailed and covers all aspects of payroll accounting, payroll management, and human resource information and job duties for payroll specialists.
6. In September, 2003 the district offered benefits re-enrollment, in which all employees had to renew their benefits and update their dependent information. This allowed health and welfare invoices to be corrected and resulted in an overall decrease in associated expenditures. Since then, the district has established procedures to ensure that all information is updated to avoid overpayments and other errors.
7. The district has not investigated the possibility of interfacing the automated substitute calling system with the payroll/human resource system. Implementing this change could result in increased efficiencies and reduction of errors, including those that affect the

leave balances of permanent employee when substitutes are used. Interfacing these two systems also would help reconcile substitute time and pay with the central office's system to ensure that only authorized transactions are processed, and would help reconcile employees' leave time to substitute time.

8. The number of errors on timesheets has decreased even though some employees still have from one to 15 errors a month. The district may want to conduct research to determine whether the system can combine different timesheets into one transaction per employee per month, or negotiate with the employee bargaining unit to determine whether the timesheet process can be simplified to further decrease the number of errors.
9. The district converted payroll processing to the QSS system in July 2003-04, when the rest of the financial system was also implemented. The payroll revolving fund was established to track the postings of salaries, benefits, and all employee and employer deductions. The balance of this fund increases annually. A fund reconciliation has not been completed to date and should be completed before it becomes problematic. When the position of Senior Budget Analyst is filled, it should assume responsibility for monitoring and reconciling this fund monthly.

Standard Implemented:

July 2003 Rating:	2
January 2004 Rating:	Not reviewed
July 2004 Rating:	Not reviewed
January 2005 Rating:	Not reviewed
July 2005 Self-Rating:	7
July 2005 New Rating:	6



13.1 Student Body Funds—Management of Student Body Funds

Legal Standard

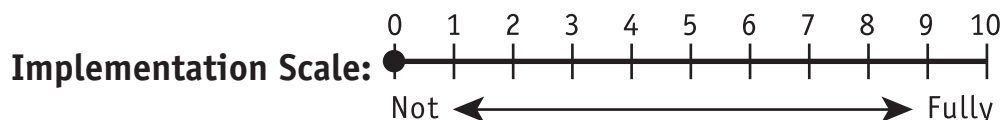
The Governing Board adopts policies and procedures to ensure compliance regarding how student body organizations deposit, invest, spend, raise, and audit student body funds. [EC 48930-48938]

Progress on Recommendations and Improvement Plan

1. Many board policies have been revised over the past year, but none related to management or oversight of student body funds. The revised policy number list indicates that a new policy will be developed to cover money held at school sites, including petty cash and student funds.
2. No ASB policies were provided.
3. No policies have been provided to high school ASB staff.
4. The high school ASB Advisor and Bookkeeper understand ASB accounting procedures and follow the guidelines provided in the ASB Accounting Manual.
5. The board policies and administrative regulations related to student body organizations should be updated regularly to reflect proper business procedures, internal controls, generally accepted accounting principles, and the latest state requirements.
6. The school sites should be provided with board policies, and the staff should be expected to adhere to these policies at all times. Without policies and guidelines, employees cannot be held accountable.

Standard Implemented: Not Implemented

July 2003 Rating: 0
January 2004 Rating: 0
July 2004 Rating: Not reviewed
January 2005 Rating: Not reviewed
July 2005 Self-Rating: Not reviewed
July 2005 New Rating: 0



13.2 Student Body Funds—Supervision of Student Body Funds

Legal Standard

Proper supervision of all student body funds shall be provided by the board. (EC 48937). This supervision includes establishing responsibilities for managing and overseeing the activities and funds of student organizations, including providing procedures for the proper handling, recording, and reporting of revenues and expenditures.

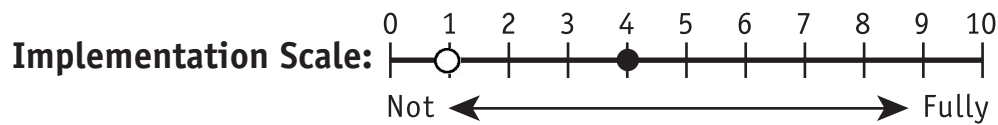
Progress on Recommendations and Improvement Plan

1. The high school ASB Bookkeeper has been in this position for more than one year and understands the duties and responsibilities of the position. The Bookkeeper receives adequate support and training from the district office and has attended the CASBO Student Activities Workshop.
2. The ASB Bookkeeper regularly uses the Student Body Accounting Manual.
3. According to the Director of Fiscal Services, no middle or elementary school student body organizations are operating.
4. ASB funds are collected by teacher-advisors. Funds are to be submitted to the bookkeeper in a timely manner, but there is no method of ensuring this occurs. An audit finding as of June 30, 2004 related to this circumstance. Advisors are expected to use prenumbered tickets and receipts. The district should ensure that prenumbered receipts and tickets are used for all fund raisers. The district also should assign control of prenumbered tickets only to the ASB bookkeeper and the vice principal who supervises student activities.
5. Club advisors and students should be required to prepare revenue potentials for all major fund-raising activities to control cash receipts.
6. The ASB Bookkeeper has a computer to process accounting functions. This has enabled the bookkeeper to prepare financial statements monthly.
7. The Vice Principal supervises the ASB Bookkeeper and is taking a strong, active role in holding club activities advisors accountable for appropriately handling and submitting cash.
8. The ASB accounts include a “principal’s account” that is used to account for donations and other funds not related to student activities. This practice does not comply with the concept that students should always approve fund raisers and expenditures of ASB funds. No funds other than student funds should be processed through the ASB.
9. Training should continue to be provided for all parties involved with student body activities, especially the certificated club advisors, to ensure that proper business procedures are followed in handling cash.

10. Best business practices standards should be developed for all activity advisors to ensure that cash is protected at all times and submitted to the ASB Bookkeeper in a timely manner.
11. Use of revenue potentials should be required for all major fund-raisers.

Standard Implemented: Partially

July 2003 Rating:	1
January 2004 Rating:	Not reviewed
July 2004 Rating:	Not reviewed
January 2005 Rating:	Not reviewed
July 2005 Self-Rating:	5
July 2005 New Rating:	4



13.3 Student Body Funds—Associated Student Body Training Program for Site Personnel

Professional Standard

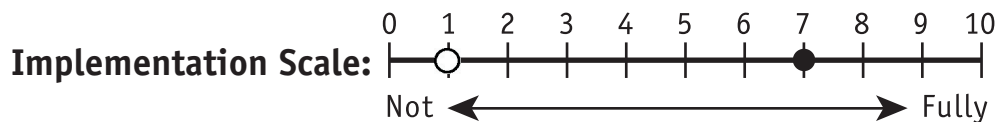
It is the district's responsibility to provide training and guidance to site personnel on the policies and procedures governing the associated student body account.

Progress on Recommendations and Improvement Plan

1. Employees working with ASB funds, both certificated and classified, should be properly trained and updated regularly concerning proper accounting procedures.
2. The Berkeley High School staff reported that it receives immediate help as needed from the Director of Fiscal Services.
3. The staff attends CASBO ASB workshops annually.
4. The Associated Student Body Accounting Manual is available and frequently used as a resource when questions arise.

Standard Implemented: Partially

July 2003 Rating:	1
January 2004 Rating:	Not reviewed
July 2004 Rating:	Not reviewed
January 2005 Rating:	Not reviewed
July 2005 Self-Rating:	8
July 2005 New Rating:	7



13.4 Student Body Funds—Periodic Financial Reporting

Professional Standard

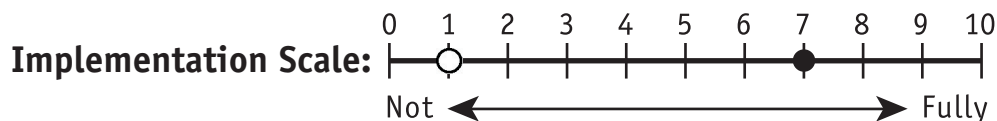
In order to provide oversight and control, the California Department of Education recommends that periodic financial reports be prepared by sites, and then summarized by the district office.

Progress on Recommendations and Improvement Plan

1. According to the Deputy Superintendent and Director of Fiscal Services, the only student body operation is at Berkeley High School. All middle and elementary school student operations have been discontinued and the outside bank accounts closed.
2. The high school ASB prepares monthly financial reports that are submitted to the district office and reviewed by the Director of Fiscal Services. The district should continue to require that the high school ASB prepare and submit monthly financial reports to the district office.
3. ASB financial reports are not presented to the Governing Board. The district should provide ASB financial reports to the board for review at least quarterly.

Standard Implemented: Partially

July 2003 Rating:	1
January 2004 Rating:	Not reviewed
July 2004 Rating:	Not reviewed
January 2005 Rating:	Not reviewed
July 2005 Self-Rating:	8
July 2005 New Rating:	7



13.5 Student Body Funds—Internal Audit Functions

Professional Standard

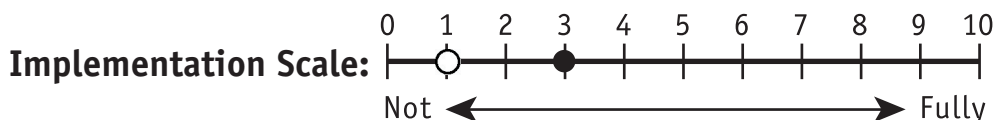
In order to provide adequate oversight of student funds and to ensure proper handling and reporting, the California Department of Education recommends that internal audits be performed. Such audits should review the operation of student body funds at both district and site levels.

Progress on Recommendations and Improvement Plan

1. The district is not providing internal audits of student body funds at school sites.
2. The district does not have a specified internal auditor.
3. The Director of Fiscal Services closely monitors the high school ASB financial activities.
4. Although this monitoring is less than a full independent internal audit, all high school ASB records have been carefully reviewed twice during the current fiscal year.
5. No specific ASB activities are performed at the district level except the preparation of 1099 forms.
6. Certain internal control procedures have been implemented such as having two signors on ASB checks, careful monitoring of student approval of purchases and expenditures, discontinuance of all unofficial ASBs and closure of all outside bank accounts for middle and elementary schools.
7. Because the district has only one ASB, the external auditors audit the high school thoroughly each year. Audit findings and recommendations are implemented.
8. The district has not assigned one employee to facilitate internal control over ASB financial activities.
9. The district is not including ASB financial reports in board agendas at least quarterly.

Standard Implemented: Partially

July 2003 Rating:	1
January 2004 Rating:	Not reviewed
July 2004 Rating:	Not reviewed
January 2005 Rating:	Not reviewed
July 2005 Self-Rating:	3
July 2005 New Rating:	3



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

Professional Standard

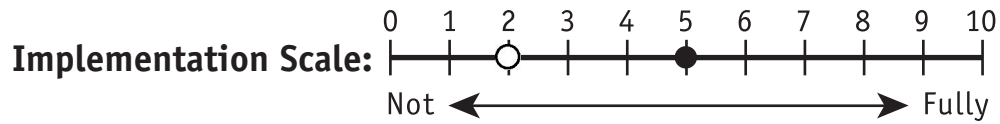
For long-term liabilities/debt service, the district should prepare debt service schedules and identify the dedicated funding sources to make those debt service payments. The district should project cash receipts from the dedicated revenue sources to ensure that it will have sufficient funds to make periodic debt payments. The cash flow projections should be monitored on an ongoing basis to ensure that any variances from projected cash flows are identified as early as possible, in order to allow the district sufficient time to take appropriate measures or identify alternative funding sources.

Progress on Recommendations and Improvement Plan

1. The district continues to update its long-term debt schedule annually as part of the annual audit. As of June 30, 2004 the long-term debt summary included the following debt with outstanding balances as of that date:
 - a. General obligation bonds, \$171,795,000
 - b. Capital appreciation bonds, \$19,769,181
 - c. Bond premium, \$639,538
 - d. State school building loans, \$20,588
 - e. Accumulated vacation, net, \$2,077,512
2. The district contracted with an entity to acquire an actuarial valuation of post-retirement benefits as of January 1, 2004. The projections were critical so that the district could use the data when evaluating the potential cost of the retiree health programs, and to comply with the Governmental Accounting Standards (GASB).
3. When debt occurs, it is important for the Governing Board and public to know the debt amount and the source of the funding that will cover the debt. Cash flow needs to be analyzed to determine the source of these funds.
4. A general fund cash flow report needs to be developed each month rather than only at budget adoption and interim report time. The district needs to ensure that adequate cash exists at all times.

Standard Implemented: Partially

July 2003 Rating: 2
January 2004 Rating: Not reviewed
July 2004 Rating: Not reviewed
January 2005 Rating: Not reviewed
July 2005 Self-Rating: None provided
July 2005 New Rating: 5



16.2 Impact of Collective Bargaining Agreements—Measurement and Evaluation of Bargaining Agreement Implementation Costs and Assurance of Notice to the Public

Professional Standards

The Governing Board must ensure that any guideline developed for collective bargaining is fiscally aligned with the instructional and fiscal goals on a multiyear basis. The Superintendent must ensure that the district has a formal process in which collective bargaining multiyear costs are identified for the Governing Board, and those expenditure changes are identified and implemented as necessary prior to any imposition of new collective bargaining obligations. The Governing Board must ensure that there is a validation of the costs and the projected district revenues and expenditures are validated on a multiyear basis so that the fiscal issues faced by the district are not worsened by bargaining settlements. 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 notified of the provisions of the final proposed bargaining settlement and be given an opportunity to comment.

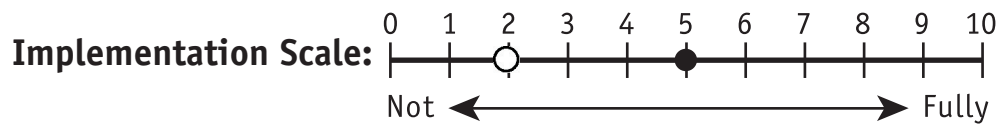
Progress on Recommendations and Improvement Plan

1. During negotiations, the district's Business Department develops multiyear projections when potential ongoing expenditures are discussed so that the financial impact on the district will be fully comprehended. This analysis occurs before board members vote on new expenditures so that the district does not enter into negotiated settlements that it cannot afford.
2. The district should ensure that one of its fiscal representatives is on the bargaining team for all units to promote effective communication between the negotiations team and the budget office. At present, a fiscal representative is called into negotiations only when needed or is used outside negotiations to calculate data for the bargaining sessions. This representative should be involved in all aspects of negotiation. Although this involvement would consume much of the fiscal representative's time, most topics addressed during negotiations relate to finances. Without the representative's involvement, fiscal information may not be conveyed to the business office, prompting financial decisions that adversely affect the district.
3. The Governing Board receives regular updates on the status of negotiations during bargaining sessions. The communication occurs both in closed session and in weekly communication between the Superintendent and the board.
4. The public is not regularly provided with negotiations updates during open sessions of board meetings unless collective bargaining proposals are sunshined or collective bargaining agreements are disclosed at ratification. The district should make every effort to provide the public with ample opportunity for comment and discussion on the proposed final contract. This could be accomplished by submitting the proposed contract to the Governing Board at one meeting, but not scheduling ratification until the following meeting. This also provides board members with more time to analyze the data and ask questions.

5. All five employee bargaining units have a memorandum of understanding (MOU) with the district regarding the Benefits Cost Containment Committee. This committee has met monthly since May 2004 and has helped make changes to contain costs in various areas. Cost-containing modifications include changing provider services and discussing a possible change in the plan design and co-payments.

Standard Implemented: Partially

July 2003 Rating:	2
January 2004 Rating::	Not reviewed
July 2004 Rating::	Not reviewed
January 2005 Rating::	Not reviewed
July 2005 Self-Rating::	5
July 2005 New Rating:	5



17.3 Management Information Systems—Computer Replacement per the District Technology Plan

Professional Standard

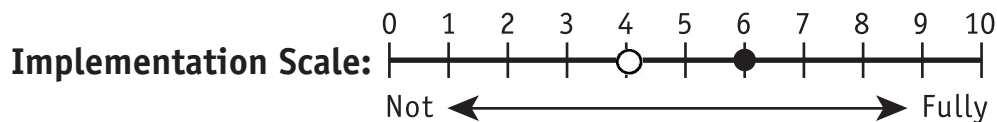
Computers should be replaced on a schedule based on hardware specifications.

Progress on Recommendations and Improvement Plan

1. A hardware inventory is necessary to accurately assess the number of computers that need immediate replacement. This inventory is 90 percent complete, and district administration anticipates completion within the next two months. This inventory also will enable the district to plan for future replacement of computer hardware.
2. All Business Department computers and associated equipment have been updated as recommended in previous progress reports.
3. Macintosh administrative computers have been replaced with PC-based computers that align with the needs of the district's business systems. The computers of school-site attendance clerks also have been replaced with PC-based machines.

Standard Implemented: Partially

July 2003 Rating:	4
January 2004 Rating:	Not reviewed
July 2004 Rating:	Not reviewed
January 2005 Rating:	Not reviewed
July 2005 Self-Rating:	6
July 2005 New Rating:	6



17.7 Management Information Systems—Food Services Program

Professional Standard

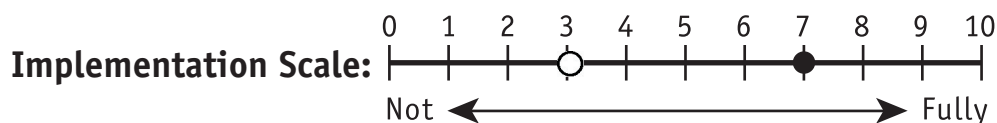
Food service software should permit point-of-sale transaction processing for maximum efficiency.

Progress on Recommendations and Improvement Plan

1. Three of the district's school sites are using the point-of-sale software, Berkeley High School, Longfellow Middle School and Willard Middle School.
2. The district plans to use grant resources to purchase additional computers and POS equipment for the remaining sites, except for Martin Luther King Middle School, which is scheduled to receive the equipment when the dining commons is constructed.

Standard Implemented: Partially

July 2003 Rating:	3
January 2004 Rating:	Not reviewed
July 2004 Rating:	Not reviewed
January 2005 Rating:	Not reviewed
July 2005 Self-Rating:	None provided
July 2005 New Rating:	7



Standard 18.1 Maintenance and Operations Fiscal Controls-Risk Management

Professional Standards

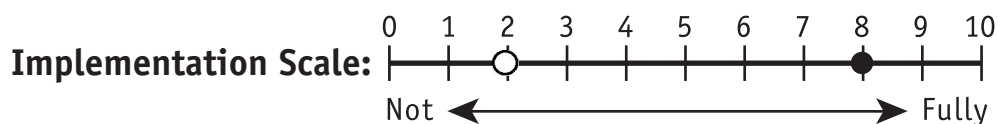
The district has a comprehensive risk management program. The district should have a program that monitors the various aspects of risk management including workers' compensation, property and liability insurance and maintains the financial well-being of the district.

Progress on Recommendations and Improvement Plan

1. An actuarial review for claims liabilities was performed June 30, 2003 by an outside consultant. Good business practices dictate that actuarial reviews should be performed approximately every two years or when there is significant change in coverage.
2. Risk management is now performing monthly reconciliation of the general ledger and loss runs for property and general liability insurance. Differences are investigated and corrected.
3. A re-enrollment for health and welfare benefit plans occurred September 2003 and is planned again for July 2005. Frequent re-enrollments allow the district to ensure that it is not overpaying benefits by covering employee dependents that are no longer at the appropriate age limit or by covering former employees.
4. The Department of Risk Management has accomplished a substantial amount in the past two years. The department has realized more than \$180,000 in cost savings annually by auditing health benefit accounts for early retirees, an area that was not carefully monitored in the past. The district also contracted with a new health benefit broker, realizing a costs savings of approximately \$14,000 per year. The dental coalition also was changed to a self-funded dental version, resulting in savings of approximately \$10,700 annually, and then changed again to a fully insured version, resulting in savings of approximately \$190,500 annually.

Standard Implemented: Fully - Substantially

July 2003 Rating:	2
January 2004:	Not reviewed
July 2004:	Not reviewed
January 2005:	Not reviewed
July 2005 Self-Rating::	9
July 2005 New Rating:	8



19.1 Food Service Fiscal Controls—Fiscal Policies and Procedures

Professional Standard

In order to accurately record transactions and to ensure the accuracy of financial statements for the cafeteria fund in accordance with generally accepted accounting principles, the district should have adequate purchasing and warehousing procedures to ensure that:

1. Only properly authorized purchases are made consistent with district policies, federal guidelines, and management direction.
2. Adequate physical security measures are in place to prevent the loss/theft of food inventories.
3. Revenues, expenditures, inventories, and cash are recorded timely and accurately.

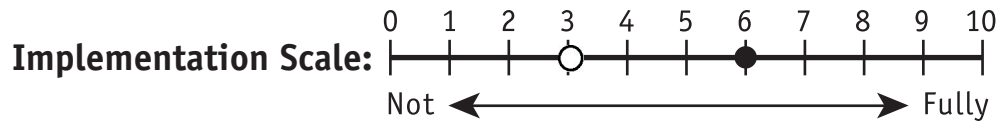
Progress on Recommendations and Improvement Plan

1. FCMAT has not reviewed the food service program as part of a six-month progress report for two years. Since that time, the new cafeteria at Berkeley High School opened and staff turnover has occurred both in food service management and in the position of Deputy Superintendent.
2. Board policies are now available that did not exist or were not available to FCMAT two years ago.
3. The district operates under rigid food restrictions based upon community desires. These restraints increase food prices and greatly restrict the types of foods that are offered to students.
4. It was anticipated that the new high school cafeteria food court would provide healthy food choices and flexibility, enticing students to remain on campus for lunch. Two years ago, the Director of Food Services projected an increased daily participation of approximately 700 meals per day, but only 350 to 400 additional lunches are served. Because the high school cafeteria is not permitted to serve fast foods, students prefer to leave campus for lunch, purchasing from mobile food vendors or from local restaurants or fast food establishments. Many students eligible for free and reduced meals leave campus and pay for lunch rather than eat at the new food court.
5. As was the case two years ago, the district's purchasing procedures are reliable. The employees in the Purchasing Department are well-trained. Purchase orders are used to buy all food and supply items. The Purchasing Department processes all purchase orders and adheres to appropriate bidding procedures as needed.
6. The warehouse is kept locked, and the building is alarmed. The School House Food Services Inventory Module has been implemented. Food is stored in locked facilities at schools. Each day, employees prepare menu production worksheets that assist cafeteria managers and the Director of Food Services in monitoring food use. Spoilage is kept to a minimum by using items that are left over.

7. The former Director of Food Services recently left the district, and an interim director assumed those responsibilities. The interim director authorizes all purchase orders and monitors spending, but has little experience monitoring the budget.
8. The Interim Director of Food Services and the staff have been trained to use the QSS financial system, but need additional training as soon as possible.
9. Because the interim director is new, she has not had the opportunity to become involved in budget development or monitoring. The Director of Fiscal Services will work with the interim director to prepare the budget for 2005-06.
10. The Food Service Department's software is not adequate to prepare monthly profit and loss statements. The food services program operates at a deficit every year. The budget for 2004-05 indicates that deficit spending exceeding \$600,000 will occur this year and most likely in all future years. The district will not be able to stop deficit spending unless the food restrictions are eased to permit the high school to serve a wider variety of foods, the campus is closed, or new innovative ways are found to increase revenues. The administration does not consider any of these options feasible.
11. The district does not transfer Meals For Needy revenue to the cafeteria fund.
12. The Food Services Department provides food to the child development program. The fees from this program cover the expenses and result in a slight profit.
13. Meal prices were increased by 50 cents per meal this year. This change should yield some additional revenue, but it will be insufficient to have a significant effect on deficit spending.
14. An audit finding as of June 30, 2004 noted that some stale and dated checks and uncleared transactions remained in the food services accounting records. All these items should be cleared before June 30, 2005.
15. The district's commitment to small school settings increases food services labor costs.
16. Many food service workers work more than one assignment and receive health benefits. This service model works well for the department, but increases the cost of labor. It might be possible to reduce salary and benefit costs by working with the employee bargaining unit to create some positions with fewer hours and no benefits.
17. The interim director is not provided with financial information at least monthly, and food service financial statements are not included in board agendas at least quarterly.

Standard Implemented: Partially

July 2003 Rating: 3
January 2004 Rating: Not reviewed
July 2004 Rating: Not reviewed
January 2005 Rating: Not reviewed
July 2005 Self-Rating: 6
July 2005 New Rating: 6



Financial Management

Standard to be addressed		July 2003 rating	January 2004 rating	July 2004 rating	January 2005 rating	Focus for July 2005
1.1	Integrity and ethical behavior are the product of the district's ethical and behavioral standards, how they are communicated, and how they are reinforced in practice. All management-level personnel should exhibit high integrity and ethical values in carrying out their responsibilities and directing the work of others. [State Audit Standard (SAS) 55, SAS-78]	3	NR	NR	6	NR
1.2	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]	0	NR	NR	5	NR
1.3	The attitude of the Governing Board and key administrators has a significant effect on an organization's internal control. An appropriate attitude should balance the programmatic and staff needs with fiscal realities in a manner that is neither too optimistic nor too pessimistic. [SAS-55, SAS-78]	7	NR	NR	NR	NR
1.4	The organizational structure should clearly identify key areas of authority and responsibility. Reporting lines should be clearly identified and logical within each area. [SAS-55, SAS-78]	3	NR	NR	NR	NR
1.5	Management should have the ability to evaluate job requirements and match the requirements to the employee's skills. [SAS-55, SAS-78]	2	NR	NR	NR	NR
1.6	The district should have procedures for recruiting capable financial management and staff and hiring competent people. [SAS-55, SAS-78]	6	NR	NR	NR	NR
1.7	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.	3	NR	5	NR	NR

Financial Management

Standard to be addressed		July 2003 rating	January 2004 rating	July 2004 rating	January 2005 rating	July 2005 rating
1.8	The responsibility for reliable financial reporting resides first and foremost at the district level. Top management sets the tone and establishes the environment. Therefore, appropriate measures must be implemented to discourage and detect fraud (SAS 82; Treadway Commission).	0	NR	NR	7	NR
2.1	The business and operational departments should communicate regularly with internal staff and all user departments on their responsibilities for accounting procedures and internal controls. The communications should be written whenever possible, particularly when it (1) affects many staff or user groups, (2) is an issue of high importance, or (3) when the communication reflects a change in procedures. Procedures manuals are necessary to the communication of responsibilities. The departments also should be responsive to user department needs, thus encouraging a free exchange of information between the two (excluding items of a confidential nature).	2	6	NR	7	NR
2.2	The financial departments should communicate regularly with the Governing Board and community on the status of district finances and the financial impact of proposed expenditure decisions. The communications should be written whenever possible, particularly when it affects many community members, is an issue of high importance to the district and board, or reflects a change in policies.	3	NR	NR	6	NR
2.3	The Governing Board should be engaged in understanding globally the fiscal status of the district, both current and as projected. The Governing board should prioritize district fiscal issues among the top discussion items.	1	NR	NR	6	NR
2.4	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.	0	NR	8	NR	NR

Financial Management						
Standard to be addressed		July 2003 rating	January 2004 rating	July 2004 rating	January 2005 rating	July 2005 rating
3.1	Develop and use a professional development plan, i.e., training business staff. The development of the plan should include the input of business office supervisors and managers. The staff development plan should at a minimum identify appropriate programs office-wide. At best, each individual staff and management employee should have a plan designed to meet their individual professional development needs.	1	NR	NR	4	NR
3.2	The district should develop and use a professional development plan for the in-service training of school site/department staff by business staff on relevant business procedures and internal controls. The development of the plan should include the input of the business office and the school sites/departments and be updated annually.	2	5	NR	6	NR
4.1	The Governing Board should adopt policies establishing an internal audit function that reports directly to the Superintendent/State Administrator and the audit committee or Governing Board.	1	NR	NR	NR	NR
4.2	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 non-compliance with laws and regulations and/or at high risk for monetary loss.	0	NR	NR	NR	5
4.3	Qualified staff should be assigned to conduct internal audits and be supervised by an independent body, such as an audit committee.	1	NR	NR	NR	NR
4.4	Internal audit findings should be reported on a timely basis to the audit committee, governing board and administration, as appropriate. Management should then take timely action to follow up and resolve audit findings.	1	NR	NR	NR	4
5.1	The budget development process requires a policy-oriented focus by the Governing Board to develop an expenditure plan that fulfills the district's goals and objectives. The Governing Board should focus on expenditure standards and formulas that meet the district goals. The Governing Board should avoid specific line-item focus, but direct staff to design an entire expenditure plan focusing on student and district needs.	1	NR	NR	3	NR
5.2	The budget development process includes input from staff, administrators, board and community.	5	NR	NR	6	NR

Financial Management

Standard to be addressed		July 2003 rating	January 2004 rating	July 2004 rating	January 2005 rating	July 2005 rating
5.3	Policies and regulations exist regarding budget development and monitoring.	3	NR	NR	4	NR
5.4	The district should have a clear process to analyze resources and allocations to ensure that they are aligned with strategic planning objectives and that the budget reflects district priorities.	1	NR	NR	4	NR
5.5	The district should have policies to facilitate development of a budget that is understandable, meaningful, reflective of district priorities, and balanced in terms of revenues and expenditures.	2	NR	NR	NR	6
5.6	Categorical funds are an integral part of the budget process and should be integrated into the entire budget development. The revenues and expenditures for categorical programs must be reviewed and evaluated in the same manner as unrestricted General Fund revenues and expenditures. Categorical program development should be integrated with the district's goals and should be used to respond to district student needs that cannot be met by unrestricted expenditures. The superintendent, superintendent's cabinet and fiscal office should establish procedures to ensure that categorical funds are expended effectively to meet district goals. Carry-over and unearned income of categorical programs should be monitored and evaluated in the same manner as General Fund unrestricted expenditures.	8	NR	NR	NR	NR
5.7	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.	2	5	6	NR	NR
6.1	The budget office should have a technical process to build the preliminary budget amounts that includes: the forecast of revenues, the verification and projection of expenditures, the identification of known carryovers and accruals and the inclusion of concluded expenditure plans. The process should clearly identify one-time sources and uses of funds. Reasonable ADA and COLA estimates should be used when planning and budgeting. This process should be applied to all funds.	3	NR	5	NR	6

Financial Management						
Standard to be addressed		July 2003 rating	January 2004 rating	July 2004 rating	January 2005 rating	July 2005 rating
6.2	An adopted budget calendar exists that meets legal and management requirements. At a minimum the calendar should identify statutory due dates and major budget development activities.	9	NR	NR	NR	NR
6.3	Standardized budget worksheets should be used in order to communicate budget requests, budget allocations, formulas applied and guidelines.	3	NR	NR	NR	8
7.1	The district should adopt its annual budget within the statutory time lines established by Education Code Section 42103, which requires that on or before July 1, the governing board shall hold a public hearing on the budget to be adopted for the subsequent fiscal year. Not later than five days after that adoption or by July 1, whichever occurs first, the governing board shall file that budget with the county superintendent of schools. [EC 42127(a)]	2	NR	7	NR	NR
7.2	Revisions to expenditures based on the State Budget should be considered and adopted by the governing board. Not later than 45 days after the governor signs the annual Budget Act, the district shall make available for public review any revisions in revenues and expenditures that it has made to its budget to reflect funding available by that Budget Act. [EC 42127(2) and 42127(i)(4)]	8	10	10	NR	NR
7.3	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 are approved by the county office of education.	1	7	NR	NR	NR
7.4	The district should complete and file its interim budget reports within the statutory deadlines established by Education Code Section 42130, et. seq.	2	7	NR	NR	NR
7.5	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.	4	5	5	NR	NR
7.6	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.	1	NR	6	NR	NR

Financial Management

Standard to be addressed		July 2003 rating	January 2004 rating	July 2004 rating	January 2005 rating	July 2005 rating
7.7	The district should arrange for an annual audit (single audit) within the deadlines established by Education Code section 41020.	0	NR	NR	NR	5
7.8	Standard management practice dictates the use of an audit committee.	0	NR	7	NR	NR
7.9	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.	0	NR	NR	NR	6
7.10	The district must file certain documents/reports with the state as follows: J-200 series - (Education Code Section 42100); J-380 series - CDE procedures; Interim financial reports - (Education Code Section 42130); J-141 transportation report (Title V, article 5, Section 15270).	2	NR	NR	6	NR
7.11	Education Code Section 41020(c) (d) (e) (g) establishes procedures for local agency audit obligations and standards. Pursuant to Education Code Section 41020(h), the district should submit to the county superintendent of schools in the county that the district resides, the State Department of Education, and the State Controller's Office an audit report for the preceding fiscal year. This report must be submitted "no later than December 15."	0	4	NR	NR	5
8.1	All purchase orders are properly encumbered against the budget until payment.	2	NR	5	NR	NR
8.2	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.	2	5	NR	NR	7
8.3	The routine restricted maintenance account should be analyzed routinely to ensure that income has been properly claimed and expenditures 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.	9	NR	NR	NR	NR
8.4	Budget revisions are made on a regular basis and occur per established procedures and are approved by the board of education.	3	5	7	NR	NR

Financial Management						
Standard to be addressed		July 2003 rating	January 2004 rating	July 2004 rating	January 2005 rating	July 2005 rating
8.5	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.	3	6	7	NR	NR
8.6	The district should monitor both the revenue limit calculation and the special education calculation at least quarterly to adjust for any differences between the financial assumptions used in the initial calculations and the final actuals as they are known.	6	NR	NR	NR	NR
8.7	The district should be monitoring the site reports of revenues and expenditures provided.	2	5	NR	NR	NR
9.1	The district budget should be a clear manifestation of district policies and should be presented in a manner that facilitates communication of those policies.	1	NR	NR	NR	5
9.2	The district should clearly identify onetime source and use of funds.	1	NR	5	NR	NR
10.1	The governing board must review and approve, at a public meeting and on a quarterly basis, the district's investment policy. [GC 53646]	3	8	NR	NR	NR
11.1	An accurate record of daily enrollment and attendance is maintained at the sites and reconciled monthly.	1	8	NR	NR	NR
11.2	Policies and regulations exist for independent study, home study, inter/intradistrict agreements and districts of choice, and should address fiscal impact.	1	NR	NR	7	NR
11.3	Students should be enrolled by staff and entered into the attendance system in an efficient, accurate and timely manner.	5	NR	NR	7	NR
11.4	At least annually, the school district should verify that each school bell schedule meets instructional time requirements for minimum day, year and annual minute requirements.	7	NR	NR	NR	NR
11.5	Procedures should be in place to ensure that attendance accounting and reporting requirements are met for alternative programs such as ROC/P and adult education.	9	NR	NR	NR	NR
11.6	The district should have standardized and mandatory programs to improve the attendance rate of pupils. Absences should be aggressively followed-up by district staff.	4	NR	NR	7	NR

Financial Management

Standard to be addressed		July 2003 rating	January 2004 rating	July 2004 rating	January 2005 rating	July 2005 rating
11.7	School site personnel should receive periodic and timely training on the district's attendance procedures, system procedures and changes in laws and regulations.	1	8	NR	NR	NR
11.8	Attendance records shall not be destroyed until after the third July 1 succeeding the completion of the audit. (Title V, CCR, Section 16026)	7	NR	NR	NR	NR
11.9	The district should make appropriate use of short-term independent study and Saturday school programs as alternative methods for pupils to keep current on classroom course work.	1	NR	NR	3	NR
12.1	The district should adhere to the California School Accounting Manual (CSAM) and Generally Accepted Accounting Principles (GAAP) as required by Education Code Section 41010. Furthermore, adherence to CSAM and GAAP helps to ensure that transactions are accurately recorded and financial statements are fairly presented.	8	NR	NR	NR	NR
12.2	The district should timely and accurately record all information regarding financial activity (unrestricted and restricted) for all programs. Generally Accepted Accounting Principles (GAAP) require that in order for financial reporting to serve the needs of the users, it must be reliable and timely. Therefore, the timely and accurate recording of the underlying transactions (revenue and expenditures) is an essential function of the district's financial management.	0	6	NR	NR	NR
12.3	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.	1	5	6	NR	NR
12.4	The district's payroll procedures should be in compliance with the requirements established by the 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.	2	NR	NR	NR	6

Financial Management						
Standard to be addressed		July 2003 rating	January 2004 rating	July 2004 rating	January 2005 rating	July 2005 rating
12.5	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.	1	NR	NR	5	NR
12.6	Federal and state categorical programs, either through specific program requirements or through general cost principles such as OMB Circular A-87, require that entities receiving such funds must have an adequate system to account for those revenues and related expenditures.	6	NR	NR	NR	NR
12.7	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 comply with the procedures and requirements established by the county office of education.	1	NR	NR	5	NR
12.8	The district should comply with the bidding requirements of Public Contract Code Section 20111. Standard accounting practice dictates that the district have adequate purchasing and warehousing procedures to ensure that only properly authorized purchases are made, that authorized purchases are made consistent with district policies and management direction, that inventories are safeguarded, and that purchases and inventories are timely and accurately recorded.	4	NR	5	NR	NR
12.9	The district has documented procedures for the receipt, expenditure and monitoring of all construction-related activities. Included in the procedures are specific requirements for the approval and payment of all construction-related expenditures.	5	NR	5	NR	NR
12.10	The accounting system should have an appropriate level of controls to prevent and detect errors and irregularities.	2	NR	NR	5	NR
13.1	The Governing Board adopts policies and procedures to ensure compliance regarding how student body organizations deposit, invest, spend, raise and audit student body funds. [EC 48930-48938]	0	0	NR	NR	0

Financial Management

Standard to be addressed		July 2003 rating	January 2004 rating	July 2004 rating	January 2005 rating	July 2005 rating
13.2	Proper supervision of all student body funds shall be provided by the board. [EC 48937] This supervision includes establishing responsibilities for managing and overseeing the activities and funds of student organizations, including providing procedures for the proper handling, recording and reporting of revenues and expenditures.	1	NR	NR	NR	4
13.3	The district provides training and guidance to site personnel on the policies and procedures governing the Associated Student Body account.	1	NR	NR	NR	7
13.4	In order to provide for oversight and control the California Department of Education recommends that periodic financial reports are prepared by sites, and then summarized by the district office.	1	NR	NR	NR	7
13.5	In order to provide adequate oversight of student funds and to ensure the proper handling and reporting, the California Department of Education recommends that internal audits be performed. Such audits should review the operation of student body funds at both district and site levels.	1	NR	NR	NR	3
14.1	A reliable computer program that provides reliable multiyear financial projections is used.	7	NR	7	NR	NR
14.2	The district annually provides a multiyear revenue and expenditure projection for all funds of the district. Projected fund balance reserves should be disclosed. The assumptions for revenues and expenditures should be reasonable and supportable. [EC 42131]	5	NR	5	NR	NR
14.3	Multiyear financial projections should be prepared for use in the decision-making process, especially whenever a significant multiyear expenditure commitment is contemplated. [EC 42142]	8	NR	NR	NR	NR
15.1	The district should comply with public disclosure laws of fiscal obligations related to health and welfare benefits for retirees, self-insured Workers Compensation, and collective bargaining agreements. [GC 3540.2, 3547.5, EC 42142]	3	NR	8	NR	NR
15.2	When authorized, the district should only use non-voter approved, long-term financing such as certificates of participation (COPS), revenue bonds, and lease-purchase agreements (capital leases) to address capital needs, and not operations. Further, the general fund should be used to finance current school operations, and in general should not be used to pay for these types of long-term commitments.	3	8	NR	NR	NR

Financial Management						
Standard to be addressed		July 2003 rating	January 2004 rating	July 2004 rating	January 2005 rating	July 2005 rating
15.3	For long-term liabilities/debt service, the district should prepare debt service schedules and identify the dedicated funding sources to make those debt service payments. The district should project cash receipts from the dedicated revenue sources to ensure that it will have sufficient funds to make periodic debt payments. The cash flow projections should be monitored on an ongoing basis to ensure that any variances from projected cash flows are identified as early as possible, in order to allow the district sufficient time to take appropriate measures or identify alternative funding sources.	2	NR	NR	NR	5
16.1	The Governing Board must ensure that any guideline they develop for collective bargaining is fiscally aligned with the instructional and fiscal goals on a multiyear basis. The superintendent must ensure that the district has a formal process where collective bargaining multiyear costs are identified to the governing board and those expenditure changes are identified and implemented as necessary prior to any imposition of new collective bargaining obligations. The 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 issues faced by the district are not strained further due to bargaining settlements. 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 advance notice of the provisions of the final proposed bargaining settlement and be given an opportunity to comment.	2	NR	NR	NR	NR

Financial Management

Standard to be addressed		July 2003 rating	January 2004 rating	July 2004 rating	January 2005 rating	July 2005 rating
16.2	The Governing Board must ensure that any guideline developed for collective bargaining is fiscally aligned with the instructional and fiscal goals on a multi-year basis. The Superintendent must ensure that the district has a formal process in which collective bargaining multi-year costs are identified for the Governing Board, and those expenditure changes are identified and implemented as necessary prior to any imposition of new collective bargaining obligations. The Governing Board should ensure that costs and projected district revenues and expenditures are validated on a multi-year basis so that the fiscal issues faced by the district are not worsened by bargaining settlements. 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 notified of the provisions of the final proposed bargaining settlement and provided with an opportunity to comment.	2	NR	NR	NR	5
17.1	There should be a process in place for fiscal input and planning of the district technology plan. The goals and objectives of the technology plan should be clearly defined. The plan should include both the administrative and instructional technology systems. There should be a summary of the costs of each objective, and a financing plan should be in place.	5	NR	NR	NR	NR
17.2	Management information systems must support users with information that is relevant, timely, and accurate. Needs assessments must be performed to ensure that users are involved in the definition of needs, development of system specifications, and selection of appropriate systems. Additionally, district standards must be imposed to ensure the maintainability, compatibility, and supportability of the various systems. The district must also ensure that all systems are compliant with the new Standardized Account Code Structure (SACS), year 2000 requirements, and are compatible with county systems with which they must interface.	4	NR	NR	NR	NR
17.3	Computers should be replaced on a schedule based on hardware specifications.	4	NR	NR	NR	6

Financial Management						
Standard to be addressed		July 2003 rating	January 2004 rating	July 2004 rating	January 2005 rating	July 2005 rating
17.4	Cost/benefit analyses provide an important basis upon which to determine which systems should be automated, which systems best meet defined needs, and whether internally generated savings can provide funding for the proposed system. Cost/benefit analyses should be complete, accurate, and include all relevant factors.	5	NR	NR	NR	NR
17.5	Selection of information systems technology should conform to legal procedures specified in the Public Contract Code. Additionally, there should be a process to ensure that needs analyses, cost/benefit analyses, and financing plans are in place prior to commitment of resources. The process should facilitate involvement by users, as well as information services staff, to ensure that training and support needs and costs are considered in the acquisition process.	9	NR	NR	NR	NR
17.6	Major technology systems should be supported by implementation and training plans. The cost of implementation and training should be included with other support costs in the cost/benefit analyses and financing plans supporting the acquisition.	4	NR	NR	NR	NR
17.7	Food service software should permit point-of-sale transaction processing for maximum efficiency.	3	NR	NR	NR	7
17.8	Administrative system users should be adequately trained in the use of administrative systems and should receive periodic training updates to ensure that they remain aware of system changes and capabilities.	3	7	NR	NR	NR
17.9	Business office computers, computer screens, operating systems, and software applications used for administrative system access should be kept up to date.	2	9	NR	NR	NR
18.1	The district has a comprehensive risk-management program. The district should have a program that monitors the various aspects of risk management including workers compensation, property and liability insurance, and maintains the financial well being of the district.	2	NR	NR	NR	8
18.2	The district should have a work order system that tracks all maintenance requests, the worker assigned, dates of completion, labor time spent and the cost of materials.	6	NR	NR	NR	NR

Financial Management

Standard to be addressed		July 2003 rating	January 2004 rating	July 2004 rating	January 2005 rating	July 2005 rating
18.3	The district should control the use of facilities and charge fees for usage in accordance with district policy.	4	NR	5	NR	NR
18.4	The Maintenance Department should follow standard district purchasing protocols. Open purchase orders may be used if controlled by limiting the employees authorized to make the purchase and the amount.	5	NR	NR	NR	NR
18.5	Materials and equipment/tools inventory should be safeguarded from loss through appropriate physical and accounting controls.	6	NR	NR	NR	NR
18.6	District-owned vehicles should be used only for district purposes. Fuel should be inventoried and controlled as to use.	4	NR	NR	NR	NR
18.7	Vending machine operations are subject to policies and regulations set by the State Board of Education. All contracts specifying these should reflect these policies and regulations. An adequate system of inventory control should also exist. [EC 48931]	5	NR	NR	NR	NR
18.8	Capital equipment and furniture should be tagged as district-owned property and inventoried at least annually.	3	NR	NR	NR	NR
18.9	The district should adhere to bid and force account requirements found in the Public Contract Code (Sections 20111 and 20114). These requirements include formal bids for materials, equipment and maintenance projects that exceed \$50,000; capital projects of \$15,000 or more; and labor when the job exceeds 750 hours or the materials exceed \$21,000.	8	NR	NR	NR	NR
19.1	In order to accurately record transactions and to ensure the accuracy of financial statements for the cafeteria fund in accordance with generally accepted accounting principles, the district should have adequate purchasing and warehousing procedures to ensure that: 1. Only properly authorized purchases are made consistent with district policies, federal guidelines, and management direction. 2. Adequate physical security measures are in place to prevent the loss/theft of food inventories. 3. Revenues, expenditures, inventories, and cash are recorded timely and accurately.	3	NR	NR	NR	6

Financial Management						
Standard to be addressed		July 2003 rating	January 2004 rating	July 2004 rating	January 2005 rating	July 2005 rating
19.2	The district should operate the food service programs in accordance with applicable laws and regulations.	3	NR	NR	NR	NR
20.1	In the process of reviewing and approving charter schools, the district should identify/establish minimal financial management and reporting standards that the charter school will follow. These standards/procedures will provide some level of assurance that finances will be managed appropriately, and allow the district to monitor the charter. The district should monitor the financial management and performance of the charter schools on an ongoing basis, in order to ensure that the resources are appropriately managed.	0	NR	NR	NR	NR
21.1	The district should have procedures that provide for the appropriate oversight and management of mandated cost claim reimbursement filing. Appropriate procedures would cover: the identification of changes to existing mandates; training staff regarding the appropriate collection and submission of data to support the filing of mandated costs claims; forms, formats, and time lines for reporting mandated cost information; and, review of data and preparation of the actual claims.	3	NR	NR	NR	NR
22.1	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.	2	NR	NR	NR	NR

