



Berkeley Unified School District

Financial Management
Comprehensive Review
July 2003

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

Chief Executive Officer
Thomas E. Henry

Financial Management

The review of the Berkeley Unified School District's financial management operations, encompassed 22 specific financial areas. These areas focus on managing the district's fiscal resources in a manner that is consistent, accurate, effective and accountable in order to overcome the current fiscal crisis, eliminate deficit spending, and reinstate the district's required state reserve for economic uncertainty.

The 22 specific areas of the district that were reviewed, and the number of individual standards within each area, included:

1. Internal Control Environment, eight standards
2. Inter- and Intra-Departmental Communications, four standards
3. Staff Professional Development, two standards
4. Internal Audit, four standards
5. Budget Development Process (Policy), seven standards
6. Budget Development Process (Technical), three standards
7. Budget Adoption, Reporting, and Audits, eleven standards
8. Budget Monitoring, seven standards
9. Budget Communications, two standards
10. Investments, one standard
11. Attendance Accounting, nine standards
12. Accounting, Purchasing, and Warehousing, 10 standards
13. Student Body Funds, five standards
14. Multi-Year Financial Projections, three standards
15. Long -Term Debt Obligations, three standards
16. Impact of Collective Bargaining Agreements, two standards
17. Management Information Systems, nine standards
18. Maintenance and Operations Fiscal Controls, nine standards
19. Food Service Fiscal Controls, two standards
20. Charter Schools, one standard
21. State Mandated Costs, one standard
22. Special Education, one standard

Fiscal Background

On August 15, 2001 the Alameda County Office of Education notified the district that the adopted budget for 2001-2002 had insufficient information to comply with the state-adopted criteria and standards. The budget was subsequently disapproved by the county office on September 28, 2001. In October 2001, FCMAT was assigned as Fiscal Advisor by the county office and remains in that capacity at the present time. The first-, second- and third-interim reports for 2001-2002 were completed by FCMAT because the district was unable to complete them due to critical positions that were vacant. The county office concurred with the district's negative certifications on all three of the interim reports in the 2001-2002 fiscal year.

Again on September 17, 2002, the county office disapproved the district's adopted budget, this time for year 2002-2003. That report was also prepared by FCMAT due to vacant district positions. This budget included approximately \$8 million in district-approved budget cuts to begin

decreasing deficit spending. During the year, the county office concurred with the district's negative certification of the 2002-2003 first-, second- and third-interim reports. These reports were completed by district staff.

The district prepared a financial recovery plan, and the board approved the plan on February 19, 2003. According to the plan, approximately \$1 million in budget cuts had been completed mid-year in 2002-2003, and approximately \$8 million reductions would occur in the 2003-2004 year. It appeared that the district had identified a sufficient number of budget cuts to regain fiscal solvency. Also during the last portion of the 2002-2003, a new Associate Superintendent of Business and Operations was hired after the previous Associate Superintendent resigned. The current partnership between the Director of Fiscal Services and the Associate Superintendent is positive and has allowed the district to begin preparing more detailed financial information. This increased information will allow the district to more fully comprehend its financial condition and what the steps that may be necessary to regain financial stability.

The district's financial problems are far from over. Based on the 2002-2003 third interim report dated May 9, 2003, general fund unrestricted, excluding measures BB and BSEP, has a net deficit of \$4,473,900. With a beginning fund balance of \$4,055,041 and setting aside designations for a revolving cash fund of \$100,000, stores of \$55,151 and the designation for economic uncertainties of \$2,647,697, the ending fund balance is negative \$3,221,707. This negative amount does not take into account the negative fund balance in the food services fund that will need to be covered in some manner before the 2002-2003 fiscal books are closed. The estimated ending fund balance in food services is negative \$645,165.

The preliminary budget numbers for the 2003-2004 budget as of June 11, 2003 indicate that the unrestricted fund has a net deficit of \$2,947,652. With an estimated beginning fund balance of negative \$418,859 and setting aside designations for a revolving cash fund of \$100,000, stores of \$55,151 and the designation for economic uncertainties of \$2,316,683, the ending fund balance is negative \$5,838,345. This negative amount does not take into account the potential contributions that will need to be made to the food service program and the child development fund. While the child development fund may be self-supporting, based on the preliminary budget, the food services fund will once again not be self supporting.

The affect on the general fund will be negative if it is used to cover the food services budget. With an estimated 2003-2004 preliminary general fund balance of negative \$5,838,345 excluding the food service deficit, and with uncertainty over the final state budget, the district once again is facing serious fiscal decisions.

The district has been cutting its budget for the past two years, and must still make additional cuts to ensure that the ending balance can be fully reinstated and so that the district can move ahead with no deficit spending. The district has a new administration and is working diligently so that new processes, procedures and policies can be implemented at all levels, including business and operations.

Summary of Principal Findings and Recommendations

Budget Development and Monitoring

The Governing Board needs to readdress policies on budget development so that district goals, objectives, concepts and guidelines can be linked to the district's expenditure plan. Current policies must be updated or replaced and adopted by the board so that the staff and public understand that the budget reflects the district's goals and objectives.

The district should develop expenditure standards and formulas that are an integral part of the budget document and clearly reflect the district's overall goals and objectives. The board also should adopt a mission statement, core values, strategic goals and priorities upon which to base budget expenditures. In addition, procedures should be established to monitor both restricted and unrestricted district expenditures and to review and monitor the relationship between budget priorities and strategic priorities.

Operations

Many staff members interviewed indicated to FCMAT that Business Department staffing levels are insufficient to maintain a productive and accurate operation. However, FCMAT believes the real need is not additional staff members, but providing adequate training for the current staff and reviewing work responsibilities and updating job descriptions so that functions are correctly allocated and understood by employees. Some staff members have insufficient experience or training to perform their required duties adequately. It is a district responsibility to provide that training.

The district does not record financial information and activity in a timely and accurate manner. State reports have been turned in after the due date. Accounts payable are not paid on time, although an adequate number of number of staff members work in this area. Vendors frequently call to complain of unpaid invoices. It takes an excessive amount of time for purchase orders to be processed because of the forms and budget revisions that must be completed manually if insufficient amounts of funds exist to cover a purchase order when it is entered into the accounting system. Various personnel indicated that it can take up to two months for a purchase order to be entered due to the various manual entries/processes that take place.

The district should adopt and require appropriate fiscal and human resources personnel to sign before personnel are hired for open and approved positions. This will ensure that an open position truly exists and that there is an adequate amount in the budget to pay for this position. The process of submitting time cards must be improved. Incomplete and late time cards are typically the main cause of payroll errors and should be tracked over a period of time to identify the problem work sites to hold those site leaders accountable.

Attendance Accounting

The district as a whole appears to lack standardized specific procedures to improve attendance. Since improving attendance will enhance revenues, principals should be encouraged to find ways to maximize average daily attendance. Employees need regular training to keep abreast of rules and regulations as they pertain to attendance accounting. User manuals are not available. The district office should provide an annual in-service for all employees working with attendance accounting at school sites, including principals. In addition, user manuals should be developed and used.

Technology

The district converted to new accounting system software, QSS, as of July 1, 2002. However, business office personnel have not been trained in the use of position control, absence tracking, or financial system reporting capabilities. The district should contract with QSS for training in these three critical areas. The district also should periodically contract with QSS for refresher training such as year-end closing and other functions that are performed on an infrequent basis.

Conclusion

This report was developed in partnership with the district because the administration knows improvement is needed in various areas. This report is meant to be supportive of the current administration and the commitments of the management staff.

A total of 104 specific standards were assessed, with an overall rating of 3.08.

1.1 Internal Control Environment—Integrity and Ethical Values

Professional Standards

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. [SAS-55, SAS-78]

Sources and Documentation

1. Discussions with the Superintendent, cabinet members and staff
2. Review of signed Form 700, Statement of Economic Interests for Officials and Designated Employees (conflict of interest statements)
3. Review of Board agendas
4. Review of Board policies

Findings

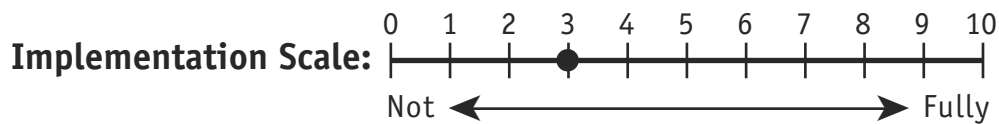
1. Discussions with the Superintendent, cabinet members, and the staff indicate they understand that checks and balances are needed for all district fiscal transactions. Fiscal controls are important for all management personnel. Although the district lacks fiscal controls in specific areas, it is committed to establishing appropriate controls as soon as possible.
2. Form 700, Statement of Economic Interests for Officials and Designated Employees (conflict—of-interest statements) were received. Copies of the 1998-99 statements and the 1999-2000 statements were included in the provided file and were reviewed. In 1999-2000, the most recent year that statements existed, five board members and 19 staff members completed and signed the statements. There were no statements for any officials or employees after 1999-2000. The district has received the latest Form 700 to be completed for 2002-2003, but these forms have not yet been circulated to required board members and/or staff members for completion and signature.
3. Authorized signatures for board members were brought to the 12-11-02 board meeting for approval, and authorized signatures for staff members were brought to the 2-06-02 board meeting for approval.
4. More recently, authorized signatures were brought to the board on 6-04-03 for approval.
5. A number of internal control weaknesses exist. These issues are covered in depth in other portions of this report.
6. Board policy 9270, Conflict of Interest was adopted 11-05-80 and last modified 4-01/81. The provisions in the policy are additional to Government Code Section 37100 and other laws pertaining to conflicts of interest.

Recommendations and Improvement Plan

1. Statement of Economic Interests for Officials and Designated Employees, Form 700, must be completed and signed by appropriate personnel in all fiscal years. This should be an annual requirement and should be calendared at an annual board meeting so that it is not forgotten.
2. Authorized signatures for staff members must be kept up to date. Since the last list was submitted to the board on 2/6/02, various additional administrators have been hired that should be on the list.
3. Internal control issues that are discussed in other parts of this report must be addressed.

Standard Implemented: Partially Implemented

July 2003 Rating: 3



1.2 Internal Control Environment—Governing Board and Audit Committee Participation

Professional Standards

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]

Sources and Documentation

1. Interview with the Superintendent and the Associate Superintendent of Business and Operations
2. Review of board policies

Findings

1. The district does not have an audit committee although there are discussions to form one in the current year, which may satisfy the requirements of this standard. Instead of adding a new committee only for audit purposes, the new committee may be merged with the existing Budget and Finance Committee, which is inactive at this time.

Recommendations and Improvement Plan

1. Direct responsibility for risk management falls to management and not to the board. However, the board should be certain that the responsibility is carried out effectively, proactively, and continuously. An audit committee can help fill this need by ensuring that the board of education is kept informed on potential risk identified by the audit function.
2. When the standing audit committee is formed, the following considerations should be addressed:
 - a. Reporting lines: The audit committee would exist at the pleasure of the district's Governing Board and Superintendent. Organizationally, the committee should stand apart from all other district departments and functions. Any internal auditors, whether district employees or contracted audit firms, should report to the audit committee regularly.

The Governing Board and Superintendent should establish a charter and bylaws for the audit committee that define: (1) functions and objectives, (2) how members are appointed, (3) terms for members, (4) voting and quorum requirements, and (5) how the members are to involve and communicate with district management and the Governing Board.

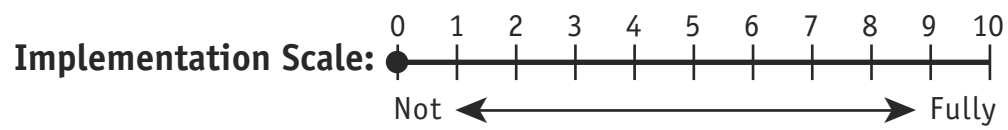
- b. Composition: Typically, an audit committee is composed of five to seven people. Ideally, committee members should have business or legal backgrounds. While the committee may include members from the district, those district members should not dominate it. Rather, to ensure independence, the majority of the committee's membership should be from outside the district.

Minimal amounts of compensation and expense reimbursements, if any, should be granted to committee members.

- c. The Committee's Purpose: Typically, the audit committee's purpose is to:
 - (1) Oversee the independent audit and reporting process. This includes selecting the independent auditor, preferably through a bid process that emphasizes qualifications more than price.
 - (2) Ensure timely attention is paid to control-and-compliance weaknesses. The external and internal auditors are required to communicate all findings to the committee. Management is responsible for responding to the findings as part of the resolution process.
 - (3) Encourage legal and ethical conduct of management and employees through the audit process. The audit committee, through its assignments to the internal audit staff or by its evaluation of external audit findings, should hold management and staff accountable for adhering to board policy regarding fraud, legal and ethical conduct.
 - (4) Increase confidence in the financial reporting process. The audit committee helps ensure that the financial reports are adequately reviewed and accurately stated, as verified by the auditors.
 - (5) Provide an annual report to the Governing Board, Superintendent, and management. The report should identify significant issues related to the financial statements, the annual audit and internal audits (including findings), and the audit committee's recommendations.
- d. Frequency of meetings: The audit committee obviously should meet at certain times during the year such as to:
 - (1) Select the independent auditor. This may not occur annually since most agencies have multi-year contracts for audit services. New legislation prohibits the same firm and/or audit partner from being used for more than six consecutive years.
 - (2) Meet with the independent auditor to review the audit findings. This is an annual task that includes follow-up on prior audit findings.
 - (3) Meet with management regarding the audit findings and resolutions resulting from external and internal audits.
 - (4) Meet with staff performing internal audits to make annual work assignments and to review the internal audit reports.
- e. Committee Authority: The committee is responsible for sifting through the facts, determining their accuracy and, as appropriate, offering management an opportunity to act on the facts or even resolve the issues. It must be emphasized that the committee exists to assist the district in ensuring it remains accountable to the public. It does not exist for individuals to promote their own personal agendas, which could actually hurt the district's reputation in the community if the committee's data is not used or reported correctly.

Standard Implemented: Not Implemented

July 2003 Rating: 0



1.3 Internal Control Environment—Administration’s Philosophy and Operating Style

Professional Standards

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]

Sources and Documentation

1. Interviews with a Board Member, the Superintendent, Associate Superintendent of Business and Operations, Director of Fiscal Services
2. Review of board meeting agendas
3. Review of board meeting minutes

Findings

1. There were no significant concerns conveyed about this area during interviews with district officials. The administration’s leadership style demonstrates that administrators know that the district is in the midst of a fiscal crisis and that the crisis tops the district’s list of priorities. At the same time, they continue to provide leadership and remain optimistic that the crisis will be overcome and that fiscal stability will soon be re-established.
2. The working relationship between the Superintendent and the Governing Board seems very positive and open. In addition, fiscal discussions at board meetings are open and honest. Accurate information is relayed, and questions are answered accurately so that issues are not ignored or oversimplified.
3. Administrators know that the total (or cumulative) amount of the district’s final budget cuts likely will not equal the amount that was initially estimated and published for a variety of reasons. In prior years, modifications to estimated budget cuts approved by the board sometimes were not communicated to the public and/or board in a timely manner. This caused confusion concerning why the amount of the needed cuts seemed to increase. The public must be apprised of modifications as soon as possible. The district must still make additional budget cuts in order to fully re-establish fiscal health and re-establish the required ending balance for economic uncertainties. The state economy is still in a precarious position, and the amount of additional budget cuts that may be necessary due to the budget crisis is unknown. It is imperative that communication between the district and the community stay open and candid so that the community understands the district’s fiscal condition. The community should be informed that there is insufficient information for the district to determine the exact amount of the budget cuts that will eventually be necessary.

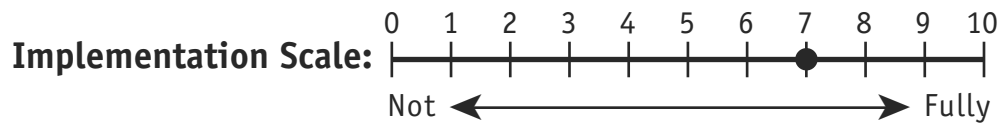
Recommendations and Improvement Plan

1. The district should continue to have open and honest dialogue concerning budget issues and budget cuts. As long as the dialogue is open and candid, the community will regain confidence in the administration.

2. The district should continue to monitor the approved budget cuts to ensure that the estimated cost savings are realized. In addition, additional budget cuts must be recommended and approved so that fiscal health is realized and so that the district is able to maintain the recommended ending balance for economic uncertainties of three percent.

Standard Implemented: Partially implemented

July 2003 Rating: 7



1.4 Internal Control Environment—Organizational Structure

Professional Standards

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]

Sources and Documentation

1. Organizational chart
2. Interviews with administrators and other staff

Findings

1. The district's organizational chart has clearly defined positions for top administration. All three of the current Associate Superintendent positions have given notice that they will not be working at the district after June 30, 2002. The district has replaced the Associate Superintendent of Business and Operations, who is currently working with the prior Associate Superintendent of Business and Operations so that some cross training can occur. At this time, the Superintendent is not planning to replace the other two Associate Superintendent positions due to budget constraints. However, it may be detrimental to leave these two positions unfilled at a time when the district faces so many problems.
2. The district's current organizational chart generally seems reasonable. However the former Associate Superintendent of Business and Operations seemed to virtually function as a deputy superintendent, supporting the Superintendent in several areas. This left little time for business-related and other assigned duties during the district's time of fiscal difficulty. If the new Superintendent of Business and Operations continues to act in the same manner, fiscal operations could suffer.

The staff and supervisors indicated that in the past, insufficient attention has been paid to day-to-day operations for both business and other business related operations. In addition, the Director of Fiscal Services position was unfilled for approximately six months. During this period, the Associate Superintendent lacked sufficient time to review the budget and/or deal with the business department. This had negative effects upon the department that linger today even though the director was hired in August 2002. The Associate Superintendent position must spend sufficient in the Business Department and related operations so the district can make progress and overcome the current financial situation.

3. Some assigned employees perform accounting functions in departments such as adult education, state and federal categorical projects, BSEP and others. These employees report to the department head instead of reporting to the Business Department. At times, this means that accounting functions are not completed or are not completed in the manner required by the Business Department. Since these employees do not report to the Business Department, it is difficult to ensure that they are up to date and performing required functions appropriately.
4. The Payroll Department has been reorganized so that employees now report to a new position, the Director of Payroll Services and Data Evaluation, instead of to the Director of Fiscal Services. This change has occurred because the area of payroll needed greater

attention. A joint relationship exists between this new position and the Director of Fiscal Services, and the district is confident that the new structure will enhance operations. Part of this change involves decreasing responsibilities for one payroll staff member, who had been expected to oversee and supervise the other two payroll positions, which was not occurring to the degree expected. The district should expect employees to perform assigned responsibilities.

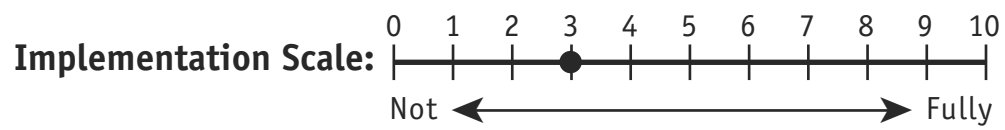
5. No one from the Business Department attends negotiations with employees. Although negotiations require a substantial commitment in time, it is important that a fiscal representative sit on the negotiations panel to substantiate what is being heard, and to provide complete fiscal information. If the appropriate staff members sit at the negotiation table, fiscal decisions can be made more prudently and quickly.

Recommendations and Improvement Plan

1. The district and Governing Board should ensure that sufficient attention is given to the business and related operational divisions in any organizational structure implemented. With so many positions at the top level of management unfilled, the district must ensure that the business and operations departments are given enough time and attention so that they can improve operations and provide better accountability to the public.
2. The independent auditor should report directly to the Superintendent. This position has been mainly reporting to the business department in the past. Another option is for the independent auditor to report both to the business department and the Superintendent, but the Superintendent should retain the responsibilities of evaluation, termination and hiring for this position. If an audit committee is formed, the independent auditor would report directly to the audit committee.
3. The Associate Superintendent of Business and Operations should devote time to all business operational areas of the district. Some indicated during interviews that there is insufficient communication with supporting business operational areas and that they need more attention and direction.
4. The employees in other departments who are performing accounting or business functions should dually report to the Business Department so that the business administration is able to evaluate and provide input concerning the employee's business-related performance.
5. A business administrator should be assigned to the negotiations panel.
6. Employees should be expected to fill assigned job responsibilities. Changing job requirements or adding additional supervisory personnel should not need to be required to ensure that jobs are completed accurately. Hiring more staff when an existing staff member is not performing assigned duties incurs unnecessary additional costs. Instead of hiring more staff to ensure the work is completed on time and correctly, evaluate and discuss with the existing underperforming employee what is expected of him and what the consequences might be for being unable to perform assigned duties responsibly.

Standard Implemented: Partially Implemented

July 2003 Rating: 3



1.5 Internal Control Environment—Evaluation of Job Requirements and Employee Skills

Professional Standards

Management should have the ability to evaluate job requirements and match the requirements to the employee's skills. [SAS-55, SAS-78]

Sources and Documentation

1. Job descriptions of business and operational staff
2. Interviews with business and human resources staff
3. Personal observations of Fiscal Advisor

Findings

1. Many employee job descriptions are out-of-date and do not include the appropriate titles of current district personnel. The majority of the descriptions are dated 1997 with the exception of the positions that were vacated since that date. Job descriptions are updated only when an employee resigns and before they are open to public applicants.
2. In many cases, job descriptions are excessively narrow and do not encompass all the duties the position should actually perform in order to ensure that business functions are completed. Many past practices hinder improvement in this area. For example, when a new director is hired and attempts to ensure that employees perform their assigned duties thoroughly, the employees sometimes resist this change and receive union support. In the face of this resistance, the director ends up assuming some of the employees' duties instead of emphasizing the importance of having the employee complete all assigned tasks.
3. Although managers are trained in evaluation techniques, employees are not always evaluated strictly on their assigned job requirements, and some job tasks are ignored. Job descriptions should be an integral part of evaluations to ensure that employees are performing all assigned and necessary tasks. This would eliminate many of the issues that are occurring in the area, and would also eliminate the practice of hiring additional employees when current employees are not fulfilling all of their assigned job duties.
4. Many staff members interviewed have indicated to FCMAT that Business Department staffing levels are insufficient to maintain a productive and accurate operation. However, FCMAT believes the real need is not additional staff members, but providing adequate training for the current staff and reviewing work responsibilities and updating job descriptions so that functions are correctly allocated and understood by employees. Some staff members have insufficient experience or training to perform their required duties adequately. It is a district responsibility to provide that training.
5. The district should fill each position with a well-qualified and experienced employee in order to build capacity and decrease dependency on consultants, many of whom have been working in the district regularly since September 2002. Many consultants have been dealing with day-to-day operational issues in payroll, position control, and budget development. Consultants would be better utilized to create desk manuals that delineate the appropriate procedures to support good internal controls and distribution of work assign-

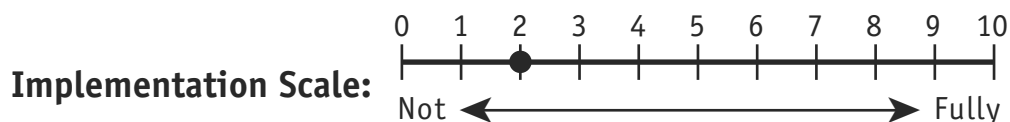
ments. If consultants perform daily operations, and the regular staff remains untrained, district staff members will be unable to work competently and will remain unaware of the work responsibilities they are expected to complete when the consultant is no longer at the district. At times, employee job descriptions/titles reportedly are reduced because employees are unable to perform the assigned duties described. Instead, the district should emphasize that all employees are expected to fulfill the job responsibilities for which they were hired. Those who cannot must be expected to improve. Employees who are still unable to complete their assigned tasks satisfactorily should be re-evaluated.

Recommendations and Improvement Plan

1. The district should re-evaluate employee classifications and job descriptions and consider broadening job duties, requirements and functions so that they reflect all the tasks required by each position. If employees are unable to perform their assigned duties, they should be informed of this fact in evaluations and given the opportunity to improve. If they still cannot fulfill their responsibilities, they should be re-evaluated.
2. Consultants should train permanent employees rather than perform day-to-day functions so that the employees can learn to operate the department more efficiently, benefiting the district.
3. Managers and supervisors should receive more in-depth training in understanding contracts and performing evaluations so that employees can receive direction and guidance according to the negotiated contracts.
4. Instead of attempting to add staff members to the business department, the staff should be trained so that staff members understand their job functions and know all the tasks necessary to ensure their responsibilities are completed correctly.

Standard Implemented: Partially

July 2003 Rating: 2



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

Professional Standards

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

Sources and Documentation

1. Discussions with human resources personnel
2. Interview with business office and business support administration
3. Review of employee job descriptions

Findings

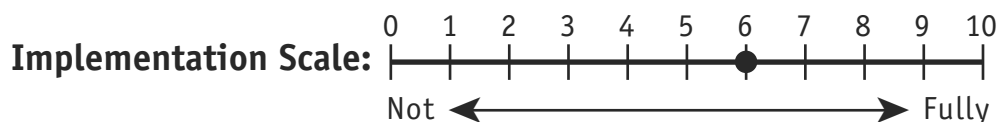
1. Procedures for hiring financial management staff are the same as that of other district employees. Employees are selected based on applications and how the applications match the advertised requirements of the position.
2. After a candidate moves through the initial part of the process, a personnel commission reviews the interviewing committee's recommendation. This commission makes the recommendation that goes before the Governing Board.

Recommendations and Improvement Plan

1. The process of hiring capable financial management and staff is lengthy because of the personnel commission process. A petition went to the board on 5-7-03 to abolish the merit system..

Standard Implemented: Partially

July 2003 Rating: 6



1.7 Internal Control Environment—Staff Evaluations

Professional Standards

All employees should be evaluated on performance at least annually by a management-level employee knowledgeable about their work product. The evaluations 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.

Sources and Documentation

1. Interviews with staff

Findings

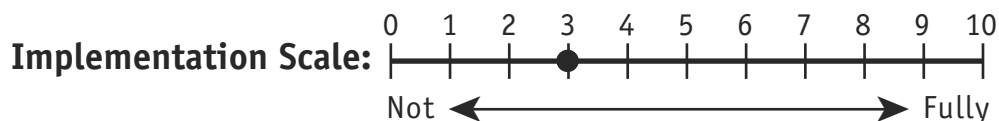
1. The district's policy is to evaluate employees annually. Evaluations are completed as required approximately half the time.
2. Supervisors and managers are trained annually on how to evaluate employees. However, this training does not include in-depth information about employee negotiated contracts. Information on contracts is necessary so that managers know how to effectively evaluate assigned personnel.
3. Managers do not receive specific training on documenting employees who are not adequately performing their assigned jobs. This training would allow managers to discipline employees who are not performing at expected levels.

Recommendations and Improvement Plan

1. Additional training should be mandated for all supervisors and managers who supervise employees.
2. Managers and supervisors should receive annual training on employee contracts. Those who perform evaluations should thoroughly understand employees' specific rights and responsibilities to avoid grievances.
3. Annual training should be provided on progressive discipline so that evaluators understand the steps that should be taken when an employee is performing inadequately or fails to improve.

Standard Implemented: Partially

July 2003 Rating: 3



1.8 Internal Control Environment-Responsibility for Fraud Prevention and Detection

Professional Standards

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).

Sources and Documentation

1. Board policies
2. Discussion with district's Associate Superintendent of Business and Operations and with the Superintendent

Findings

1. There are no formal board policies that address the issue of fraud prevention.

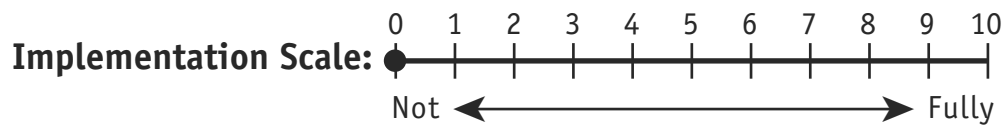
Recommendations and Improvement Plan

1. The district should adopt a specific policy regarding fraud, or ensure that the issue of fraud is covered in another policy that the board has already adopted. The new policy or provision should state that the Governing Board facilitates the development of controls that will aid in the detection and prevention of fraud, impropriety, or irregularity within the district. The board's intent should be to promote consistent organizational behavior by providing guidelines and assigning responsibility for the development of controls and conduct of investigations.
2. The fraud policy information should apply to any actual or suspected fraud, impropriety, or irregularity involving employees as well as consultants, vendors, contractors, employees with outside agencies, and/or any other parties that have a business relationship with the district.
3. The fraud policy information should hold management responsible for detecting and preventing fraud, improprieties, and other irregularities involving district resources. Each member of the management team should be familiar with the types of improprieties that might occur within his/her area of responsibility, and be alert for any indication of irregularity.
4. The accompanying administrative regulations should clearly define acts of fraud, improprieties, and irregularities. They should also delineate investigative responsibilities. Typically, it is the primary responsibility of the internal auditing staff to investigate all suspected fraudulent acts as defined by the policy. If the investigation substantiates that fraudulent activities have occurred, the internal auditing staff should issue a report to appropriate management personnel. If the district does not have an internal auditor due to its size, another employee should be assigned to fulfill this duty.

5. The administrative regulations also should include a statement on confidentiality. The results of any investigation should not be disclosed or discussed with anyone other than those who have legitimate need to know. This is important to avoid damaging the reputations of people suspected of misconduct but subsequently found innocent, and to protect the district from potential civil liability.
6. Reporting procedures should be clearly outlined in the administrative regulations. Great care must be taken to avoid mistaken accusations or alerting suspected individuals that an investigation is in progress.

Standard Implemented: Not Implemented

July 2003 Rating: 0



2.1 Inter- and Intra-Departmental Communications—Timing, Content and Quality of Communications

Professional Standards

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 communication should be written whenever possible; particularly when (1) it 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 communicate 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).

Sources and Documentation

1. Interview with the Associate Superintendent of Business and Operations
2. Interview with the Director of Fiscal Services
3. Interviews with department management and staff

Findings

1. The majority of business operational divisions (except purchasing) lack a procedures manual or other applicable resource for internal staff and user departments to explain responsibilities for accounting procedures and internal controls.
2. The Business Department last year began sending e-mails and memorandums to departments and sites in order to communicate changes and/or applicable time lines and requirements as various issues arise.
3. In the past year, staff members have received training on the new QSS accounting system and on the conversion to the Standardized Account Code Structure (SACS). In addition, the Director of Fiscal Services has begun to plan workshops for appropriate personnel who have fiscal reporting responsibilities on issues such as position control and year-end closing.
4. Financial reports are sent to various sites and departments monthly.

Recommendations and Improvement Plan

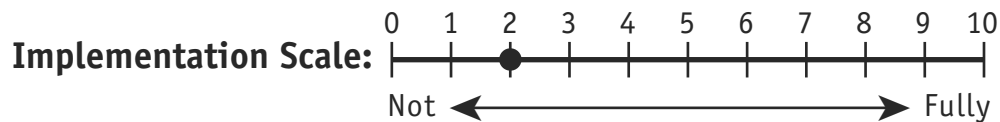
1. The Business Department operational divisions should develop a procedures manual for all business operational divisions, departments and sites. This manual should explain in detail the processes and procedures that are expected and/or necessary to comply with rules, regulations and board and district policies and procedures. The sites and departments will then have a resource to detail expectations in the areas of business and operations. This manual should be updated at least annually.
2. When monthly budget documents are sent to various sites and departments, they should include a cover sheet that indicates a response is required. Departments/sites should initial the sheet to indicate whether the budget printout accurately reflects the status of the

site, department or central office budget. The response cover sheet can also provide a mechanism for the department or site to request applicable budget transfers from the budget office.

3. Business Department bulletins or memos should be routinely distributed whenever changes in procedures occur or when important issues arise. This will help inform everyone about updated information or about any necessary action. To ensure that these bulletins and memos are received, they should be forwarded both electronically and via hard copy.
4. The business and operational divisions should regularly communicate with each other about expected responsibilities for accounting procedures and internal controls. This communication may occur through memos and at various meetings.
5. The Business Department should provide in-service training on business issues for various levels of staff at least annually. These different levels would include administration, school-site personnel, program managers and central office staff.

Standard Implemented: Partially Implemented

July 2003 Rating: 2



2.2 Inter- and Intra-Departmental Communications—Identification and Response to Governing Board and Community Audiences

Professional Standards

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.

Sources and Documentation

1. Governing Board minutes and agenda materials
2. Discussion with the board President
3. Discussions with the Superintendent
4. Discussions with the Associate Superintendent of Business and Operations
5. Observation of board of education meetings

Findings

1. The Associate Superintendent of Business and Operations supplies all the normal financial reports to the board of education, including the budget adoption sequence and the required interim reports. In addition, the Associate Superintendent of Business and Operations supplies other financial reports as requested by the Superintendent or the board. The district began bringing the actual state budget reports to the board for approval only within the last two years. Before that, the district used its own spreadsheets to convey this information. The board is still becoming accustomed to the state-required reports and requires additional training on comprehending the information.
2. The district does not have an active board of education community advisory committee for budget, audit and/or financial advisory purposes. In prior years, the district had both a Blue Ribbon Committee and a Finance and Budget Committee. However, neither group wanted to advise the district on where budget cuts should be made and instead preferred to provide suggestions on where additional dollars should be spent.
3. The Superintendent indicated that she has explained to the board and staff that additional reports should be provided to the board. These additional reports include: monthly attendance vs. monthly enrollment; quarterly attendance reports; and audit committee reports when that committee is established. These reports will provide the community and board with additional information that may facilitate a more global understanding of financial issues.
4. The district provides the board with information on vendor warrants and payroll warrants monthly. The information details the total amount expended by fund.
5. During the 2002/2003 year, the Superintendent requested that the board review and approve all contracts, not just those totaling more than \$15,000. This was a positive step that initiated further conversation and helped the board learn more about the types of services the district obtains by contracting.

6. The district posted information about its financial condition on the district Web page. This information includes summaries of approved decisions on budget cuts and the steps necessary to regain fiscal health. The information was easily understood and very useful.
7. While preparing to present the recovery plan to the Governing Board on February 21, 2003, the district included community members in budget discussions. This helped the community understand why a plan was necessary. The district administration also listened to the community propose areas for budget cuts. This was an effective way to provide community members with an opportunity to comment on a very important subject. It was also a positive step in rebuilding trust and enhancing communication.

Recommendations and Improvement Plan

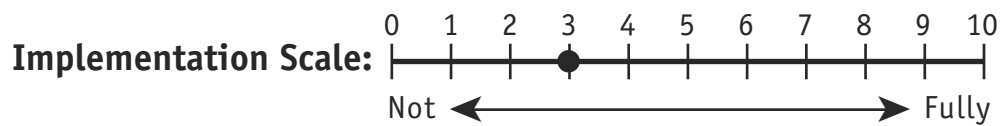
1. The district should continue to enhance communication with the board of education. This communication should include both periodic updates on issues that will affect district finances and routine budget reports on the status of the general fund and categorical programs. The new board reports requested by the Superintendent should be provided to further educate the board and the community.
2. The district should consider providing the board with supplemental budget information that is easier to understand, allows visual comparisons of spending patterns, and includes more explanation. A software package called the “User Friendly Budget” could assist in this area. The software is very easy to use and complements the required state budget reports. The board President has viewed this budget material at a conference and believes that this type of budget information would be very helpful to the board and the community.
3. In addition to the monthly vendor and payroll warrant information by totals by fund, the district should consider providing the board with more information regarding the types of vendor and payroll warrants that are issued. The communication process should include educating the board and the community on how and why the district expends funds. Reporting only total expenditures does not help accomplish this goal. This information could be provided periodically or upon request.
4. The district should explore methods of communicating financial issues to the community and staff via a pocket-size document of fiscal facts, a user-friendly version of the district budget, the various district newspapers, the local newspaper, site newspapers and the district Web site.
5. The district should reactivate the Budget and Finance Advisory Committee and recruit members from the various communities within the district as members. This committee, which is appointed by the board of education, is important in keeping the community informed about the district’s financial condition. Reactivating the committee also would signify that the district is committed to having the community as a partner in educating students.
6. As the budget-cutting process continues, it is critical to continue providing information on the district’s cost-savings efforts and providing updates on the amounts to be cut. The

district's fiscal health must remain the top priority. The district's prior budget cuts did not produce the savings that were initially estimated, but the board and community was not adequately informed of this fact. This type of information is critical in keeping everyone informed about the changes that must still occur in the area of budget cuts.

7. The district should keep the budget information maintained on its Web page updated. This will allow the public to stay abreast of the district's financial health, including the approved cuts that may be occurring and the amount the district must cut in order to regain fiscal health.

Standard Implemented: Partially

July 2003 Rating: 3



2.3 Inter- and Intra-Departmental Communications—Interest and Response by the Governing Board

Professional Standards

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.

Sources and Documentation

1. Discussion with the board President
2. Governing Board agendas and minutes
3. Discussions with the Associate Superintendent of Business and Operations
4. Attendance at board meetings

Findings

1. On the board of education's meeting agendas, business and operations action items come after consent agenda items and after all other district departments.
2. Interim reports are regularly submitted to the board for approval after the deadlines established by the Education Code. Over the past few years, these deadlines have been missed approximately 80 percent of the time.
3. The information presented to the board on budget items is discussed regularly. However, the board is still becoming familiar with the state reports' new format, and consistently providing additional information would help trustees break down the data into specifics. This information might include what funding will occur for one time only, what funding sources are in their final year and any other specific facts that would help the board make educated decisions on funding and expenditure priorities.
4. Since salary and benefits are such a significant portion of the district's expenditures, the four employee contracts should be submitted to the board for review at least annually. These contracts have a present and future fiscal impact that extends beyond step-and-column and cost-of-living-increases. They should be discussed openly and often.

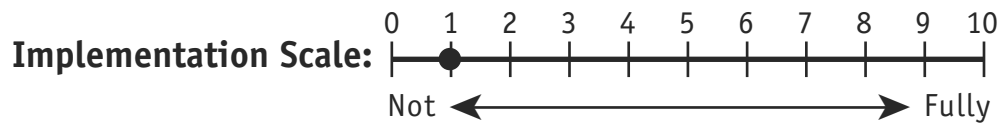
Recommendations and Improvement Plan

1. During board meetings, items about district's business and operations after should be placed on the consent part of the agenda to ensure that appropriate action is taken early. This will help ensure that board members are fresh and do not feel rushed while making important decisions.
2. All business reports should be delivered to the board in a timely manner so that trustees have adequate time to review the information.
3. Reports must be brought to the board in compliance with deadlines set by the Education Code. This will also allow the county office of education to have adequate review time before it must report the district's financial status to the state.

4. Detailed information should accompany budget reports explaining the funding that exists and how long that funding will be available to the district. This will allow the board to make expenditure decisions in a more efficient and accountable manner. Deficit elimination needs to accompany the interim reports if a deficit exists.
5. The budget office should provide multi-year projection information not only at interim reporting periods, but more often while the district's fiscal health is being restored. It is imperative that the board understands the impact of all fiscal decisions it makes and the overall effect on the budget in future years. The multi-year projections should be explained in more detail so that the board is more familiar with the information and will more easily comprehend the data.

Standard Implemented: Partially

July 2003 Rating: 1



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

Professional Standards

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.

Sources and Documentation

1. Review of board policies
2. Discussion with district Superintendent
3. Discussions with the Associate Superintendent of Business and Operations
4. Discussions with the Associate Superintendent of Human Resources

Findings

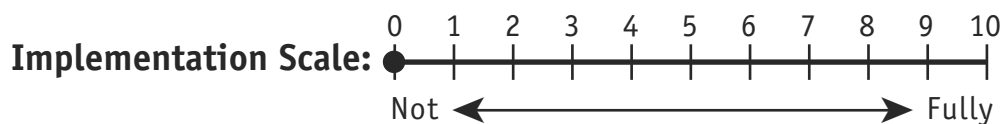
1. There are no formal board policies that address fraud.

Recommendations and Improvement Plan

1. The district should adopt a policy specifically about fraud or add a section to an existing policy that explains the procedures for suspected fraud. This policy should state that the Governing Board facilitates the development of controls that will aid in the detection and prevention of fraud, impropriety, or irregularity within the district. The board's intent should be to promote consistent organizational behavior by providing guidelines and assigning responsibility for the development of controls and conduct of investigations. (See financial standard 1.7)

Standard Implemented: Not Implemented

July 2003 Rating: 0



3.1 Staff Professional Development—Training Programs and Plans

Professional Standards

The district should develop and use a professional development plan, i.e., a plan for training business staff. The development of the plan should include the input of business office supervisors and managers. At a minimum, the staff development plan should identify appropriate programs office wide. Optimally, each individual staff and management employee should have a plan designed to meet his or her individual professional development needs.

Sources and Documentation

1. Interview with the Superintendent
2. Interview with the Classified Personnel Director
3. Interview with the Associate Superintendent of Business and Operations
4. Interview with the Associate Superintendent of Human Resources
5. Interview with classified personnel
6. Assessment of workshop participation

Findings

1. The district does not have a professional development plan for employees.
2. The district provides three staff development days for the certificated staff and one staff development day for the instructional classified staff. There is no reimbursement for classified staff members who do not work directly with students at school sites, but all classified staff members are allowed to participate.
3. The district does not place notices in the Human Resources' personnel files of employees who participate in staff development.
4. Staff development is not considered a top priority in the district. Because of various financial and instructional issues, no administrator focuses on ensuring that employees are receiving staff development to increase their knowledge and/or to benefit themselves.
5. New employees or substitutes receive no formal in-service when they start working for the district.
6. Employees supervising other staff members attend training periodically on evaluation techniques. Also, training on the various union contracts is sometimes provided for administrators.

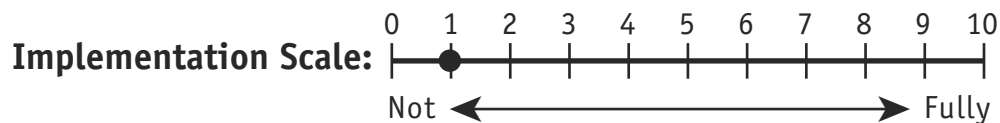
Recommendations and Improvement Plan

1. The district should have a professional development plan for district employees.
2. An emphasis should be placed on release time for employees to participate in the staff development program, with administrators encouraged to provide the appropriate release time.

3. The district should establish a practice to place notices in the personnel files of employees who complete any type of staff development listed in the professional development plan. These employees also should be recognized with some type of award or certificate.
4. The district should continue to take advantage of the funding provided for three staff development days for certificated staff and one staff development day for classified employees working directly with students.
5. The district should increase efforts to notify classified staff members about specific in-service offerings.

Standard Implemented: Partially Implemented

July 2003 Rating: 1



3.2 Staff Professional Development—Training Programs for School Site/ Department Staff by Business Staff

Professional Standards

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.

Sources and Documentation

1. Interview with the Associate Superintendent of Business and Operations
2. Interview with the Director of Fiscal Services
3. Interviews with various district administrators

Findings

1. In the past year, the Business Department has begun to provide some training on subjects such as conversion to the new QSS accounting system, conversion to the Standardized Account Code Structure (SACS) and year-end closing to appropriate staff. Before last year, very little staff development had been conducted by the business division for years.
2. Management staff receives training regarding evaluations and bargaining issues.

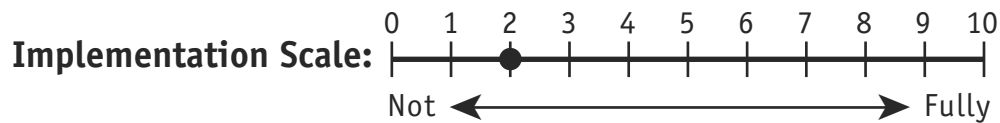
Recommendations and Improvement Plan

1. The business division should develop an annual staff development plan for both department and site personnel regarding procedures to be followed for sound internal controls and overall knowledge of business issues and procedures. The planned program should include all business and operational functions for the sites and various other district departments, as well as the changes that have been made annually to those functions. The plan should at least include the following:
 - a. Changes that have occurred in accounting codes
 - b. Any changes in forms, procedures and activities related to staffing, purchasing and/or budget allocations
 - c. Any changes to the accounting software in relation to reports or access to information
 - d. Reminders of current practices and/or procedures that some departments or sites are having difficulty following or understanding
2. Each staff in-service on business and operations subject should be established for a specific audience with mandatory or optional attendance as dictated by the subject matter. The district should ensure that those invited to the in-service truly belong there so that the staff does not feel that time is being wasted.
3. Appropriate personnel who are knowledgeable of the topic being presented should conduct the staff development program. As questions arise during the in-service, they should be answered. If an answer is not available at that time, the presenter should provide the answer as soon as possible after the training

4. Formal documents outlining the plan for the staff development program for the business staff and/or site level personnel on the business operations of the district should be developed and institutionalized.
5. Managers should continue to be trained on collective bargaining contract issues and evaluation techniques.

Standard Implemented: Partially

July 2003 Rating: 2



4.1 Internal Audit—Policies and Procedures Governing Internal Audits

Professional Standards

The governing board should adopt policies establishing an internal audit function that reports directly to the superintendent and the audit committee or Governing Board.

Sources and Documentation

1. Board policy review
2. Discussions with staff
3. FCMAT fiscal advisor observations

Findings

1. The district does not currently have a position title of Internal Auditor/Controller. A position with this title did exist previously, primarily because of the district's fiscal independence status, but was eliminated June 30, 2002 during budget cuts. This position had duties related to both internal control validation and oversight of the general ledger. The Alameda County Office of Education has subsequently taken back oversight of the district's claims and expenditures. In addition, a Director of Business position was also eliminated at that time. A Director of Fiscal Services was then hired to manage the accounting, budgeting and payroll staff, rather than giving those responsibilities to two different positions as in past years. The Director of Fiscal Services has a variety of responsibilities and supervisory responsibilities that are not normally associated with the internal audit function.
2. The Director of Fiscal Services position reports directly to the Associate Superintendent of Business and Operations. Normally the internal auditor would report directly to the Superintendent and the Board, and to some extent, with the audit committee if it were in existence. But due to the size of the District, it is not feasible to have such a position or reporting requirement.
3. The district does not have an audit committee. In addition, the Director of Fiscal Services position does not have any direct contact with the board of education with the exception of board meeting presentations for budgetary documents.
4. The Director has plans in the upcoming year to begin to perform internal audits on areas such as attendance and student body activities in preparation for annual audits. Up to this time, no internal audit reports have been issued.
5. Board policies were not found on the Internal Audit function.

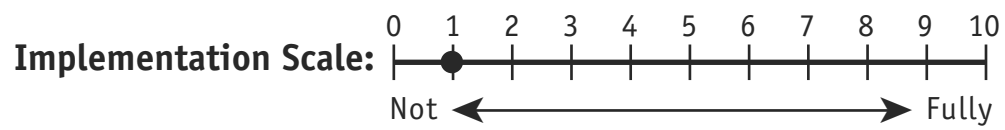
Recommendations and Improvement Plan

1. The board should consider adopting a policy on the establishment of an audit committee (or merging it with the Finance and Budget Advisory Committee) and an internal audit function with a documented system of internal controls. A strong independent internal audit function can:
 - Strengthen the internal control system.
 - Improve public image by identifying and resolving problems before they become large, public issues.

- Provide review of high-risk areas like student body funds, cafeteria funds, attendance accounting, and payroll.
 - Identify inefficiencies and update policies and procedures.
 - Keep the board of education up to date on areas of risk.
 - Prepare for the annual independent audit by ensuring compliance exists in specific areas.
2. Due to the district's size, it is not expected to have a full-time position dedicated to internal audit as in larger districts. But an internal audit function can still exist with various specific duties outlined in the board policy. For example, the Director of Fiscal Services could perform internal audits or random reviews of the processes for internal control. The audits would consist of learning, assisting and understanding internal control process and procedures and then documenting and validating them to prepare for the annual independent audit. When independent auditors audit the district, they can check internal controls by working with the district documentation. If the district documents practices and controls and performs internal audits or at least performs a sampling review throughout the year, there would be fewer compliance issues in the areas of attendance, student body accounts, payroll and various other accounting functions.
 3. The Director of Fiscal Services should prepare internal audit finding reports periodically during the year and would report the findings and results to, the Associate Superintendent of Business and Operations, the Superintendent and the board. A copy of the report would be provided to the audit committee/finance and budget advisory committee. A plan or remedy for the internal findings would also be included in the report.
 4. Periodically throughout the year the director would submit to the Superintendent, the board and the Associate Superintendent of Business and Operations the status of audit findings from the independent auditor for the previous year's audit. It is imperative that all audit findings, whether they were found by the director or the independent auditors, are followed up on and corrected for the subsequent year.
 5. The district should transfer some of the operational functions currently handled by the Director of Fiscal Services to another position. This would provide greater independence and allow time to conduct true internal audits. The director's current workload does not allow her to perform many internal audit functions and handle overall supervision of work. The director's excessive workload is prompted by the fact that the business office's permanent staff lacks sufficient knowledge, training and production. Until these staff members are sufficiently trained and increase productivity, the director's workload will continue to prevent her from performing various supervisory and internal control functions. The Senior Budget Analyst position has been vacant for almost one year, and should be filled in order to provide the Director of Fiscal Services with much-needed assistance.

Standard Implemented: Partially

July 2003 Rating: 1



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

Professional Standards

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.

Sources and Documentation

1. Board policy
2. Interviews with staff

Findings

1. There are no board policies relating to the internal audit function.
2. Internal audits have not occurred yet, but are expected to begin once the 2003-2004 fiscal year begins.

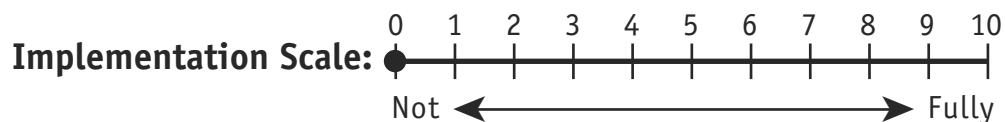
Recommendations and Improvement Plan

1. It is imperative that internal control processes are established and followed throughout the district. Business administrators must have a broad-based perspective so that they are able to understand district processes and analyze them to ensure that these processes are intact so that there is accountability. The district will remain in fiscal emergency status until the budget can provide the required three percent reserve ending balance and sustain a positive ending balance for the current and subsequent two fiscal years. Internal controls assist in ensuring that the district sustains a sound financial condition, as well as maintaining checks and balances that protect district resources.
2. Although the district may be too small to provide a full-time staff member for internal auditing, a staff member should be assigned to review and sample the effectiveness of the internal control system. The most likely position to perform this function is the Director of Fiscal Services. However, as mentioned; some relief should be given to this position in order to accomplish the reviews. The position would have the knowledge to remedy any weaknesses in internal control processes. This type of knowledge would assist in ensuring that business functions are performed in a more complete and accurate manner. The Senior Budget Analyst could assume responsibility for some of the routine tasks currently performed by the Director of Fiscal Services. The district has been unable to permanently fill the Senior Analyst position because of the salary level offered, working conditions, other staff support available, cost-of-living in the area, commuting complexities, parking problems, and possibly recruitment and marketing issues. It is surprising that the director is able to consistently perform so many tasks, but may be unable to sustain this pace in the long term.

3. A board policy and administrative regulations should be adopted by the board and should include:
- Providing an internal auditing activity as a means of supplying management personnel at all levels with information to control.
 - Determining whether internal auditing reviews comply with the district's policies and administrative regulations and gauging the effectiveness of the system of internal controls.
 - Authorizing full and complete access to any of the district's records, physical properties, and personnel relevant to a review once the Superintendent's approval is gained.
 - Ensuring that the internal audit function reviews the development of new procedures and provides recommendations when necessary.
 - Ensuring that the scope of internal auditing includes an evaluation of the quality of performance in carrying out assigned responsibilities in relation to the district's system of internal control.
 - Ensuring that a written report is prepared and issued following the conclusion of each internal audit and distributed to the Superintendent, the Associate Superintendent of Business and Operations and the board, and to the audit committee if one is established. The department or site receiving an audit finding(s) will be issued the report during a meeting with the director, the Associate Superintendent and the Superintendent. This face-to-face meeting is important so that the site or department understands the importance of internal controls and that the district is taking the requirement very seriously. That site or department administrator will then write a response to the Superintendent and the board indicating the actions taken with regard to the specific findings and recommendations in the internal audit report.

Standard Implemented: Not Implemented

July 2003 Rating: 0



4.3 Internal Audit—Organization and Management of Internal Audit Functions

Professional Standards

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

Sources and Documentation

1. Interview with staff
2. Board policy
3. Internal Auditor job description

Findings

1. The Director of Fiscal Services, if officially assigned internal auditor functions is qualified to handle the internal audit function. She has been involved in school business both at the district and county levels and has technical expertise and a clear understanding of the audit process.
2. There are no formal board policies relating to the internal audit function. In addition, the district does not use an audit committee.
3. The Director of Fiscal Services' job description will need to be revised to allow for this new responsibility.

Recommendations and Improvement Plan

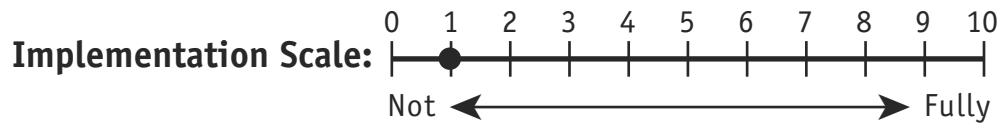
1. The board should adopt policies establishing the internal audit function for the district (as outlined in 4.2).
2. When updated, the director's job description should include the following additional duties related to the performance of internal audits:
 - Preparing the annual audit plan.
 - Scheduling work and coordinating with the other departments.
 - Ensuring that work papers adhere to professional standards.
 - Ensuring compliance with continual professional education requirements.
3. The internal audit function should include presenting reports to the board of education and the audit committee. In addition, periodic progress reports for projects currently in process should be submitted.
4. The audits should follow standards established by the Institute of Internal Auditors (IIA). The district could request that its independent auditor help begin the internal audit process by explaining the methods involved in audit internal controls. In addition, the director should:
 - Use planning memoranda to plan and manage audits.
 - Use standard audit programs.
 - Have standard requirements for work paper documentation, cross-referencing,

and maintenance of work paper files.

- Have procedures regarding sampling methodologies and materiality.
- Provide draft reports to the department/sites/programs being audited in order to obtain comments and additional information. If draft findings are not resolved, the department's comments should be included in the final report.

Standard Implemented: Partially

July 2003 Rating: 1



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

Professional Standards

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.

Sources and Documentation

1. Interviews with Internal Auditor/Controller
2. Internal audit files
3. External Audit Report

Findings

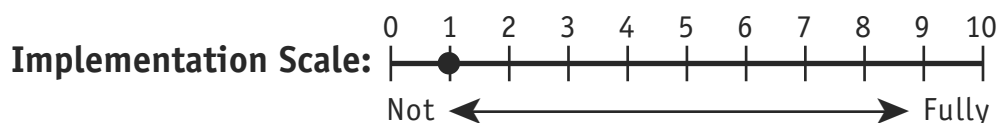
1. The district does not have a standardized process for reporting internal audit findings to the board of education.
2. The staff member providing internal control audits should be responsible for coordinating audit-finding follow-up. There should be a mechanism to routinely update the board on the status of audit findings.
3. The district's Director of Finance Services and the Assistant Superintendent of Fiscal Services are currently in the process of designing a formalized process for the current fiscal year.

Recommendations and Improvement Plan

1. The Governing Board should adopt policies establishing audit finding follow-up and resolution. Those policies should include:
 - A draft report on findings to management
 - Management's response to the Findings
 - Internal audit function's evaluation of management's response and modification of the report as appropriate
 - Inclusion of management's response in the final report for any unresolved Findings
 - Reports to be presented to the audit committee/board
 - Internal audit follow-up report to the audit committee regarding resolutions of Findings
 - Verification of the resolution to the findings by the internal audit function

Standard Implemented: Partially

July 2003 Rating: 1



5.1 Budget Development Process (Policy)—Board Leadership and Budget Participants

Professional Standards

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 should direct staff to design an entire expenditure plan focusing on student and district needs.

Sources and Documentation

1. Interview with the Board President
2. Interview with the Superintendent
3. Interview with the Associate Superintendent of Business and Operations
4. Review of the district budget documents
5. Review of district policies

Findings

1. The Governing Board has specific policies for budget development. These fiscal policies, detailed in the policy manual's section 3000, cover concepts, goals and objectives, guidelines, public participation and other matters. Although these policies were approved by the board between 1974 and 1987, the staff does not seem to follow them. The Governing Board and the district are in the process of approving all mandated board policies and are also planning to develop nonmandated board policies, which would include budget development.
2. The district does not have a mission statement, core values or a strategic plan that have been approved by the Governing Board, and none of these are included in the expenditure plan.
3. Until about 2000, the district regularly developed goals that were tied to the budget. This has not occurred since that year for several reasons, including the district's current fiscal emergency, conversion to a new accounting system (QSS) and conversion to the Standardized Account Code Structure (SACS).
4. Formulas have been developed for some, but not all, district expenditures. The formulas included in the budget-development model are not part of the budget packet reviewed by the board and community.

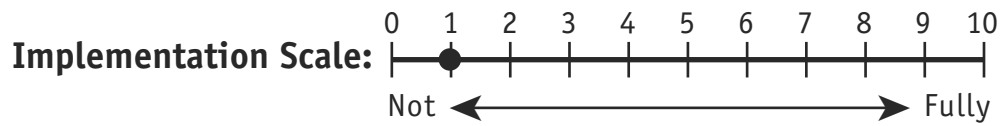
Recommendations and Improvement Plan

1. The Governing Board must readdress policies on budget development so that district goals, objectives, concepts and guidelines can be linked to the district's expenditure plan. Current policies must be updated or replaced and adopted by the board so that the staff and public understand that the budget reflects the district's goals and objectives.

2. The district should develop expenditure standards and formulas that are an integral part of the budget document and clearly reflect the district's overall goals and objectives.
3. A section within the formal budget document should link the expenditures by programs and/or departments to the district's stated strategic priorities and core values. This should help clarify the expenditure plan for both the Governing Board and for interested community members.

Standard Implemented: Partially

July 2003 Rating: 1



5.2 Budget Development Process (Policy)—Input from District and Community Interests

Professional Standards

The budget development process includes input from staff, administrators, board and community.

Sources and Documentation

1. Discussion with the board President
2. Discussions with the Superintendent
3. Discussions with the Associate Superintendent of Business and Operations
4. Discussions with the Director of Fiscal Services
5. Discussions with District Managers
6. Review of the budget process/procedures
7. Review of budget documents

Findings

1. Prior to 2000, the district regularly held budget-development workshops that included the staff, community and board. During these meetings, participants were able to submit suggested priorities and ideas for budget development.
2. The budget development process has been de-emphasized for the past two years because of the district's fiscal crisis. During those years, the budget was mainly a "rollover" version of the previous year's budget since available data was not always reliable, insufficient time was allotted for thorough budget development, and the new administration had a difficult time validating the data.
3. Under the new administration, a true budget development process has begun because of increased understanding of the process and more reliable data. Various meetings have occurred, involving many people who gather input and data for budget development. Various meetings were held involving unions, BSEP, principals, supervisors and managers and various other staff members with ties to specific budgets. In addition, board meetings and community workshops occurred to seek comment and to explain the budget process and its restraints.
4. On March 31, budget forms, worksheets and templates were distributed to program managers, site principals, BSEP personnel and state and federal categorical personnel for use in developing the 2003-2004 budget. These forms reflected the 2002-2003 budgeted amounts in each specific area, the actual expenditures to date and the projected budgeted amount in 2003-2004. The managers and staff members were responsible for working with their staffs to develop budgets to be submitted to the Director of Fiscal Services and entered into the accounting system. Completed forms were due to the Director of Fiscal Services on April 18, 2003.
5. On April 1, a meeting occurred with principals to discuss the budget material they received the previous day and to discuss the information they should submit. The principals also received information on per-pupil allocations for instructional supplies so that budgets could be developed. The principals were provided with the opportunity to ask questions so that the process would be as smooth as possible.

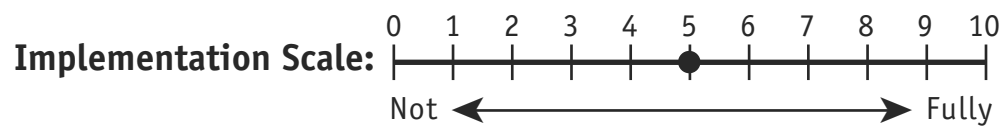
6. The Director of Fiscal Services develops a preliminary budget to be shared with the Superintendent/cabinet. This Superintendent/cabinet review is continuous and begins when the preliminary budget is ready to be shared with the board and the community.
7. On May 21, the board received the 2003-2004 budget assumptions. Because the Governor released the May Revision on May 15, the most up-to-date information was included in the budget assumptions. Also included was the disclaimer that until the actual budget was signed by the Governor, the assumptions were only best estimates.
8. At the June 4, 2003 meeting, the Associate Superintendent of Business and Operations reported to the board the Governor's May Revised state budget and its potential impact on the district.
9. At a board meeting on June 11, the first draft of the 2003-2004 district budget was submitted to the board and the public. A public hearing occurred at that meeting.
10. On June 13, 2003, the proposed 2003-2004 district budget was available for inspection at the district's budget office.
11. On June 18, 2003 the board is scheduled to accept, discuss and adopt the recommended 2003-2004 budget, including any goals and/or actions included in the package.
12. On June 30, 2003 the approved budget is to be submitted to the Alameda County Office of Education.

Recommendations and Improvement Plan

1. The district should consider holding additional board study sessions and community meetings before developing the budget. This will demonstrate that the district is working with the community and is ensuring that the public is an important part of the process.
2. The board should become more involved in the budget-development process. A meeting should be held at the beginning of budget development so that the board can discuss its goals and priorities. In addition, the board should strive for a greater understanding of allocations to sites and departments.
3. Administrators who are responsible for budgets should be given additional time for completion of budget worksheets. FCMAT was repeatedly told that insufficient time was provided for thorough completion of these documents. Providing additional time also would help ensure that the information submitted to the budget office is more understandable and accurate.

Standard Implemented: Partially Implemented

July 2003 Rating: 5



5.3 Budget Development Process (Policy)—Policies and Regulations

Professional Standards

Policies and regulations exist regarding budget development and monitoring.

Sources and Documentation

1. Discussions with the board President
2. Discussions with the Superintendent
3. Discussions with the Associate Superintendent of Business and Operations
4. Discussions with the Director of Fiscal Services
5. Review of the budget policies and procedures
6. Review of budget documents

Findings

1. Existing board of education policies outline budget development requirements as prescribed by law and identify the appropriate calendar dates. Although these policies exist, they are outdated and not followed by staff. The existing policies were adopted between 1972 and 1987.
2. The board of education's policy 3301, Budget Amendments, was adopted in 1991. It states that individual budget amendments in excess of \$25,000 shall be submitted to the board for approval prior to adoption of the budget amendments. Those individual budget amendments less than \$25,000 shall be ratified by the board at the time of the quarterly budget reviews.
3. Board policy 3010, Fiscal Goals and Objectives states that monthly budget reports will be prepared for the board for its review no later than the 15th of the subsequent month.
4. Board policy 3100, Annual Operating Budget, which was last updated in 1980, states that the budget shall be developed through the coordinated efforts of citizens, schools/sites, staff organizations, district administration and Board.
5. The district uses staffing formulas and is now using position control to establish the personnel portion of the budget. The discretionary portion of the budget is mainly done by allocation formulas.
6. The board of education does not have an active budget, financial and/or audit committee.

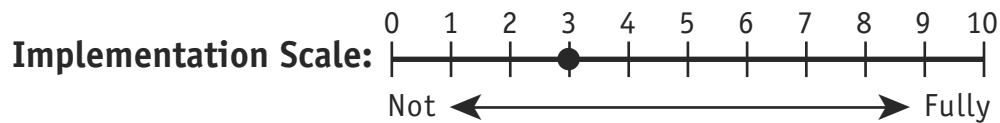
Recommendations and Improvement Plan

1. If the existing board policies were followed, the district would be meeting the professional standard in most cases. The primary exception is that the district lacks an active budget, financial and/or audit committee.
2. Although position control is being used as an integral part of the budgeting process, administrators who are not part of the Business Department should validate the data. This will allow employee assignments and placements to be validated by the administrators

who supervise the employees. The more validation the district performs on this database, the more confident it can be that accurate data is being used to calculate operational costs at specific departments and/or sites. Although the sites and/or departments cannot adjust position control data, they can review and validate the information, which would make the budget office more confident that personnel are being correctly identified in the system.

Standard Implemented: Partially Implemented

July 2003 Rating: 3



5.4 Budget Development Process (Policy)—Strategic Process to Analyze All Resources and Allocations

Professional Standards

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 the priorities of the district.

Sources and Documentation

1. Discussions with administrative staff
2. Review of the budget procedures
3. Review of budget documents
4. Attendance at board meetings

Findings

1. In 2003-2004 budget development, the district has focused primarily on adopting budget cuts that will improve the district's financial condition. This focus has left little time to thoroughly analyze resources and allocations. The full effects of the state budget crisis on Berkeley are still unknown. Because the district is preparing a 2003-2004 budget that takes into account diminishing funds at both the state and district levels, little time is left to analyze resources and develop allocations appropriately.
2. The board of education has not adopted a mission statement, core values related to that mission statement or strategic priorities that can be used to develop the budget. Therefore, some of the budgets are rollover versions and others are roll over versions with budget cuts incorporated. Most budgets are not tied to any specific goals and/or objectives, with the exception of some of the categorical programs. These budgets have been reviewed by site leadership teams that have developed a concise plan upon which to base categorical programs.
3. The Director of Fiscal Services has worked with the district for less than one year and is still becoming familiar with the budget and related processes. This position has little time for analyzing the budget sufficiently to meet this standard. In addition, the district has forwarded forms to sites and departments requesting their input into budget development, but many forms have not been returned. This forces the director to spend more time entering into the district budget specific information that could be provided by site and department administrators.
4. Because the Budget Analyst position remains unfilled, and Business Department employees lack sufficient training to assist in the budget process, the budget may not be as precise and accurate as it should be.
5. Attempts were made to strengthen the budget-development process, but because so many issues and priorities exist, budget development is not being accomplished at satisfactory levels.

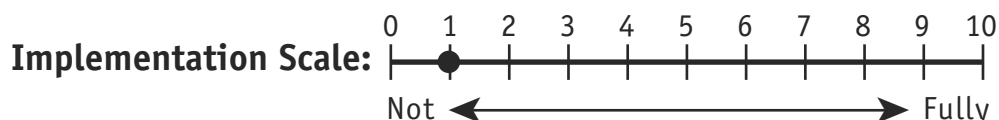
6. Various board study sessions, community meetings and staff meetings on the 2003-2004 budget have been held during the past year to discuss upcoming budget cuts and to ensure that the public is involved in the process. The district has ensured that information is provided and comment is sought in this area.
7. The Budget and Finance Committee is inactive and did not provide input into the 2003-2004 budget.
8. Day-to-day business operations take priority over monitoring the budget.

Recommendations and Improvement Plan

1. The board of education should consider re-establishing the Budget and Finance Committee and potentially merging it with the audit committee to keep the community involved in the district budget. This will allow a district financial review to be performed by community members instead of solely by the district.
2. The board should adopt a mission statement, core values, strategic goals and priorities upon which to base budget expenditures.
3. Procedures should be established to monitor both restricted and unrestricted district expenditures and to review and monitor the relationship between budget priorities and strategic priorities.
4. The district should consider providing additional training and implementing a more effective evaluation process for the Business Department staff. The director should have the flexibility to delegate technical accounting processes to a professional accounting staff. In addition, the district should fill the Senior Budget Analyst position.
5. Sites and departments need to be held accountable for providing input into the budget development process. Budget management could be adopted as a criterion in evaluating administrators. The budget is important to the successful operation of individual programs and sites and the district as a whole.
6. The district should consider continuing board study sessions and community and staff meetings in the next fiscal year to build community awareness about necessary cuts. The district's continued declining enrollment and the state budget crisis added to the difficulty of developing a sound budget.

Standard Implemented: Partially

July 2003 Rating: 1



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

Professional Standards

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.

Sources and Documentation

1. Review of board of education policies
2. Interview with the Associate Superintendent of Business and Operations

Findings

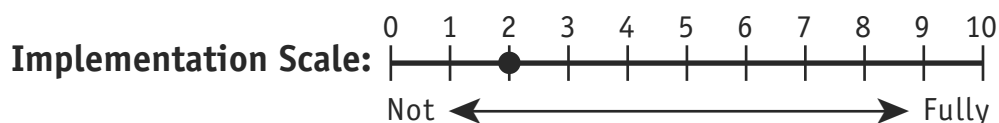
1. The board of education has a budget policy (Policy 3100, Annual Operating Budget) that covers fund allocation methodology, budget development, the superintendent's responsibilities, the board's responsibilities, school/site responsibilities, review and adjustment, acceptance and adoption, budget format, undistributed reserves, budget implementation and deadlines and schedules. This policy was last adopted in February 1980.
2. The board of education has a policy (Policy 3300, Expenditure of Funds) relating to district expenditures. This policy contains rules for amounts to be expended, limitation of expenditures and authorized signatures required.

Recommendations and Improvement Plan

1. The district staff should become more familiar with the existing policies or update them to accurately represent the district's philosophy.
2. The board has listed philosophical goals for budget development that should be incorporated into existing policies, but these policies are old and do not seem to be followed. The board should consider adopting and enforcing new philosophical goals, including:
 - General-purpose dollars should be expended in the year they are received. Unrestricted carryover should be prohibited.
 - Restricted programs should not encroach on general fund unrestricted dollars, with perhaps the exception of transportation and special education.
 - Restricted programs should be expended in the year for which the funds are allocated. There should be no carryover of these funds.

Standard Implemented: Partially Implemented

July 2003 Rating: 2



5.6 Budget Development Process (Policy)—Distribution of Categorical Funds

Professional Standards

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. Carryover and unearned income of categorical programs should be monitored and evaluated in the same manner as general fund unrestricted expenditures.

Sources and Documentation

1. Interview and discussion with district officials, including the Manager of State and Federal Projects
2. Review of district annual financial reports

Findings

1. The instructional division, under the direction of the Manager of State and Federal Projects, develops and monitors the district's categorical budget. From budget development through the end of the year, the process seems precise and accountable.
 - The state and federal projects office calculates district office and site allocations annually based on several different criteria. During budget development, the schools are notified of their allocation amount and are given a budget packet to prepare their preliminary budget. This information is distributed during a principals' meeting to ensure that everyone receives the same directions and criteria and to provide an opportunity for questions. The worksheets allow the sites to allocate multiple funding sources to address key strategies. After the budget worksheets are completed, the budget packets are returned to the state and federal projects office along with a copy of the site's completed site plan.
 - The program manager was a principal in another district and has a good grasp of site needs. The manager assists the sites, monitors how the funds are used, expects departments to maintain positive customer relations and emphasizes the need to support sites in whatever way possible. If a site has an insufficient amount budgeted to cover an order, the department will expedite the process by revising the budget.
 - When producing the projected budgets, the School Services of California Financial Dashboard is used for anticipated COLA and other factors.
 - In June each year, the district holds a public hearing to present the adopted budget. The funds are consolidated so the board can see the amounts being expended districtwide in unrestricted and restricted areas. The board does not discuss issues such as the specific funding sources that are part of the adopted budget, which programs have carryover or which are ongoing.
 - The Superintendent is involved in the budget development process and is accountable for ensuring that budgeted dollar amounts are accurate.

- The board reviews the consolidated application annually. This is the only time board members see specific categorical budget information.
 - School sites receive direct carryover for School Improvement Program (SIP) funds in the fall. Other state and federal fund carryover is allocated based on program need.
 - When the sites have completed their draft of the budget, and the state and federal programs office validates the information, the sites send the information to the Director of Fiscal Services. The director inserts the categorical revenues and expenditures into the total district budget for final submission to the board.
 - The state and federal programs office reviews and approves all personnel and purchasing requisitions that are charged to state and federal programs for compliance. The office also determines whether sufficient funds exist in the site's account and whether a budget revision is needed. Instead of returning expenditure forms that need revision to the site, the office makes any necessary modifications. Otherwise, the site would have to fill out the budget revision form and begin the paperwork process again, adding unnecessary time to the process.
 - Personnel in state and federal programs fill out budget revision and purchasing requisitions for departments and sites when they need assistance. Because both forms are filled out manually, entering this information into QSS often takes a substantial amount of time.
2. The department clearly understands its role in supporting the sites and provides high levels of customer service. Revenues and expenditures seem to be reviewed and evaluated in a logical manner that is effective in funding special programs for students who most need them. The budget development process seems thorough and useful to the sites. The district state and federal program staff is effective in ensuring that the sites are supported and assisted in any way possible for budgeting/accounting issues.
 3. The manager has not received personnel reports from the position control system to validate that the staff names and amounts are correct and are being charged to categorical programs.
 4. The district has identified a vacant position in the state and federal projects department to monitor budgets and to work with sites on spending prudently. This has been a positive move for the district.
 5. Board policies are in the process of being updated, and the Manager of State and Federal Projects was asked for input on policies concerning programs she oversees.
 6. Training is provided to staff on categorical issues such as the No Child Left Behind legislation. Administrators annually participate in a retreat that often includes discussion. Information on categorical programs is also shared at some board presentations and principals' meetings.

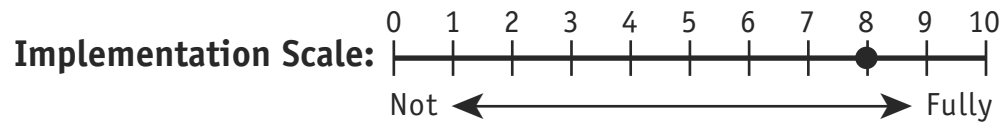
Recommendations and Improvement Plan

1. The district should continue to encourage schools to consider all funding sources when addressing key strategies. Restricted funds should be used first since they are allocated for students in the year they are received. Whenever there is doubt about whether to use unrestricted or restricted funds for an item that can come from either source, restricted funds should be used.
2. The cabinet should aggressively evaluate categorical carryover to ensure that departments and sites use available dollars effectively. The funds should be used to respond to district needs in the year they are allocated. From February to June, the Superintendent should receive a monthly report on whether any of these funds can be redirected to reduce carry-over and unused balances.
3. The manager responsible for personnel evaluations should include a review of effective categorical program supervision, delivery and expenditure of funds.
4. The manager has not yet received personnel reports from the position control system to validate that the names and amounts charged to categorical programs are correct. When staff members are charged to a manager's program, the manager should validate the names and amounts. Position control reports could be sent to those managers monthly or bimonthly so that they can assist in ensuring that expenditures are being charged to the correct location.
5. The state and federal projects department could be an effective test group for on-line budget revisions since staff members have acquired a thorough understanding of the budget and the system through training. Using QSS, the sites and departments can enter budget revisions directly into the system, instead of filling out a form manually and sending it to the budget office for electronic entry. The state and federal program department could enter the budget revisions online and electronically send it to an authorized person (perhaps an Accountant, the Director or any other chosen staff member in the Business Department) who approves the revision and allows it to update the accounting system. No revision should receive final approval unless it is balanced, uses the correct responsibility or location code assigned to that site or department and is signed electronically by the authorized person.
6. The use of online purchase requisitions should be explored. At present, the process is to fill out a manual requisition form and send it to purchasing. The purchasing staff then enters the requisition into QSS, where it is approved if sufficient funds are appropriated. If insufficient funds are appropriated, the requisition is returned, reinitiating the entire process. At times, processing purchase orders in this way can take a month. Instead, the department could enter the purchase requisition directly into the QSS system, which would notify the employee if there is an insufficient appropriation in the budget. The employee could perform an online budget transfer, await approval from the Business Department, then re-enter the purchase requisition and send it to purchasing online for approval. The state and federal projects department could be the test department to help decide whether to allow other sites and departments to enter this type of information online. Over time,

decentralized data entry can improve accountability, reduce error caused by duplicative tasks, empower individuals to be responsible and relieve business staff of redundant activities.

Standard Implemented: Fully - Substantially

July 2003 Rating: 8



5.7 Budget Development Process (Policy)—Projection of the Net Ending Balance

Professional Standards

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.

Sources and Documentation

1. Discussion with the board President
2. Discussions with the Director of Fiscal Services
3. Review of interim reports
4. Review of audit reports

Findings

1. Sites and departments are responsible for monitoring their budgets on an ongoing basis. An assigned accountant in the district office works with them, completing budget revisions and any requested research. Because of their workload, these accountants have insufficient opportunity to monitor and review assigned budgets on their own. Instead, they depend on the sites/departments to ask for revisions, and they update budgets only after receiving associated state and federal documents such as revenue-apportionment notices.
2. Filling the vacant senior Budget Analyst position could greatly benefit the district. One of the position's assigned duties would be to perform a greater review of all the funds and their associated ending balances. Because this position has been vacant for almost one year, important duties such as continuous monitoring of the ending balance are not performed effectively.
3. The Director of Fiscal Services and the Associate Superintendent of Business and Operations are responsible for the overall monitoring of various district budgets. Because of their own workloads and various financial issues, they are unable to monitor the budget regularly and perform this duty only when producing interim reports. This review consists of preparing budgets and reviewing data as the required reports are prepared.
4. In past years, the district has been unable to accurately project the June 30 ending balance because it had access only to questionable data at budget adoption and interim reporting. The ending balances at these two times varied greatly. Between reports, insufficient information was submitted to the board on the variations and their effect on ending balances. Because of this lack of information, neither the board nor the community understood what caused the change from one report to the other.

Recommendations and Improvement Plan

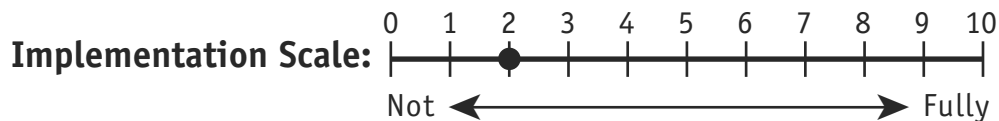
1. Although the ending balance is estimated and updated at budget adoption and interim reporting, variances as significant as those experienced by the district would not occur

with additional controls in place. In future reporting periods, there should be greater confidence that the projected ending balance is valid. Implementing controls such as reconciling and balancing the position control system to the budget will make estimates for expenditure, budget and ending balance much more accurate.

2. The district should run reports from the QSS accounting system so that percentages of actuals received or expended could be compared with the total budget, helping to determine whether the identified budget category is within budget allocations. This task could be performed by the accountants or the senior budget analyst and referred to the Director of Fiscal Services if unexplained discrepancies occurred.
3. All discrepancies should be researched to determine the cause and then corrections should occur, if applicable.
4. Based on Berkeley Unified's current financial position, revenue and expenditure estimates should be monitored and updated monthly. The Director of Fiscal Services should be provided with sufficient time to perform this task. Monthly monitoring would allow the director to determine whether staff members are performing their tasks adequately and would help provide early warning of any discrepancy between the budget projections and actual revenues or expenditures. The projected ending balance would be monitored continuously.
5. Budget-to-actuals summaries should be prepared and submitted to the board as a discussion item monthly. This should make interim reports more useful and should allow the board to have a more accurate idea of the district's finances. Submitting the summaries monthly also would allow the board and the community to understand why variances are occurring. The summaries should be presented to the board for information, comment and direction if action is needed.

Standard Implemented: Partially

July 2003 Rating: 2



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

Professional Standards

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 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.

Sources and Documentation

1. District-adopted budget
2. Budget worksheets
3. Interviews with the Director of Fiscal Services
4. Interviews with various district administrators

Findings

1. The budget office does not have a formal procedures manual that documents the various steps in the budget development process, the specific staff members responsible for the steps, and the procedures to accomplish the individual tasks.
2. This is the Director of Fiscal Services' first year with the district. Without a formal procedures manual, it is difficult for new administration to ensure that the process is easily understood and familiar. Many steps taken in developing the 2003-2004 budget are based on the Director of Fiscal Services' practices at previous districts.
3. The district lacks a procedures manual on accounting and budget issues for sites and departments.
4. The district began implementing the position control system in the 2002-2003 year, but it is not yet fully reconciled. Therefore, it is not possible for the district to rely on the current position control information in the preliminary budget. Additional time and reconciliation will be needed when entering this information into the position control system.
5. Because the district is declining in attendance, the prior year average daily attendance (ADA) is used when developing the preliminary budget.
6. In past years, the district has not included estimated deferred revenue and carryover in the adopted budget. In the current year, the Director of Fiscal Services plans to include this information in adopting the budget.
7. Categorical fund estimates are performed by the Manager of State and Federal Projects. The manager is very familiar with the different types of funding and how they are utilized. Once the manager estimates revenue and charges specific district costs to the appropriate funding, she sends sites their allocation so they can forward budget information.

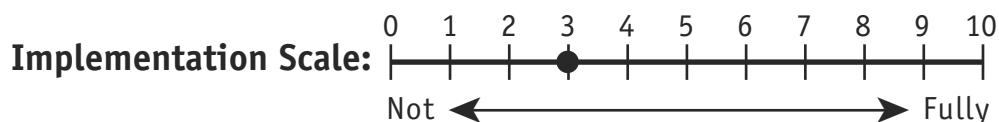
8. The district uses reasonable COLA estimates based on the School Services of California (SSC) Financial Projection Dartboard.

Recommendations and Improvement Plan

1. The budget office should formalize its development procedures in a formal manual and develop desk manuals for each position in the business office that participates in budget development. These manuals should specify how the various tasks are carried out. This type of reference material helps to increase the budget data's efficiency and accuracy, and also helps maintain continuity in case of staff turnover.
2. The district should develop a procedures manual for sites and departments that relates to accounting and budget issues. This manual should be revised periodically and forwarded to sites and departments so that they understand what is expected of them and why.
3. The district should complete the reconciliation for the position control system and instruct all sites to review the information to ensure specific positions are charged against the appropriate resources. Once the data is validated and correctly reports the district's annual salary and benefit information, the position control system should be used for all budgeting purposes and, potentially, for driving payroll transactions. The district should ensure that all salary and benefit accounts are part of the system, including substitutes and extra hire budgets.
4. Carryover and deferred revenue must be included in preliminary budgets in order to accurately represent the district's financial position. Because of GASB 34, adopted budgets will be compared with unaudited actuals, and differentials will be part of the annual independent audit. This makes it even more important for budgets to include all the district's anticipated financial activities.

Standard Implemented: Partially

July 2003 Rating: 3



6.2 Budget Development Process (Technical)—Budget Calendar

Professional Standards

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.

Sources and Documentation

1. Budget calendar presented to the Governing Board

Findings

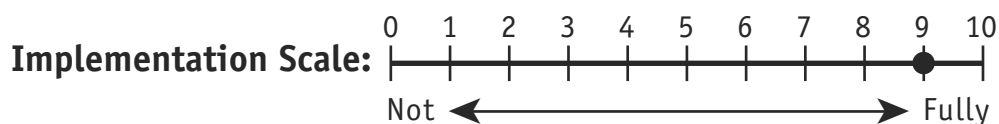
1. The district has a board-adopted budget calendar that details major activities in budget preparation. The process begins in December of the preceding year and provides time lines for these activities, including:
 - a. Budget development and planning with the Superintendent and Cabinet.
 - b. Enrollment projections
 - c. Meetings on goals and required funding for board members
 - d. Public meetings and workshops
 - e. Initial public hearing and subsequent meeting adoption
 - f. Date for submitting the budget to the county office of education
2. The calendar also identifies the offices responsible for each major activity. The calendar, which was dated October 22, 2003, did not note the district's obligation to make revisions within 45 days of the state budget's adoption. However, it did stipulate that the district should "revise 2003/2004 working budget with current staffing and state budget."

Recommendations and Improvement Plan

1. The district has essentially met this professional standard. However, it would be prudent to have the annual calendar that is approved by the board note the obligation to make revisions within 45 days of state budget's adoption.

Standard Implemented: Fully—Substantially

July 2003 Rating: 9



6.3 Budget Development Process (Technical)—Standardized Budget Worksheets

Professional Standards

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

Sources and Documentation

1. Budget worksheets and instructions
2. Interview with the Director of Fiscal Services and Manager of Federal and State Projects

Findings

1. For the past few years, the district has maintained a relatively unchanged unrestricted general fund budget for sites and departments. During the development of the 2002-2003 budget, the accounting system was being converted to QSS and the account code was being converted to the Standardized Account Code Structure (SACS). Dealing with these efforts did not leave much time to solicit and receive comments and requests on the budget from those outside the Business Department. Therefore, the majority of budget preparation was handled centrally by the Fiscal Services Department for non-categorical budgets.
2. In preparing the 2003-2004 unrestricted budget, the district office forwarded information to sites and departments in order to obtain comments and requests regarding the preliminary budget.
 - For the unrestricted allocation, the budget office forwards to each department and each site a copy of their 2002-2003 budget and their 2002-2003 actuals to date. Included is a column for budget managers to enter their requested budget by object code and by each budget.
 - a) The departments and sites were asked to return this information within two weeks. Various administrators commented that they needed more time in order to complete the information adequately.
 - b) The forms were distributed to principals at a principals' meeting. Some administrators commented that it would have been better to distribute these forms during a meeting that included principals and any other staff members who worked on budget documents. This would allow all those involved in the budget process to receive information and ask questions. Some principals do not regularly work hands-on with budgets and did not know what questions to ask in the principals' meeting forum.
 - c) Upon review, some of the packets contained budgets that the site's administrator was not responsible for. Although these budgets were at the correct site, they were not under the principal's control.
 - The state and federal program office sends standardized forms for budget development to the individual sites for their categorical funds. Based on the central office allocations, each site develops its site categorical budgets. This includes allocating funds between object lines and providing the required staffing for each funding source. The budget documents are submitted to the district office for inclusion in the budget.

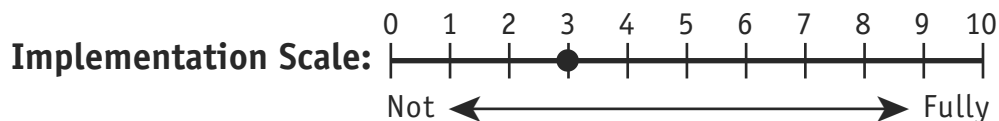
- a) The process used is not new to the sites, and all interviewees felt that it is understood and completed adequately.

Recommendations and Improvement Plan

1. The process for categorical budget development seems to be working well and satisfies the standard for this area.
2. The preliminary budget packet for unrestricted funds should be distributed at a meeting that includes principals and any additional personnel that work on the budgets at sites and departments. In this way, all staff members that work on budget development will hear important instructions.
 - Additional information would be helpful to sites and departments when the district is seeking budget comments and requests. A budget packet provided to sites and departments for their unrestricted operating budgets might include:
 - a) A two or three-year history of the department's budget, including a comparison of the current year budget to actuals
 - b) A list of current contracts by department
 - c) A list of current year authorized and filled positions by department
 - d) A proposed budget based on prior year history
 - e) A form for requesting budget augmentations
 - By using this mechanism, sites and departments would not be automatically allocated their prior year budget amount. Instead, they would have to explain why their future budget should be larger than expenditures in the most current year.
 - A cover sheet should be sent with the budget worksheets explaining the process, the time line and any other important information needed by those completing the information.

Standard Implemented: Partially

July 2003 Rating: 3



7.1 Budget Adoption, Reporting, and Audits—Budget Adoption and Reporting: Statutory Timelines and Procedures

Professional Standards

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)]

Sources and Documentation

1. Discussions with the Alameda County Office of Education (ACOE)
2. Board agendas
3. Board meeting minutes
4. Adopted district budget
5. Letters from the county office to the district

Findings

1. On June 20, 2001, the district adopted its 2001-2002 budget. The county office notified the district on August 15, 2001 that it had insufficient information to determine compliance of the 2001-2002 adopted budget based on the state-adopted criteria and standards. In that letter, the county office requested clarification and additional information on various issues including:
 - Federal revenues and categorical programs were not included in the adopted budget
 - Large variances existed when comparing unrestricted revenues and expenditures to the 2001-2002 estimated actuals
 - Revenue-limit concerns
 - Restatement concerns
 - Lottery revenue classification
 - Adult education fund operating deficits for three subsequent years
 - Negative ending balance in the self-insurance fund
 - Incomplete multi-year projections

The county office requested that the district provide additional information, and revise and readopt its budget by September 8, 2001 reflecting the necessary changes in projected revenues and expenditures. The county office explained that the County Superintendent's office would reevaluate on or before September 22, 2001 whether the budget would be approved or disapproved.

2. On September 28, 2001 the county office notified the district that its adopted budget was disapproved. In October, 2001 FCMAT was assigned as fiscal advisor due to the budget disapproval.
3. On June 19, 2002, the district adopted its 2002-2003 budget. It was revised and approved by the board on August 7, 2002 because the revenue-limit income was not accounted for correctly and in order to add the categorical programs missing from the June 19 budget.

The county office notified the district on August 28, 2002 that it had reviewed the 2002-2003 adopted budget and was unable to determine the budget status without a written response to various items that needed explanation and clarification. These items included approximately \$6.5 million in categorical programs that were not included in the adopted budget, substantial changes in various revenues when comparing 2001-2002 estimated actuals to the adopted budget, the fact that certificated and classified salaries appeared to be understated, a \$3 million decrease in capital outlay when comparing the budget to prior year actuals, the existence of a reserve that was below the three percent minimum required by the state by \$2 million, and the district's failure to submit a multi-year projection. Other issues included various general fund concerns on negotiations, a \$2.85 million liability for compensated absences, declining enrollment, a large increase in revenues, and deficit spending in adult education, child development, the cafeteria and self insurance funds.

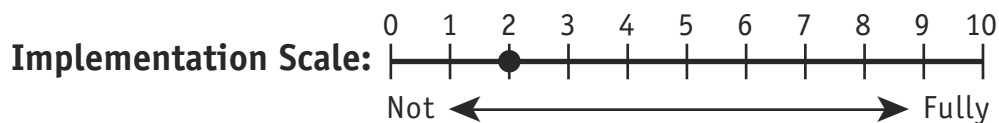
4. On September 17, 2001 the county office disapproved the district's adopted budget for 2002-2003.

Recommendation and Recovery Plan

1. The district should continue to adhere to its budget calendar to ensure that reporting deadlines are met as outlined in the Education Code. The adopted budget has been submitted in time in the past, so this is not the problem. However, although the adopted budget is submitted on time to the county office, the package is incomplete or does not contain adequate information for the county to complete its review. Without adequate information, the county office is not able to adequately and completely review the district's financial information and cannot approve or disapprove the budget within the time lines required in the Education Code. Submitting an adopted budget on time does not constitute meeting the standard if the submittal is not complete and the county office is unable to complete its review and decide on approval/disapproval in a timely manner.

Standard Implemented: Partially

July 2003 Rating: 2



7.2 Budget Adoption, Reporting, and Audits—Budget Revision upon Adoption of State Budget

Professional Standards

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)]

Sources and Documentation

1. Board minutes
2. Board meeting agendas
3. Board reports
4. Budget revisions

Findings

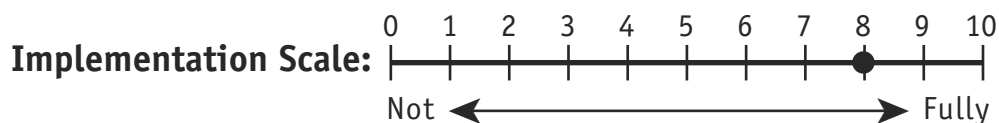
1. The district revises its budget to reflect the effects of the state's adopted budget. A report is submitted to the board for consideration and approval of budget revisions is documented by board agendas and minutes.
2. The district met the 45-day deadline for making the revised budget available for public inspection. The revised budget was presented to the board on August 7, 2002. At that same time, the district also incorporated into the budget the county office's comments and requests for missing information such as the categorical programs. The budget thus more clearly represented the district's financial status.
3. Although the 45-day time line was met, the county office disapproved the district budget on September 17, 2002. The disapproval occurred because the district was unable to maintain the three percent state required reserve ending balance, and a recovery plan had not yet been adopted by the board to address its financial status.

Recommendations and Improvement Plan

1. The district should continue to met required budget deadlines..

Standard Implemented: Fully—Substantially

July 2003 Rating: 8



7.3 Budget Adoption, Reporting, and Audits—AB 1200 Quality Assurance Processes

Professional Standards

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.

Sources and Documentation

1. The district's adopted budget
2. The district's interim reports
3. Discussions with the district Director of Finance
4. Discussions with the Alameda County Office of Education
5. Correspondence between the district and the county office

Findings

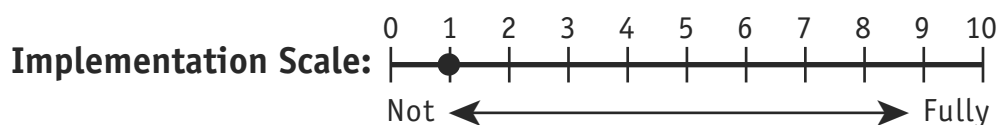
1. The district is not complying with AB 1200 requirements to the satisfaction of the county office. Reports are submitted late the majority of the time, with the exception of adopted budgets (although they are disapproved even though they are submitted on time). And all submittals, whether they are on time or not, are incomplete. Either a portion of the reports are not submitted, or assumptions and explanations are not clear enough to explain large variances and changes in the reports. This causes the entire process to take much longer as the county office requests additional information and then must wait until it is received to complete the required review.

Recommendations and Improvement Plan

1. The district should submit budget and interim reports to the county office on time. In addition, submittals need to be complete so that the county office can complete its review adequately and on time as well.
2. The district should communicate with the county office more regularly so that if a report is going to be submitted late, or if it is known that there is difficulty obtaining certain accompanying information/assumptions, the county is aware of the district's amended time line and can plan accordingly and/or assist the district if necessary.

Standard Implemented: Partially

July 2003 Rating: 1



7.4 Budget Adoption, Reporting, and Audits—Budget Adoption and Reporting: Completion and Filing of Interim Reports

Professional Standards

The district should complete and file its interim budget reports within the statutory deadlines established by Education Code Section 42130, et seq.

Sources and Documentation

1. The district's first, second and third interim reports for 2001-2002 and 2002-2003
2. Discussions with the district's Director of Fiscal Services
3. Discussions with the Alameda County Office of Education

Findings

1. The district has filed negative certifications in the prior and current year.
2. Review of the county office's documentation revealed that at least 80 percent of the time, the interim reports are not submitted to the office in a timely manner
3. The first and second interim reports are not usually presented to the board within 45 days of the period end date as required by the Education Code (December 15 and March 15).
4. Third interim reports have been submitted to the board by June 1, which is required by the Education Code.
5. The interim reports submitted to the county office are not always complete. Examples of some missing items were the cash flow report, general ledger, and the criteria and standards.
6. Multi-year projections should accompany interim reports so that the board and the community can see the reflection of the district's fiscal health in the current year and two subsequent years. The projections have been provided with the interim reports for the past two years.

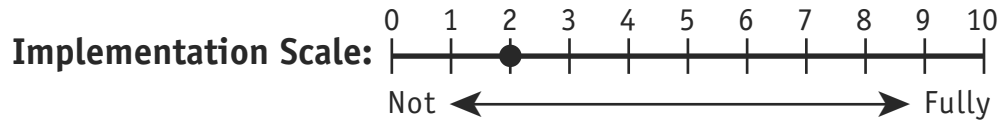
Recommendations and Improvement Plan

1. The district should complete its interim reports early enough to allow sufficient time for the reports to go before the board and still be filed with the county office by the statutory deadline. The district should identify the board date prior to the due dates for each report and ensure that the interim reports are on those agendas.
2. The 2003-2004 budget development calendar indicates that the 2003-2004 first interim report was submitted to the board on December 17, 2003. This date is after the statutory deadline of December 15, 2003. That date should be revised, and the district should consider adding the second and third interim reports to the calendar.
3. The interim reports need to be complete. This includes providing a cash flow report, general ledger, criteria and standards and any other required parts of the report.

4. Multi-year projection reports should continue to accompany all interim reports to show whether the district can sustain its budget projections and maintain its required three percent ending reserve.

Standard Implemented: Partially

July 2003 Rating:



7.5 Budget Adoption, Reporting, and Audits—Governmental Accounting Standards Statement No. 34—Policy and Procedures

Professional Standards

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.

Sources and Documentation

1. Review of district policy and procedures
2. Interview with the Associate Superintendent of Business and Operations
3. Review of progress to date for implementation and training

Findings

1. The district has developed a capitalization policy of \$5,000 for GASB 34, which the board has reviewed and adopted. No additional procedures regarding GASB 34 have been drafted or adopted. GASB 34 requires state and local government agencies to develop policies and procedures to ensure that the information required for inclusion in the new reporting model is captured and available for the annual audit. This statement includes a three-year phase-in period based on revenues for the district, which begins June 30, 2003 for the Berkeley Unified School District.
2. The district has contracted with an outside firm to inventory its assets over \$500. This allows a dual purpose. Items of more than \$500 are to be inventoried annually for valuation required for the annual audit. Also, items of more than \$500, per the GASB 34 capitalization policy, are to be inventoried and depreciated over a period of time. Items will be electronically tagged, which will allow the district to update the inventory in a more accurate and efficient manner.
3. A training schedule has not been established for district personnel regarding GASB 34.
4. Currently, the district Accounts Payable Department is using two different accounts when recording purchases of fixed assets. Those items between \$500 and \$4,999 are not to be included in the fixed asset inventory for GASB 34, but must still be accounted for per Education Code Section 35168, which mandates an inventory of equipment items over \$500. A material object code, 4 ____, will be used for that range of dollar value. Also, a 6 __ object will be used for those objects of \$5,000 and above per the capitalization policy approved by the board using a single-line entry screen.

Recommendations and Improvement Plan

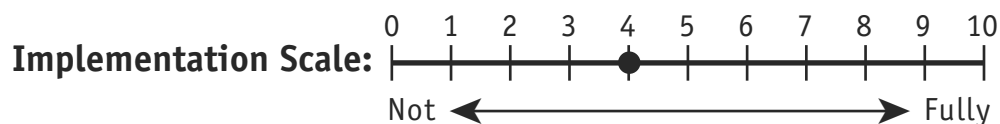
1. The district should develop an implementation schedule for accomplishing all of the requirements of GASB 34. The schedule will ensure that issues regarding the implementation of this statement are addressed before July 1. The board policy is approved and can be taken off of the “to do” list. But procedures should be established before the blanket inventory is completed. This will decrease the possibility that there will be missing items

between the time that the inventory is completed by the outside consultant and the time the district begins tracking items simultaneously with the completion of the inventory to meet compliance with GASB 34.

2. The capitalization threshold amount of \$5,000 will include items to be capitalized and depreciated over the life of the asset for reporting purposes only. The method for completing calculation of depreciation of assets will need to be done manually or through the financial system if at all possible. This decision still needs to be made.
3. Regular meetings between the Information Services Division and Fiscal Services Division should be developed and communicated to all the members in each of the respective departments who are expected to be in attendance. The two departments will have to work together and formulate processes and procedures to ensure that the requirements of GASB 34 are completed correctly by completing tasks such as taking inventory, recording inventory values in the accounting system, accounting for additions and deletions in inventory and calculating depreciation.
4. The district must ensure that accounts payable personnel and other district employees who determine what account inventory is to be charged also understand how to correctly charge inventory based on whether the value is \$500 to \$4,999 or \$5,000 and above. This will decrease the risk of errors.
5. A training schedule should be developed by the district to include anyone involved with purchasing items that will fall into the category of items meeting GASB 34 or Education Code Section 35168, which mandates an inventory of equipment items over \$500.

Standard Implemented: Partially

July 2003 Rating: 4



7.6 Budget Adoption, Reporting, and Audits—Fund Balance Projections

Professional Standard

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

Sources and Documentation

1. District's interim reports
2. J-200 unaudited actuals
3. Adopted budget
4. Audit report
5. Discussions with the Director of Fiscal Services
6. Discussion with the board president

Findings

1. Administrators or assigned personnel in their department/site are responsible for monitoring their assigned budgets. They are sent budget reports from the budget office periodically or upon request.
2. Accountants in the district budget office perform budget revisions and perform whatever types of other action (such as journal transactions) the budget administrator requests. They do not actually review assigned budgets on their own and determine what adjustments are necessary.
3. The Director of Fiscal Services reviews the district's budgets at the time of required budget, interim and closing reports. Due the number of things in the Business Department that need attention, the review is not very detailed.
4. At this time, there is an open position, titled Senior Budget Analyst that could work closely with the director and ensure that the budgets are reviewed at a detailed level. The position is not filled, and there are no other staff members that could assist with that level of expertise.
5. In past years, the district has not been able to confidently project the June 30 ending balance because of a lack of confidence in the budget data at interim reporting time. This lack of confidence was due to an accounting system that was difficult to use. Amounts seemed to change dramatically and inexplicably.
6. The district has converted to a new accounting system, which is fostering greater trust in the data. The ending balance is estimated at the time of adopted budget and interim reports. The budget staff is still unable to spend time, between adopted budget and interim reporting periods, monitoring the data sufficiently to update the ending balance when necessary. The budget revisions are not performed at that level of detail, but serve mainly to move expenditure budgets in order to cover purchase orders. In future reporting periods, there should be greater confidence that the projected ending balance is as valid as possible. This will necessitate more thorough reviews and budget revisions.

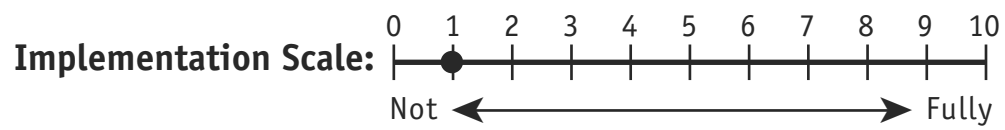
7. Reconciling and balancing the position control system will make expenditure estimates for salary and benefits much more accurate. Since this is the largest piece of expenditure, this will foster much more confidence in the budget's accuracy.
8. Revenue and expenditure estimates need to be monitored and updated monthly.
9. The district must have a process in place to ensure that there is an early warning of any discrepancy between the budget projections and actual revenues or expenditures. This will allow interim reports to have greater value and promote a much more accurate picture of district finances.

Recommendations and Improvement Plan

1. Administrators or assigned personnel in their department/site should continue to monitor their assigned budgets, but this should be done at least monthly so that negative budget balances are addressed, and budgets are expended in a timely manner. If too much time passes between these reviews, the chances increase for budgets to be overspent or expenditures to be coded to the wrong place. Identified discrepancies should be researched to determine the cause as soon as possible.
2. Administrators or assigned personnel should be able to run their own accounting reports so that they get the reports when they actually need them. This would transfer the responsibility from the budget department, allowing them to perform other necessary functions.
3. District accountants should continue to work with budget administrators to perform budget revisions and journal transactions so budgets accurately project reality. In addition, they should review budgets to assist the budget administrators in that task. Budgets should be monitored often by the district office as well as at the individual site or department.
4. Budget-to-actual reports should be run and reviewed monthly by the senior budget analyst or the Director of Fiscal Services. Necessary adjustments should be performed as needed and as they are identified so that budgets are accurate and updated continuously.
5. Budget revisions should be submitted to the board if there are changes in the revenue or expenditures that include changes between object codes. The summary should be presented to the board of education for their information, comment and appropriate action.
6. Information and reports that are developed and shared with the board should reflect percentages for comparison purposes to determine whether the identified budget category is within budget allocations.

Standard Implemented: Partially

July 2003 Rating: 1



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

Professional Standards

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

Sources and Documentation

1. Discussions with the Associate Superintendent of Business and Operations
2. Discussions with staff at the Alameda County Office of Education
3. Review of board policy

Findings

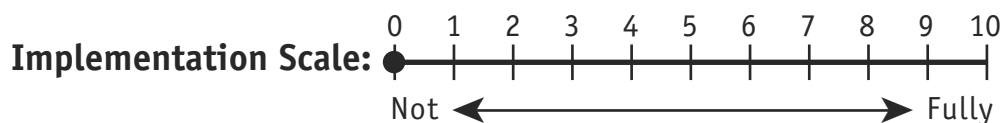
1. In the past two years, the board has approved audit contracts in a timely manner, but in both cases, because the county office and FCMAT recommended the selection of a different auditing firm. The contract that was selected could not be finalized within the deadlines established by Education Code.
2. Board policy 3460 regarding audits describes the annual audit, audit selection and auditor continuity. The policy does not list the deadlines established by Education Code, section 41020.

Recommendations and Improvement Plan

1. The annual auditor and the necessary steps of the audit should follow the established time lines set out in Education Code.
2. Board policy 3460 should be updated to include the mandated deadlines stated in the Education Code.

Standard Implemented: Not Implemented

July 2003 Rating: 0



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

Professional Standards

Standard management practice dictates the use of an audit committee.

Sources and Documentation

1. Interview with the Superintendent and the Associate Superintendent of Business and Operations
2. Review of board policies

Findings

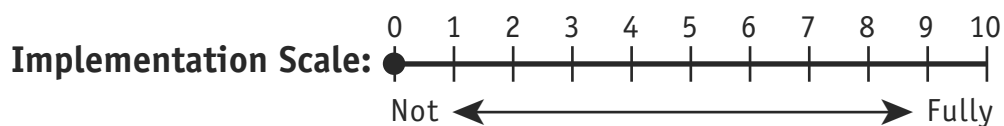
1. The district does not currently have an audit committee. There have been discussions to form an audit committee about the end of May 2003. The audit committee may be merged with the existing Budget and Finance Committee.

Recommendations and Improvement Plan

1. The Governing Board should establish an audit committee that provides ongoing, independent oversight and advice to the district regarding fiscal management issues. The board should:
 - Adopt a resolution to establish an audit committee. The resolution should establish the charter and bylaws, and define:
 - a) The functions/objectives of the committee
 - b) How members are appointed
 - c) Terms for the committee members
 - d) Voting and quorum requirements
 - e) The desired technical knowledge expected of committee members
 - f) The criteria for evaluating and selecting committee members
 - Advertise for audit committee members in local and regional newspapers
 - Ensure the audit committee is composed of members from both the district and the larger community. The members should come from careers in pertinent areas such as law, banking, finance, education, and accounting. The committee may include board members or other district employees, but should not be dominated by district employees.
 - Assign the audit committee to be responsible for selecting the auditor, reviewing the audit report, reviewing and evaluating the district's response, and suggesting corrective action plans for any audit findings. In addition, the audit committee should direct the activities of the Internal Auditor, and review the reports of the Internal Auditor.

Standard Implemented: Not Implemented

July 2003 Rating: 0



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

Professional Standards

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.

Sources and Documentation

1. The district's audit report
2. The district's corrective action plan provided to the county office of education
3. Interview with county office of education

Findings

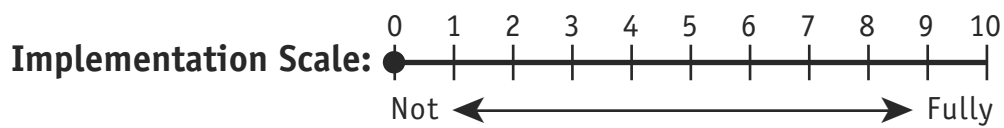
1. For the 2001-2002 audit, the district was granted an extension until March 15, 2003 to complete the audit. Because of the extension from the State Controller's Office, the district could not complete the corrective action forms by March 15.

Recommendations and Improvement Plan

1. The district should meet the audit requirement findings since it is not anticipated that an extension will be filed for the 2002-2003 independent audit. Complying with this Education Code section should not be difficult.

Standard Implemented: Not Implemented

July 2003 Rating: 0



7.10 Budget Adoption, Reporting, and Audits—Audit Administration and Resolution: State Reporting

Professional Standards

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)

Sources and Documentation

1. Discussions with the district's Associate Superintendent of Business and Operations
2. Discussions with the district's Director of Fiscal Services
3. The district's interim financial reports
4. Discussions with the county office.

Findings

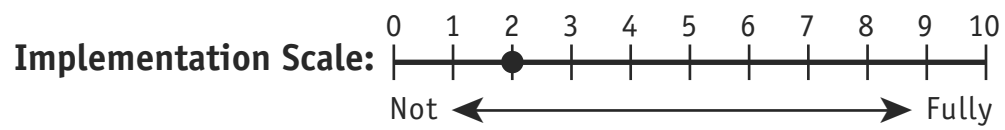
1. The majority of the district's state financial reports have been filed late in the current and prior years. Some are late by a few days, and others much later.
2. In addition to the late filings, the reports are also submitted without all required items.
3. In the past year, the district has improved its efforts to call and notify the county office when reports are anticipated to be late. The Director of Fiscal Services endeavors to make communication honest and open in these situations.

Recommendations and Improvement Plan

1. The district should implement procedures to ensure that the accounting periods are closed in a timely manner to allow the state's required reports to be prepared and submitted on time to the county office and the state. The district must require transactions to be processed on a timely basis throughout the year. The district's new financial system, QSS. Automating the functions of account code verification and position control will increase the accuracy and timeliness of financial information.
2. All required portions of the reports must be submitted within the deadline. When an incomplete package is sent to the county, the county office staff cannot perform its review in the manner that is expected by the state.
3. If the district is certain that a report will be filed late, a courtesy call should be made to the county office to notify county office staff members of the situation so that they can change their schedule accordingly to allow for an adequate review.

Standard Implemented: Partially

July 2003 Rating: 2



7.11 Audit Review—Timeliness of Audit and Audit Review

Professional Standards

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."

Sources and Documentation

1. Review of board policy
2. The district's audit report
3. The district's corrective action plan provided to the County Office of Education
4. Interview with State Controller's Office
5. Interview with Internal Auditor, Assistant Superintendent of Fiscal Services, Superintendent

Findings

1. Although the district has established a board policy on audits, the deadlines outlined in statute are not included in the policy.
2. Education Code section 41020.2 (a) indicates that if the district has a delay in filing the annual audit report with the county superintendent of schools, the district may file an extension, contract with another qualified certified public accountant to complete the audit in a timely manner, or request that the State Controller's Office investigate the situation.
3. For the 2001-2002 year, an extension was requested and granted, extending the deadline date to March 15, 2003. Initially the district selected an auditor within the statutory deadline of March 15, but at the request of FCMAT and the county office, a different audit firm was chosen. This occurred to avoid a potential conflict of interest with the initial audit firm. When the different auditor was chosen, the extension was requested because the district's financial records were not available and because the records were not as complete as would normally be expected.
4. Although an extension was requested for March 15, 2003 rather than December 15, 2002, the audit was not submitted to the State Controller's Office until approximately one week after March 15, 2003. This additional time was needed because the auditing firm did not complete the audit in sufficient time for the district to incorporate its responses to the audit. The auditors fell behind schedule because the books closed late, reconciliations were not completed prior to the auditors' arrival, various pieces of information were received in time to include in the audit, and various district staff members did not reply to requests from the auditor.
5. The auditing firm that performed the 2001-2002 audit will once again perform the 2002-2003 audit. This will provide continuity between the two years and will allow the district to improve on the many areas that were out of compliance in the 2001-2002 audit.

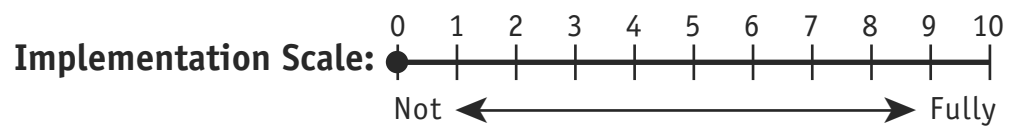
6. When the 2001-2002 audit fieldwork began, the audit staff found that various requested items were not complete or available. The auditing staff had to stay longer than anticipated and make more visits than anticipated due to the lack of information. Even upon completion of the audit, various areas such as student body funds, child development funds and bonds payable had to be excluded from the audit due to lack of information.
7. During the 2001-2002 audit, the auditors found several reportable conditions or significant deficiencies in the design or operation of the internal control over financial reporting that could adversely affect the district's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. When reportable conditions are found, additional audit time is used to further investigate these types of conditions. Reportable conditions required extra time that became another reason the audit could not be completed in a timely manner. These reportable conditions included:
 - Calculation errors were made when trying to determine total hours to be paid for hourly employees.
 - Reconciliations for a significant number of financial statement accounts were not prepared accurately or in a timely manner.
 - Financial statements were not submitted during the year for the district's seven student body funds.
 - Reconciliation of amounts paid to the amounts reflected added to the loss run on property and general liability insurance.
 - Outdated actuarial review for property and liability claims
 - Cafeteria receipts were not being deposited in a timely manner.

Recommendations and Improvement Plan

1. Board policy 3460 should be updated to include the mandated deadlines stated in the Education Code, including when the audit is due to the State Department of Education, the county office and the State Controller's Office.
2. The district should ensure it meets the December 15 deadline each year. All required tasks, reconciliations and documents should be finished on a timely manner so that when the auditors begin their field work they are supplied with everything they request.
3. Communications should continue throughout the audit process and throughout the year with the district's contracted independent audit firm. Auditors are accessible all year and are a good resource during the year as questions arise.
4. When auditors send their list of requested documents to the district before the actual audit visit, all items on the list should be completed and available upon the auditor's visit.
5. When auditors are visiting the district, all staff members need to understand that they must respond to auditor's requests. There should be consequences for employees who do not comply with these requests. Employees need to understand why audits are important and what the potential outcome is if the district is not compliant. Every business staff member should be included in the process.

Standard Implemented: Not Implemented

July 2003 Rating: 0



8.1 Budget Monitoring—Encumbrance of Overexpenditures

Professional Standards

All purchase orders are properly encumbered against the budget until payment.

Sources and Documentation

1. Financial reports of budget to actual activity, including encumbrances
2. Interviews with business staff and Purchasing Agent.

Findings

1. When purchase orders are created in the QSS accounting system, funds are encumbered either until a payment is made or the order is canceled. The purchasing system is integrated with the budget and accounting modules and is intended to automatically verify that there are sufficient funds available and that the budget code is a valid one in the accounting system. If adequate funds are not available or the budget code is not valid in the system, the purchase cannot be finalized or moved forward. At that point, the purchase order requisition is sent back to the department initiating the request. The initiating department must submit a budget transfer form to the budget office to transfer money into the account, correct the account code on the requisition or move a budget into the account code on the requisition by initiating a budget transfer request. Once the money is transferred by the budget office or the account code is corrected on the requisition form, the manual requisition is again sent to the Purchasing Department for processing. Until the purchase requisition is entered into QSS to create a purchase order, all the forms (purchase requisition form and budget transfer form) are manual processes. Because manual steps must occur in order to create this purchase transaction, FCMAT found that it took an average of three weeks for a purchase order to be entered and validated in the QSS system.
2. The purchasing system is not being fully utilized in a manner that provides full online control and efficiency. Although encumbering funds and generating purchase orders can be performed online, most of the procurement process is handled manually. As a result, budget and account code verification is cumbersome, time consuming, and vulnerable to timing differences.
3. When the manual purchase requisition is received by purchasing, it is logged in and initially entered into the purchase order system to validate fund availability and account code verification. If sufficient funds exist and there are no account-code validation issues, the requisition becomes an approved purchase order. It is logged in again and submitted for data entry into the system. Funds are encumbered when the purchase order is printed. The length of time between the date of fund availability and the date the funds are encumbered can vary from a few days to one month. Many transactions can be processed during that time gap, which can adversely affect the purchase order.
4. Salaries and benefits are encumbered, which is of great benefit to the district in accurately reconciling and reporting these expenditures.

5. The district's online position-control system is not fully reconciled, which results in off-line monitoring until these accounts are validated and it is verified that they fully represent the amount of expenditures. Preventative controls should also be implemented for substitutes and extra hire budgets as the salary and benefit lines are vulnerable to overexpenditure. These accounts can be overspent in several ways unless all salary accounts are entered into the position control system.

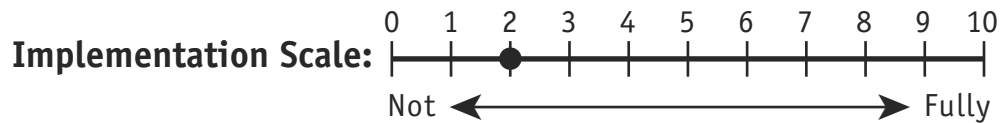
Recommendations and Improvement Plan

1. The district converted to QSS in July 2003. The district should implement the online purchase requisition, running budget reports and online budget transfer processes for sites and departments. Departments and sites should be taught to perform these functions as it will enforce ownership of budgets, enhance the timeliness of financial information, increase efficiency districtwide, and provide an enhanced control environment because more checks and balances exist.
2. A properly implemented purchase-control system will automatically verify fund availability and account coding when the site prepares the purchase requisition. If funds are not available, the system should have a hard reject that will require a budget transfer before processing. This transaction will also pre-encumber the funds immediately to avoid timing difference problems. In addition, the approval process will be online, thus avoiding the time delays in mailing paper back and forth between offices for approval.
3. When the purchase order is prepared, it will reference the online requisition and produce the needed information, reducing double entry. When completed, the purchase order will eliminate the pre-encumbrance and fully encumber the funds. Budget and account code verification will not need to be performed manually by district office personnel because fund availability and account-code verification will all be automated. These processes will be validated when purchase requisitions are entered and approved at the site or department entering the requisition.
4. Salaries and benefits should continue to be encumbered in the QSS system to accurately reflect and reconcile these amounts to projections.
5. The district should make full use of the online position-control system. Once the position control system is fully reconciled and validated for district positions, the district can depend much more on the salary and benefit information being projected by the system so that the staff will not have to depend on so many manual transactions. Substitutes and extra-hire budgets will need to be entered as well, so these salary and benefit lines are not vulnerable to overexpenditure.
6. The district should consider utilizing a substitute-calling system that can interface with the QSS employee-absence system so that personal necessity, illness, vacation and other absence transactions for employees can be properly interfaced and accounted for. This would provide many control features that will safeguard district funds. For example, when substitutes are used due to employee illness, the system could provide an automated pay line for the substitute and an automated leave reduction for the employee. This would enable a district-level reconciliation to ensure that substitutes used for employee illnesses

are legitimate and ensure that the correct expenditure line is charged. For substitutes used to fill in for employees who attend workshops or conferences, the system could assign a preapproved number that is tied to a specific budget number. This will ensure that the correct budgets are paying for the released time. Research should be initiated to determine whether an integrated system exists that would truly benefit the district.

Standard Implemented: Partially

July 2003 Rating: 2



8.2 Budget Monitoring—Monitoring of Department and Site Budgets

Professional Standards

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.

Sources and Documentation

1. Interview with the various administrators
2. Review of financial reports
3. Interview with the Director of Fiscal Services

Findings

1. Sites and departments received monthly year-to-date financial activity reports for budget monitoring from July 1, 2002 to March 31, 2003 and then current-month-only financial activity reports from April 1 to the present. The feedback indicated that the annual reports were too long, which is why only the current month is disbursed now. If a site or department requests a report more often, they can be accommodated.
2. In the majority of cases, the reports sent to the sites and departments were “financial activity reports,” meaning that they reflected all budget and actual entries for each budget code. In most cases, the level of detail makes reviews cumbersome and difficult to sort through, which caused administrators to review their budget less often than they should.
3. Upon review of the reports, the site or department would fill out a request for a budget transfer if they wanted to move funds from one expenditure line to another. The site or department would fill out a journal voucher request if there was a need to change the way an expenditure had originally been recorded. These are manual processes. Upon receipt of the budget transfer form or the journal request in the business office, the assigned Accountant would perform the appropriate entry. One exception is that if the transfer involved categorical funds, it is approved by the state and federal office to ensure compliance. The form is then forwarded to the budget office for final approval. All other transaction requests are sent to the business office directly.
4. Accountants in the business office are assigned to different areas of resources, splitting them up between unrestricted revenue, local grants, state funding and federal funding. These accountants work with the sites and departments to answer questions or to perform budget or journal entries upon request. They also update revenue if they are provided with documentation, such as a grant letter. The accountants do not review assigned budgets on their own for potential expenditure or budget issues. The site or department must request them to do so. Also, the Director of Fiscal Services or Associate Superintendent of Business and Operations may request transfers at times.
5. The Director of Fiscal Services has the overall responsibility for budget and general ledger accounts. She is not able to perform reviews of the various budgets and general ledger accounts other than at the time of required reports, such as budget adoption, interim reporting and unaudited actuals.

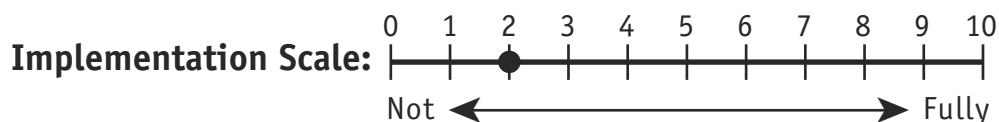
6. Upon review of the budget in May, after the third interim had just been produced, FC-MAT found that a negative fund balance existed in various resources and very large balances existed in various resources. Also, in unrestricted funds, many salary and benefit accounts had both large deficits and large surpluses of dollars. This caused some concern because since the third interim had just been produced, the district would have been expected to have resolved these kinds of issues in the budget. The purpose of the interim reporting is to update the budget and to ensure the budget is as close to actual as possible. The data FCMAT reviewed did not represent accomplishment of these goals and instead showed that many revisions and analyses still needed to be done. Because of the district's current financial condition, budgets should reflect actuality as closely as possible.

Recommendations and Improvement Plan

1. Sites and departments should be able to run their own budget reports. This would save budget-office time that is spent running reports and would allow the sites to choose the types of report that would be most helpful to them. The sites could run a consolidated report for overall monitoring or they could run a financial activity report if a more detailed review is needed.
2. More detailed budget monitoring should be performed. The accountants should review their assigned budgets monthly to ensure that these documents accurately reflect their true fiscal condition.
3. The district should implement online requisitioning, budget monitoring, and budget-transfer capabilities for the sites and departments, which would allow the accountants to have additional time to perform a more thorough review of the budgets. Security measures should be established so that although sites and departments enter the requests, an accountant or other assigned staff 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.
4. When interim reports are prepared, they should represent the latest estimate of the district's financial condition at the end of the year. Interims should be considered the nearest thing to a close, which means updating budgets to annual estimates and reviewing general ledger accounts to ensure that the balances reflected are accurate and that there are no balances that should have been cleared. The district does not review many of the general ledger accounts until the end of the year, making it nearly impossible to close the books on time.

Standard Implemented: Partially

July 2003 Rating: 2



8.3 Budget Monitoring—Budgeting and Monitoring of the Routine Restricted Maintenance Account

Professional Standards

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.

Sources and Documentation

1. Review of the budget documents devoted to routine restricted maintenance account
2. Interview with the Director of Facilities

Findings

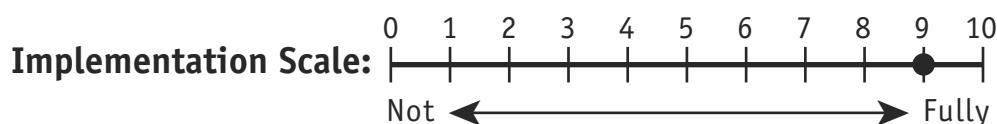
1. The district annually certifies to the state on the State Allocation Board form SAB270 that it has met its obligation to earmark the required minimum three percent of its general fund budget for routine restricted maintenance.
2. The district has more than met its three percent obligation. The routine restricted maintenance account is recorded in the parcel tax BB fund in resource 8150, which is a restricted resource and is a correct recording of this obligation.
3. A special budget report is not prepared for the board detailing the uses of the three percent reserve account.

Recommendations and Improvement Plan

1. The district is formally restricting the routine restricted maintenance account as required. Education Code 17070.75 (b)(1) requires the establishment of a restricted account within the general fund. The district is required to establish the account solely for the purpose of tracking the revenues and expenditures for facilities maintenance. Although the parcel tax BB is in a separate fund at the Treasurer's Office, when reporting the data to the state, this fund is part of the general fund data. Normally, the district would show a contribution to the routine restricted maintenance account from the general fund unrestricted account. The district is not required to reflect the contribution due to special funding approved by the local voters.
2. The district should annually prepare a special budget document detailing the goals of and expenditures from the three percent reserve account.

Standard Implemented: Fully - Substantially

July 2003 Rating: 9



8.4 Budget Monitoring—Budget Revision Procedures

Professional Standards

Budget revisions are made on a regular basis and occur per established procedures and are approved by the board of education.

Sources and Documentation

1. Budget revisions
2. Board minutes
3. Board policy 3301, Budget Amendments
4. Discussions with the Director of Fiscal Services

Findings

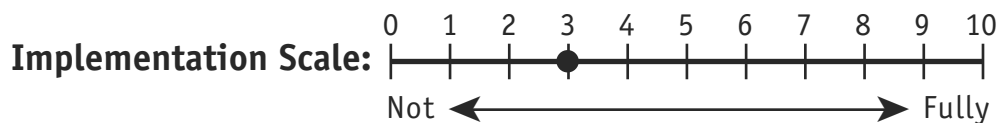
1. The district currently revises its budget during the first, second and third interims, and at the time of the adoption of the state budget. Board of Education agendas and minutes show that correct actions were taken to approve these budget revisions at those times.
2. The district is not taking any additional budget revisions to the board other than mentioned in finding one above. Board policy 3301, Budget Amendments, last adopted May 1, 1991 states that individual budget amendments in excess of \$25,000 shall be submitted to the board for approval prior to adoption of the budget amendments. In addition, the policy states that individual budget amendments of less than \$25,000 shall be ratified by the board at the time of quarterly budget reviews. The policy does not appear to be followed.

Recommendations and Improvement Plan

1. Although budget revisions are submitted to the board at specific times during the year, and the revisions are correctly approved by the board, the current process does not meet the direction required by board policy 3301. Budget revisions should be submitted more often, depending on whether their dollar amounts are over or under the \$25,000 amount set in board policy. The current practice of submitting adjustments at interim reporting time and at the adoption of the state budget does not meet policy requirements.

Standard Implemented: Partially

July 2003 Rating: 3



8.5 Budget Monitoring—Position Control

Professional Standards

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.

Sources and Documentation

1. Personnel action request forms
2. Position control systems documentation
3. Interviews with the Director of Fiscal Services
4. Interviews with payroll staff

Findings

1. A new position control module was implemented in December 2002. At the time of this report, certificated positions have been reconciled 100 percent back to the budget, and classified positions have been reconciled about 90 percent back to the budget.
2. Position control includes all district employees, but does not include substitute salaries, extra hire salaries, overtime salaries or any other type of salary that is over and above actual positions of the district.
3. The Fiscal Services Department has the majority of the responsibility for position control, which is the appropriate place for it to reside.
4. When sites or departments complete a personnel requisition to hire an employee, they forward it to the Human Resources Department for review. If the Human Resources Department approves the personnel requisition, a main screen is set up on the new employee, which includes employee specific information. If additional approval is needed because categorical or parcel tax funding is paying for the position, the personnel requisition is sent to the appropriate budget approval for signature. After the budget manager returns the forms to the Human Resources Department, the approved personnel requisition form is then sent to the budget office.
5. When the approved personnel requisition form is received by the budget office, staff members verify that funds are available to pay for the position and that the account coding is valid. If the position is new, the business staff creates a new position in the position master file and enters the budget to cover the salary and benefits. A new position-control master screen is created by entering the location, job code, budget information, beginning date of the position, ending date of the position, and pay class. If the position is an existing, but unfilled position, the budget office enters the employee's information into that existing position.

6. The business office staff then inputs the person into the position assignment screen (PO). The start date, the range and step placement on the salary schedule, and any additional placement information are added into the PO screen. The step-and-range information is on the personnel requisition form that the Human Resources Department initially had filled out.
7. Human Resources staff completes the employee contract (EC) screen, the leave (LV) screen, the skill (SK) screen, and the termination (TE) information.
8. An Employee Assignment Report (EAR) is created by the Human Resources Department and forwarded to the Payroll Department. Payroll staff enters the position number into the payroll (PR) screen and verifies all components of the EAR agree with the personnel action form. They also complete the W-4 screen.
9. The position control system controls the number of employees that can be placed in a position with an error message that occurs if more than one employee is placed in a position.
10. Overtime, extra hire, substitute and stipend information are not maintained in the position-control system.
11. Position control is not used to drive payroll at this time. There have been discussions about doing this, but the district wants to wait for at least year to ensure the system is working well before making the final decision.
12. The Senior Budget Analyst position, which is now vacant, will be responsible for entering information into the position-control system and keeping it up to date. Until that time, extra hire personnel have been entering data into the system.
13. The district is extremely decentralized, and sites have approval to hire staff members directly without going through the Human Resources Department. After the site hires an employee, they are responsible for forwarding the personnel requisition to human resources, but this is not always done.

Recommendations and Improvement Plan

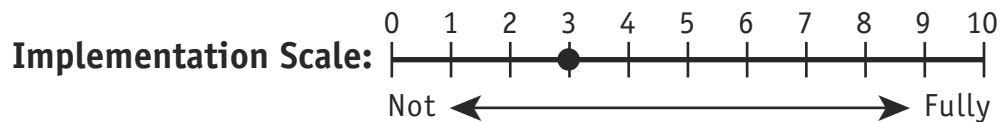
1. The district has initiated effective internal controls in the area of position control. The online system provides both preventative and detective internal controls. With both human resources and the budget office entering information, internal controls are in place. Another check and balance that the district should consider is assigning human resources, instead of the budget office, the responsibility of entering the position assignment screen information.
2. The district should implement a procedure requiring all hiring to be done through the Human Resources Department, and not by a specific site or department. There are many risks to allowing sites and departments to hire their own staff such as issues related to references, fingerprints, and various other safeguards that ensure the staff member is appropriate for the district. In addition, when sites and departments hire directly, there are

not always sufficient checks to ensure that the allotted budget is actually sufficient to pay for the employee and the related benefits. Without this duty being centralized, the district greatly increasing the chances that expenditures will exceed budgets.

3. The district should continue its reconciliation of the classified salary information between the budget and position control. Once all reconciliations are completed, the system will have much more validity.
4. Additional time must be taken to ensure that substitute employees and employees on time cards are also included in the position-control system. There is extensive use of time cards in the district, and if those positions are not included in the system, they will be able to bypass the current position-control system, allowing for budget errors.

Standard Implemented: Partially

July 2003 Rating: 3



8.6 Budget Monitoring—Revenue Limit and Special Education Calculations

Professional Standards

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.

Sources and Documentation

1. Copy of K-12 revenue limit calculation
2. AB 602 SELPA calculation
3. Discussion with the Director of Finance

Findings

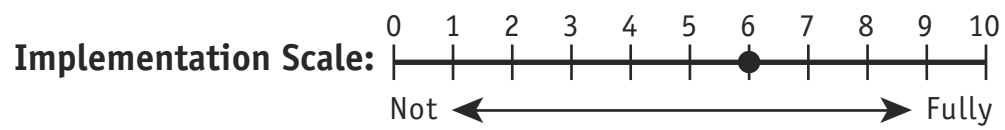
1. The Director of Finance is responsible for the development of the revenue limit calculation. The director develops the revenue limit initially during the budget development process and updates it as new data is received.
2. The director receives monthly enrollment and ADA reports that reflect changes in district-wide attendance. Since district enrollment is declining, and prior-year ADA is used, the district's attendance is scrutinized thoroughly to ensure that attendance is recorded correctly so that there are no obvious errors, either through the system or through personnel.
3. The director revises the revenue limit calculation in November, January and April for the first-, second- and third-interim reports.
4. The SELPA, which includes five other school districts besides Berkeley Unified, is responsible for developing the AB 602 special-education calculation. Once the calculation is complete, the superintendents of the districts participating in the SELPA will receive the information and submit it to their chief business officials to update the budget.

Recommendations and Improvement Plan

1. The district should review and revise, if necessary, the revenue limit and special education calculations as soon as the Governor signs the state budget to reflect any changes to the district's revenue sources.
2. The district should continue to review and revise, if necessary, the revenue limit and special education calculations as a part of the first- and second-interim report processes to adjust for any anticipated changes.
3. The district should review and revise, if necessary, the revenue limit and special education calculations once the first, second and annual attendance reports are submitted to the county office for any adjustments that may need to be made to the district budget.
4. The district should revise the budget as soon as either the revenue limit or special education calculations reflect material changes in revenues.

Standard Implemented: Partially

July 2003 Rating: 6



8.7 Budget Monitoring—Site Reports of Revenues and Expenditures Provided

Professional Standards

The district should be monitoring the site reports of revenues and expenditures provided.

Sources and Documentation

1. Interview with the Director of Fiscal Services
2. Review of financial reports
3. Interviews with various administrators

Findings

1. The district generates financial activity reports for each site and department monthly. Within each applicable resource, the report provides detail by object. There are columns for budget, encumbrance, expenditure, and remaining balance. From July 2002 to March 2003, there was a year-to-date transaction history. Beginning April 2003, only that month's current transaction history is provided. More information can be requested. The financial activity report includes a description line, which lists employee names for salary-and-benefit objects, and vendors for the supplies, services, and equipment objects. When the report reflects a negative balance, sites and departments are required to submit a budget transfer to the budget office for correction.
2. The sites and departments do not have online access, therefore, they greatly depend on the budget office to send the reports to them. There is a delay in receiving the reports. At times, the reports are obsolete by the time they reach the site or department. The QSS system has the capability to allow access for sites and departments to view their budgets online and also to run reports at their own location, but these options have not been activated at this time. Currently, when budget revisions are necessary to cover negative budget balances, the sites must manually fill out and submit a form requesting that a budget transfer be completed by the budget staff. The QSS system has the capability of allowing access for sites and departments to enter their own budget revisions, which then would have to be approved by the business office. However, the district does not have plans to provide online access to the sites and departments in the near future.

Recommendations and Improvement Plan

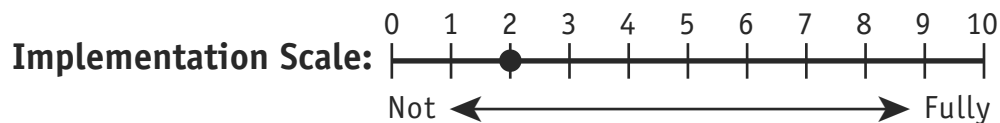
1. The district should consider implementing online access for its sites and departments. This will allow budget managers immediate access to the most current information available to make spending decisions. The district also should consider allowing access for online budget transfers. This will eliminate the time-consuming manual process currently in place. With security properly set up, the district can control the levels of approval required before acceptance of the transaction and also can limit processing capabilities by account code and responsibility.
2. Consideration should be given to reviewing job descriptions and allowing existing accountants to address the issue of continuous review of revenues and expenditures site reports. At this time, accountants are entering budget revisions and journal transactions,

and an insufficient amount of review is occurring. More reviewing has to occur so that reviews are not performed only at interim reporting and when sites and departments review their information.

3. A review of the purchase-order requisition process is needed to decrease the amount of time from submission to delivery of the product or service requested. Online purchase requisitions should be reviewed, which would decrease the amount of manual paperwork. The turnaround time between sending the manual requisition and approving the purchase order is excessively long and has too many criteria that can delay the process even further

Standard Implemented: Partially

July 2003 Rating: 2



9.1 Budget Communications—Communicating Policy

Professional Standards

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

Sources and Documentation

1. Discussions with the Superintendent
2. Discussions with the Associate Superintendent of Business and Operations
3. Review of Board policies
4. Review of budget documents
5. Discussions with the Board President

Findings

1. The district does not have a set procedure, either verbal or written, of steps that occur during budget development.
2. In the past few years, the adopted budget has basically been a rollover version from previous years. The 2002-2003 adopted budget required more analysis because of the conversion to both a new accounting system (QSS) and the Standardized Account Code Structure (SACS) for that year. However, the 2002-2003 adopted budget was also a roll-over budget except for the budget cuts that were included and had previously been approved by the board.
3. Approved board policies exist for outlining the budget development process, but these policies are outdated and do not seem to be followed.
4. For the 2003-2004 adopted budget, the district began a new process of involving administrators and the board more in budget development through study sessions and meetings. Budget cuts were approved prior to developing the budget, and the community and staff were able to provide comment and opinion while the cuts were being developed and discussed.
5. The Budget and Finance Committee is inactive, creating a gap in community involvement at the board of education level.
6. The budget document has included district-designed spread sheets and the state-required report. Budget assumptions also were included in the package. Some feel the information submitted is confusing and does not provide sufficient detail at a level that is easy for the community or the board to understand.

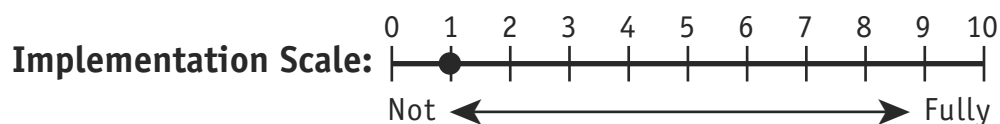
Recommendations and Improvement Plan

1. The district should develop a written procedure detailing what steps occur during budget development to promote continuity and to assist staff in this complicated and important process.

2. The district should consider zero based budgeting for budget development in 2004-2005 rather than rolling over the 2003-2004 budget. The district must make additional budget cuts in order to reinstate the ending balance when developing the budget for 2004-2005. However, if all budget managers had to justify and explain the budgets they need, the district could probably cut many expenditures that turned out to be unnecessary.
3. Board policies should be developed and approved to ensure that the board clarifies its budget priorities and what it expects the adopted budgets to reflect. Using this approach, the budget would better reflect the district's priorities and goals.
4. The district should seek greater involvement by the staff, the community and the board in the budget-development process. Eventually, the district should hold several study sessions for the board and the community to ensure that the budgeting process is understood and to consider various priorities, comments and ideas from the community. Greater involvement and comprehension of budget issues by the community can prompt increased support for the district. When people do not understand school finances, they can feel very confused and may not fully trust the district's management of funds.
5. If the Budget and Finance Committee were reinstated, the community and the board would have an opportunity to communicate and share information. This area needs improvement within the community.
6. The budget document should include information that reflects more than just data. The document should include items such as a message from the Superintendent, a mission statement, and the district's core values and strategic priorities. Other items that might be included are pages devoted to the previous year's highlights and information outlining various programs that the district operates by school site. Summaries and illustrations could also be included to simplify the budget document for public review. Although the district must submit the California Department of Education J200 reports forward for approval, the data should also be represented in a simpler, more understandable format. The district should consider using the "User Friendly Budget" software. This software is being used by various districts around the state and has received many positive comments.

Standard Implemented: Partially

July 2003 Rating: 1



9.2 Budget Communications—Identification of One-Time vs. Ongoing Revenues and Expenditures

Professional Standards

The district budget should clearly identify one-time source and use of funds.

Sources and Documentation

1. Discussions with the Associate Superintendent of Business and Operations
2. Discussions with the Director of Fiscal Services.
3. Review of budget documents

Findings

1. The budget document clearly outlines the district's unrestricted and restricted funds because the state software clearly separates these two categories of funding.
2. The Director of Fiscal Services and the Manager of State and Federal programs utilizes information from the governor's budget proposal in January as well as the May revise in the development of the budget, incorporating prior-year deleted or current year identified one-time new monies.
3. The Manager of State and Federal Projects identifies categorical programs that no longer exist, continuing programs and new programs from both the state and federal sources, ensuring that the information is correctly presented in the budget. Although this information is correctly incorporated into the adopted budget, it is not detailed in the documents submitted to the board.
4. The district's two parcel taxes, BSEP and Measure BB, are separated from the other district funds in spreadsheets that are part of the budget-adoption package. These are the only programs that are separated, although there are various other state, federal and local programs.
5. There appears to be no formal documentation of the budget development process.

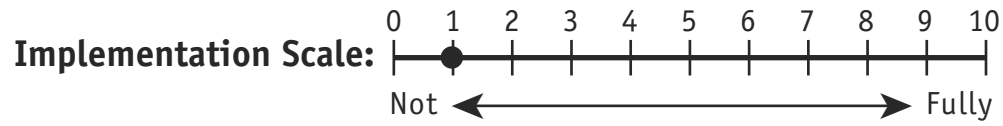
Recommendations and Improvement Plan

1. Unrestricted and restricted programs should be further detailed in the budget document so that the board and the community can view the various types of funding/resources that the district receives and can understand how the funds are used. This process can be accomplished using the same spreadsheet that detail Measure BB and BSEP dollars. The district should also communicate to the community most of these programs provide funding that is severely restricted.
2. The district should consider submitting additional information to the board on allocations to specific school sites in the budget document.
3. The district should specify in the budget document one-time revenues and expenditures, those that the district has had for some time, and those that have been eliminated at the state, federal or local level.

6. Formal documentation of the budget development process should be developed and implemented so that it can be followed up in future years.

Standard Implemented: Partially

July 2003 Rating: 1



10.1 Investments—Investment Policy and Quarterly Approvals

Professional Standards

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

Sources and Documentation

1. Interview with the Associate Superintendent of Business and Operations
2. Review of board minutes
3. Letter to the district from FCMAT on investment policy requirements

Findings

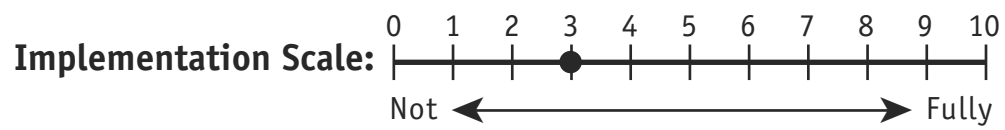
1. The district recently began complying with a portion of Government Code 53646 after receiving a letter from FCMAT dated November 20, 2002. According to the letter, the district is to provide quarterly reports of its investments to the district Superintendent and the board. Since that letter was issued, only one quarterly investment report was submitted to the Board.
2. The district should submit its investment policy to the board for review annually. Any changes from the previous year should be discussed by the board at a public meeting. To date, this has not occurred.
3. The district can claim time spent on preparing and providing investment information to the board as a mandated cost claim. The district can obtain reimbursement for this activity quarterly. Currently, this activity is only allowable for the annual preparation and reporting to the board.

Recommendations and Improvement Plan

1. The district should provide a quarterly report to the Governing Board per Government Code 53646 to ensure its investments are appropriate and meet district needs. In addition, the board should ensure that investments meet certain district objectives. Specifically, they should safeguard principal of funds, meet liquidity needs, and generate a yield that attains or exceeds a market rate. A report is submitted to the district from the County Treasurer 30 days after the end of each quarter. The district should submit that summary information to the board in the board agenda following receipt from the County Treasurer. Within six months from the date of the investment report, the board should verify that funds used for investment are surplus and not required for the operation of the district.
2. The district should maximize revenues in connection with allowable claims filed with the State of California for mandated costs. The time spent preparing this information and providing it to the board is a legal claim for which the district may receive reimbursement. The claim for this time should be submitted to the mandated cost consultant each quarter for inclusion in the reimbursement claim filed with the state.

Standard Implemented: Partially

July 2003 Rating: 3



11.1 Attendance Accounting—Accuracy of Attendance Accounting System

Professional Standards

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

Sources and Documentation

1. Interviews with district and school site administrators and staff

Findings

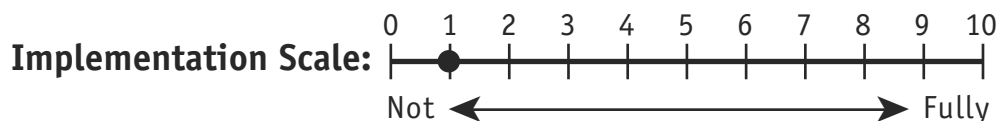
1. Employees need regular training to keep abreast of rules and regulations. User manuals are not available.
2. Monthly reports are not being properly reconciled by all school sites. As noted in the 2001-02 audit report, these discrepancies may be caused by software system problems. Sites may not be properly reconciling enrollment. Principals may be signing attendance reports without thoroughly reviewing the data for accuracy and/or reasonableness.
3. The district office staff is concerned about the accuracy of the Berkeley Alternative School attendance records. Material discrepancies may exist in the December 2002 and January 2003 monthly reports.

Recommendations and Improvement Plan

1. The district office should provide an annual in-service for all employees working with attendance accounting at school sites, including principals.
2. User manuals should be developed and used.
3. Schools should reconcile and review all ADA reports before they are submitted to the district office.
4. Principals should be held accountable for the accuracy of ADA reports that they approve with their signatures.
5. The attendance for Berkeley Alternative School should be analyzed for accuracy. The district should revise the P-2 J18/19 report to reflect any corrections as soon as possible.

Standard Implemented: Partially

July 2003 Rating: 1



11.2 Attendance Accounting—Policies and Fiscal Impact of Independent Study, Inter/Intradistrict Agreements

Professional Standards

Policies and regulations exist for independent study, home study, inter-/intra-district agreements and districts of choice, and should address fiscal impact.

Sources and Documentation

1. Interviews with district and school site administrators and staff
2. Review of Board policies

Findings

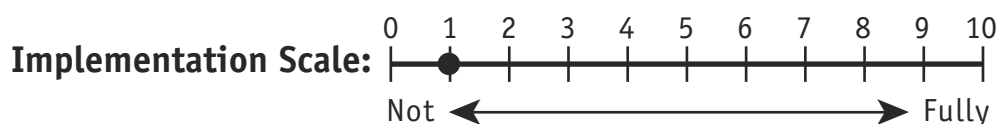
1. Board policies exist, but they have not been revised for some time. Employees who were interviewed did not follow them and were unaware that they existed. Policies related to attendance that are in existence include:
 - a. 5110, Attendance, adopted 1/27/82 and revised for technical reasons on 12/83
 - b. 5111, Admission, adopted prior to 1975 and last revised 1984
 - c. 5112, Attendance and Exceptions, adopted prior to 1975, last revised 7-98
 - d. 5113, Absences and Excuses, adopted prior to 1975 with no revisions
2. The 2001-02 audit report indicated that kindergarten continuation regulations were not being followed and the district's ADA was overstated by one ADA.
3. Policy 5123, Promotion/Acceleration/Retention exists and was adopted on 5-21-74 and was last updated in 1998. The staffs interviewed were not aware that the policy existed. In addition, the existing policy does not specifically address kindergarten retention.

Recommendations and Improvement Plan

1. Board policies and administrative regulations should be revised regularly to ensure that proper procedures and pertinent legislation are included.
2. Employees should be familiar with and have access to board policies and administrative regulations regarding attendance procedures.
3. Policies should address kindergarten continuation rules and regulations.

Standard Implemented: Partially

July 2003 Rating: 1



11.3 Attendance Accounting—Enrollment of Students into Attendance System

Professional Standards

Students should be enrolled by staff and entered into the attendance system in an efficient, accurate and timely manner.

Sources and Documentation

1. Interviews with district and school site administrators and staff.

Findings

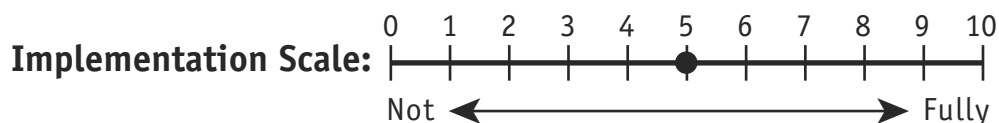
1. Enrollment is performed centrally at the district level. Students are assigned to a school site by management based upon space availability and other selection criteria as established by the board of education.
2. Schools are usually notified by the district office when a new student has been assigned.
3. Students and parents are sent to the school to fill out enrollment documents.
4. Students are entered into the SASI system by the school site personnel.
5. The enrollment procedures for new students seem to be working more efficiently at the elementary schools than the secondary schools.

Recommendations and Improvement Plan

1. School sites should enroll students as soon as possible to maximize ADA.
2. The district office staff should review enrollment procedures by ensuring visits are made to each secondary school to determine whether proper procedures are being followed.

Standard Implemented: Partially

July 2003 Rating: 5



11.4 Attendance Accounting—Instructional Time Requirements

Professional Standards

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

Sources and Documentation

1. Interviews with district and school site administrators and staff.
2. Review of audit report

Findings

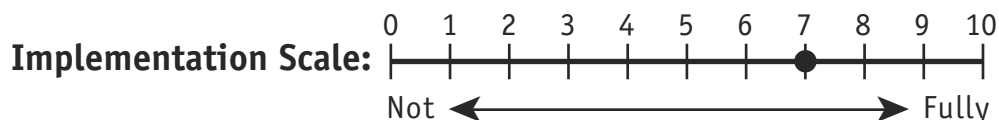
1. Bell schedules are prepared by principals and submitted to the district office for review and verification. The amount of instructional minutes offered at each school site is authorized by the district. Schools are not allowed to deviate from their approved schedules.
2. The Curriculum and Instructional Services Department certifies that the instructional minutes are correct.
3. The annual audit report indicates that the district complies with instructional minutes requirements.

Recommendations and Improvement Plan

1. To ensure that staff fully understands the implication of instructional minutes, information regarding bell schedules and instructional minute requirements should be included in annual in-service meetings.
2. Principals should periodically be reminded about the importance of adhering to the required number of minutes.
3. The number of instructional minutes should be confirmed during the school year to ensure that schools have not deviated from their approved schedules.

Standard Implemented: Partially

July 2003 Rating: 7



11.5 Attendance Accounting—Attendance Systems for Alternative Programs

Professional Standards

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.

Sources and Documentation

1. Interviews with district and school site administrators and staff.
2. Review of attendance documents

Findings

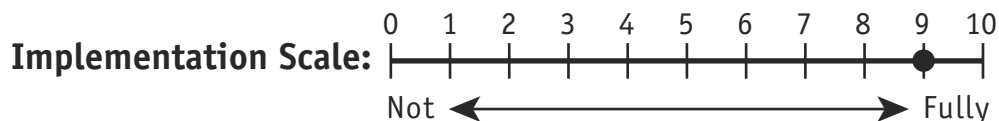
1. The district staff responsible for attendance reporting is comfortable with the accuracy of alternative program, ROP and adult education attendance procedures and accuracy.

Recommendations and Improvement Plan

1. Annual training should be provided for all staff members who are involved with attendance accounting procedures for alternative programs. This will help ensure these staff members have all the available information necessary to perform calculations correctly.

Standard Implemented: Fully- Substantially

July 2003 Rating: 9



11.6 Attendance Accounting—Attendance Improvement Programs

Professional Standards

The district should have standardized and mandatory programs to improve the attendance rate of pupils. Absences should be aggressively followed up by district staff.

Sources and Documentation

1. Interviews with district and school site administrators and staff.

Findings

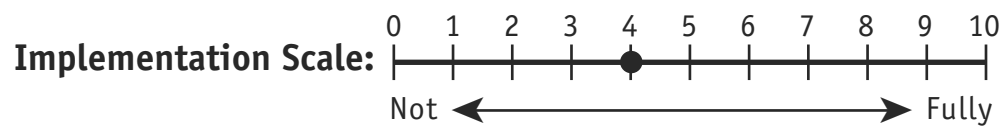
1. The district as a whole appears to lack standardized specific procedures to improve attendance.
2. The attendance at elementary schools is more accurate than at the secondary schools.
3. The high school reported that when compared with high schools in other districts, the number of period absences is excessive every day.
4. The School Resource Officer helps with attendance problems at the high school.
5. The schools do not have adequate staff to follow up on absences.
6. Not all teachers are properly trained to use the SASI system. Many teachers do not follow the procedures as expected by the district. In the past, Scan-Tron forms were not always turned in to the office. The high school recently implemented new procedures to improve this process by picking up Scan-Tron forms from each classroom, and this seems to be helping.
7. Attendance accounting errors or omissions may not always get corrected, and the district could be losing ADA.

Recommendations and Improvement Plan

1. Improving attendance will increase revenues. School principals should be encouraged to find ways to increase ADA.
2. Stronger and simpler methods to address truancy and period absences are needed.
3. Policies addressing truancy, discipline, suspensions, and expulsions should be revised and strengthened.
4. Absences should be followed up by the staff.
5. Annual training should be provided to school administrative and clerical staff.
6. Teachers should be held accountable for reporting accurate student attendance.

Standard Implemented: Partially

July 2003 Rating: 4



11.7 Attendance Accounting—Systems Training of Site Personnel

Professional Standards

School site personnel should receive periodic and timely training on the district's attendance procedures, system procedures and changes in laws and regulations.

Sources and Documentation

1. Interviews with district and school site administrators and staff.

Findings

1. Training is not always provided annually for all employees working with attendance at the school sites.
2. More SASI system training is needed by school clerical and secretarial staff. All school office personnel need SASI training to provide coverage in case one employee is absent.
3. The SASI coordinator left the district. The Student Assignment Project Manager has recently taken over the responsibility for the SASI system and training.
4. Procedural changes are being made as needed.

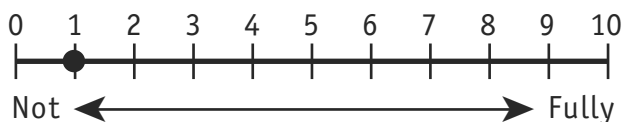
Recommendations and Improvement Plan

1. Annual training should be provided for all employees working with the attendance procedures and the SASI system.
2. Attendance clerks should attend the annual CASBO attendance workshop or something similar to understand all legal requirements.
3. School clerical staff should be encouraged to network and call each other with questions.
4. The Student Assignment Project Manager's workload should be carefully evaluated to ensure that he has enough time to perform the training required to keep the school site staff up to date on attendance procedures.

Standard Implemented: Partially

July 2003 Rating: 1

Implementation Scale:



11.8 Attendance Accounting—Records Retention

Legal Standard

Attendance records shall not be destroyed until after the third July 1 succeeding the completion of the audit (Title V, CCR, and Section 16026).

Sources and Documentation

1. Interviews with district and school site administrators and staff.

Findings

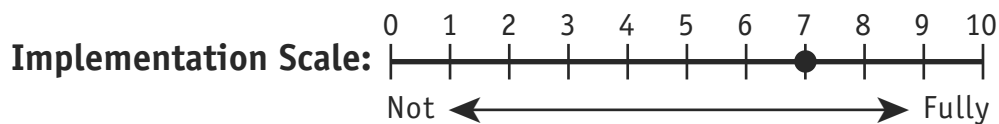
1. District office and school site staffs are aware of the records retention requirements, and attendance records are kept for at least three years.
2. Most district level accounting records have been stored for many years longer than necessary.

Recommendations and Improvement Plan

1. Attendance records should be destroyed after three years.
2. Employees should be reminded of this requirement during annual attendance in-services.

Standard Implemented: Partially

July 2003 Rating: 7



11.9 Attendance Accounting—Appropriate Use of Short-Term Independent Study and Saturday School

Professional Standards

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.

Sources and Documentation

1. Interviews with district and school site administrators and staff.

Findings

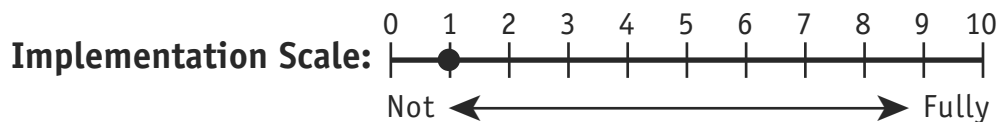
2. The district does not participate in Saturday School programs.
3. Some secondary schools may offer zero period or after-school programs to assist students with their schoolwork.
4. Most independent study is long-term and part of the Berkeley Alternative School program offerings.
5. The schools provide short-term independent study only on rare occasions.

Recommendations and Improvement Plan

1. The district should consider offering short-term independent study and Saturday School programs at all sites to increase ADA and provide more learning opportunities for students.

Standard Implemented: Partially

July 2003 Rating: 1



12.1 Accounting, Purchasing, and Warehousing—General (Adherence to Legal and Professional Requirements)

Professional Standards

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.

Sources and Documentation

1. Discussions with the district's Associate Superintendent of Business and Operations and the Director of Fiscal Services
2. Review of various financial reports
3. Physical observation of the CSAM in the business department
4. The district's most recent Single Audit report

Findings

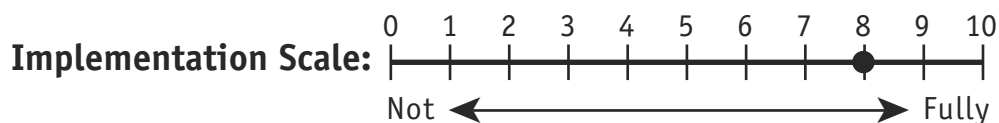
1. The district accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's CSAM. The district's accounting policies conform to accounting principles generally prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA). Furthermore, the district complies with GAAP as prescribed by the GASB. The district maintains professional guides on CSAM and uses the web site to access the Education Code.

Recommendations and Improvement Plan

1. The district should consider purchasing a copy of a GASB manual and/or a GAAP manual in order to have crucial accounting information and rules more accessible.

Standard Implemented: Fully—Substantially

July 2003 Rating: 8



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

Professional Standards

The district should timely and accurately record all information regarding financial activity for all programs (unrestricted and restricted). Generally Accepted Accounting Principles (GAAP) require that in order for financial reporting to serve the needs of the users, it must be reliable and timely. Therefore, the timely and accurate recording of the underlying transactions (revenue and expenditures) is an essential function of the district's financial management.

Sources and Documentation

1. Discussions with the district's Director of Fiscal Services
2. Review of financial statements and state reports
3. Discussions with staff
4. Discussions with the Alameda County Office of Education staff
5. Spending time in the district as Fiscal Advisor
6. Discussions with Gilbert Accountancy Corporation staff
7. Review of annual independent audits

Findings

1. The district does not record financial information and activity in a timely and accurate manner. This has been evident in various ways, including:
 - The majority of fund cash reconciliations were not completed when closing the 2001-2002 financial records.
 - As of May 12, expenditures for January 2003 through March 2003 had not been transferred from the general fund to the appropriate fund, which means that the cash reconciliations for those time periods also have not been completed.
 - Accounts payable are not paid in a timely manner, although an adequate number of number of staff members work in this area. Vendors frequently call to complain of unpaid invoices.
 - It takes an excessive amount of time for purchase orders to be processed because of the forms and budget revisions that must be completed manually if insufficient amount of funds exist to cover a purchase order when it is entered into the accounting system. Various personnel indicated that it can take up to two months for a purchase order to be entered due to the various manual entries/processes that take place.
 - A review of the budget at various times in the year showed that the majority of programs have large negative or positive balances in salary and benefit accounts. Payroll is still processed if insufficient funds exist because the district is legally obligated to pay employees for work performed. The budget review shows that these salary and benefit budgets are not monitored closely because the budgets do not reflect actual expenditures and encumbered expenditures. If these accounts are not accurately maintained, resources can easily be overspent in total or under-spent in total, which also affects the accuracy of the projected ending balance.
 - Because paper forms are used for purchase requisitions and budget transfers and are mailed back and forth between several departments for approvals, processing can take from several days up to several months.

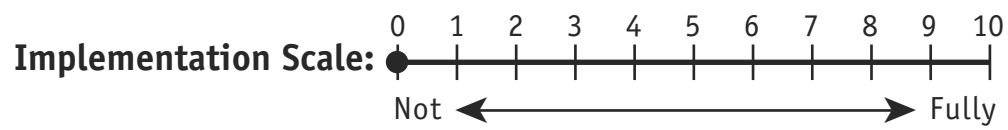
- State reports have been turned in after the due date.
- Audit adjustments have occurred because of the lack of sufficient time to perform proper analysis.
- Audit findings have occurred in various years because the district staff is not preparing timely or accurate reconciliations for a significant number of different financial statement accounts.

Recommendations and Improvement Plan

1. The district should implement online purchase requisitioning, online budget transfers, and online viewing and running of reports of financial information at school sites and departments. This will automate the many approvals and account code verifications that currently take place in the central office. In addition, it would alleviate the need to centrally generate budget reports that are mailed to the sites.
2. The district should make cash reconciliations a priority. Employees must receive further training so that tasks are correctly distributed among the staff, freeing more time for the accountants to perform cash reconciliations.
3. The Senior Budget Analyst position should be filled and the person who fills it should be adequately trained as soon as possible so that the Director of Fiscal Services can be relieved of some tasks. Because of limited staff training and the lack of desk manuals, the Director currently performs tasks that other employees in the department should complete, in order to ensure the tasks are completed correctly.
4. Invoices should be paid to vendors within 30 days so that vendors do not continue to complain and threaten to discontinue future business with the district. In addition, vendor statements must be reviewed and reconciled so that there is assurance that vendors are being appropriately and accurately paid in a timely manner.
5. Budgets should be monitored more closely to ensure that budget revisions are performed as necessary so that the budget accurately reflects the district's financial position. Implementing online budget transfers and allowing sites/departments to run their own reports and enter budget transfers would allow the accountants to perform more monitoring. Currently, the accountants spend a significant amount of time entering adjustments that sites and departments have forwarded on a paper form.
6. The dates set by the county office and the California Department of Education for required financial reports should to be taken seriously and followed. Penalties are levied at the state level for specific late reports, including the withholding of the Superintendent's salary. The dates set by the county office allow for a review before reports are forwarded to the state within the state's time line. If the deadlines are not followed, the county office is unable to perform its required review, raising a greater possibility of erroneous data submissions and the potential for having to revise reports.

Standard Implemented: Not Implemented

July 2003 Rating: 0



12.3 Accounting, Purchasing, and Warehousing—Accounting Procedures: Cash

Professional Standards

The district should forecast its revenue and expenditures and verify those projections on a monthly basis in order adequately to manage its cash. In addition, the district should reconcile its cash to bank statements and reports from the county treasurer 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.

Sources and Documentation

1. Discussions with district's Associate Superintendent of Business and Operations
2. Review of cash flow projections and bank reconciliations
3. Discussions with the Director of Fiscal Services
4. Discussions with the Alameda County Office of Education

Findings

1. Cash reconciliations are not performed monthly for several reasons. The County Treasurer does not send cash statements in a timely manner. At times, the district receives the reports up to four months late. In addition, before April 1, 2003, all cash transactions were recorded to the general fund. If they did not belong in the general fund, the district then transferred deposits and expenditures to the correct fund. These transactions were not performed by the district in a timely manner for several reasons, including the fact that there was an enormous amount of entries, and other duties had a higher priority.

On April 1, 2003 the district's fiscal accountability status was revoked by the county. The county was then able to request that the Treasurer no longer record all transactions to the general fund, but rather to the fund in which the transaction occurred.

As of May 2003 the district had not yet transferred the entries from the general fund to the appropriate fund for the period including July to March, 2003, and this has caused the county office some concern. Although the Treasurer did not send the statements in a timely manner, and recording the transactions to one fund causes a lot of work, internal controls are breached when the district does not correct and reconcile the information as soon as possible when it is received. When reconciliations are not performed in a timely manner, the district's cash position is distorted.

2. The daily mail is opened by a district clerk, not in dual custody. The mail is sorted for various departments and employees. The clerk that opens the mail does not deliver the mail to individual desks, with the exception of the Director of Fiscal Services and the Associate Superintendent of Business and Operations, but rather puts pieces of mail into each employee's slot in the mail machine area. Each employee checks his mail slot at various times with no set schedule. Checks are not always logged when the mail is opened by the clerk due to the volume of checks received. The checks are given to one of the accountants in the Business Department, who processes deposits. The checks are locked in the safe box until the accountant processes checks, which occurs once a week. Copies of checks are made unless a site or other department has already done so. The checks are then entered into the QSS financial accounting system by the same accountant,

which creates a batch-pending processing. A cash receipt report is printed off of QSS and reconciled to the batch totals and itemized receipts. The batch, including all the backups, is audited by a supervisor. If all is correct when audited, the batch is ready for approval in the QSS system. Then, a county deposit form is prepared and sent to the county.

3. Invoices (e.g. facility use invoices) are prepared during the year on a specific district form designated for that purpose. Once the form is completed, it is entered into a log book that keeps track of all the invoices in the district (the forms have specific serial numbers). The invoices are then mailed. Accounting entries do not occur at the time these invoices are mailed, but rather, at the time of payment. When payment is received, a cash receipt is prepared, and the revenue account is credited, with the offset being a debit to the cash account. At year end, the process is slightly different. Although the same form is used to send the invoice, the accounts receivable account is used when the invoice is prepared so that the books are correctly recording all revenues earned in the current fiscal year. For these year-end invoices, when payment is received it is recorded by clearing out the invoice from the accounts receivable account. Overall, the district does not have a great deal of billing activity.
4. The district prepares cash flow reports as required. Cash flow reports are required for the interim reports and their Tax Revenue Anticipation Notes in the year that the district uses this type of funding (i.e. 2002-2003).
5. A review of the various board resolutions showed that access to the bank account is restricted to a high level. The Superintendent, Associate Superintendent, Director of Fiscal Services and Director of Payroll are the authorized signers.

Recommendations and Improvement Plan

1. The district should ensure that cash statements are reconciled within two weeks, or at the latest one month, within receipt. This is critical to project the district's correct cash position, ensure that transactions are being properly recorded and that all transactions that were not expected are researched and corrected, if necessary, as soon as possible. If the reconciliations are not being performed for months after they were received, it is more and more difficult to prepare and research them. Reconciling cash and researching unexpected transactions are a critical part of ensuring the district's financial position is being correctly recorded.
2. Although the district feels that there is an insufficient amount of staff members to open mail in dual custody without involving two different staff members, a serious internal control weakness exists. The district should have all checks logged in at the time the mail is opened. A serious internal control weakness exists especially because one person opens the mail alone, and checks are not logged. Without extra controls in place for this type of activity, fraud could occur.

Another internal control concern exists because the same employee removes checks from the safe, puts the bank deposit together based on these checks and enters the information into the QSS system. One employee should prepare the deposit for the bank, and another employee should enter the information into the QSS system, then reconcile that entry to the bank deposit.

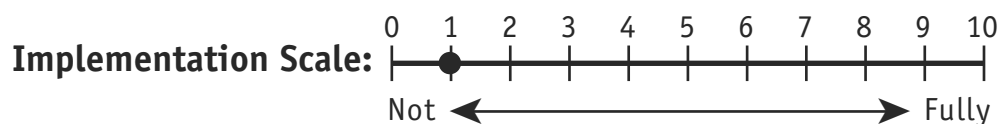
3. The district should consider making bank deposits more often than on a weekly basis for two reasons. First, those assets are better safeguarded in a bank account than in a school district safe. Second, more timely deposits will enhance interest earnings.
4. Although the district has few invoice transactions, the accounts receivable module offered by QSS should be considered because this module interfaces with the accounting system and would allow the district monitor and track outstanding invoices more easily. By using this module, accounting entries are automatically recorded when the invoice is entered in the module, and when payment is received, it will be correctly recorded to the correct account and invoice. This type of automation in the accounting system would assist in ensuring that cash transactions are recorded in a timely and accurate manner. The module can be used for both ongoing invoices (i.e. facility use invoices) and year-end accruals.

Regardless of the number of invoices, the district should ensure that it is using the most efficient and accurate method for accounts receivable because once the module is added and staff trained, this process would take less time, allowing the staff to have additional time for other assigned duties. The current practice of using the district's NSR form when sending invoices, logging that form into a manual log by the form number, and entering the payment into the accounting system when payment is made by preparing a cash receipt, causes additional work and increases the exposure to errors. Additionally, the current process of using the receivable account for year-end processing causes double entry because entries are made into the QSS system when first setting up the receivable and made again when payment is received. Using the accounts receivable module would help the district avoid double entry, and provide the district with the ability to track the status of receivables and send statements for overdue receivables.

5. The district should consider preparing cash flow reports more often than at the required times of interim reports. The district's fiscal emergency status makes it critical that the board and the public know the district's financial status and that sufficient cash is available to the district. More frequent cash flow statements also make it possible for the district to make decision about when interfund cash transfers can be repaid.

Standard Implemented: Partially

July 2003 Rating: 1



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

Professional Standards

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.

Sources and Documentation

1. Interview with Director Payroll Services & Data Evaluation
2. Discussions with human resources administration
3. Time spent in the district as Fiscal Advisor
4. Discussions with the county office

Findings

1. Until April 1, 2003 the district was fiscally accountable and produced its own payroll and vendor warrants without working with the county office. The district must now submit payroll and vendor prelists to the county office before the actual warrants are processed. Audit totals are validated against the prelists by the county office. This will allow for additional auditing and validation, but will also eliminate several days' processing time for the payroll and vendor batches.
2. The district recently added a position to payroll, the Director of Payroll Services and Data Evaluation. In addition to this new position, there are two payroll technicians. Before the new director position was added, department employees reported directly to the Director of Fiscal Services, and to the staff position of Section Accountant-Payroll, Provisional, which no longer exists. Adding the Director of Payroll Services and Data Evaluation position has been positive because the department needs additional assistance with oversight and working with employees. The Director of Fiscal Services already has the huge responsibility of working through the budget issues, and this leaves an insufficient amount of time to concentrate on the Payroll Department. Before the Director of Payroll Services and Data Evaluation was added, it appeared from the organizational chart that the three employees in the Payroll Department were adequate to meet the department's needs, but this higher-level position was needed to ensure that the current work was processed correctly and to ensure that past issues were addressed in an accurate and efficient manner as this was not occurring in the previous structure.
3. The district processes approximately 2,000 timesheets per month, a much greater number than most districts of similar size. This high number prompts a huge potential for errors. Many reconciliations are currently occurring because employees were overpaid or underpaid in previous years. The new director has been able to ensure that these reconciliations are being performed correctly. Because the director has worked at the district for some time at various school sites, he has established trust with employees. This relationship has helped when the director met with employees who were underpaid or overpaid to explain the issue and the outcome. This assists the department with a more customer orientated approach.

4. The district uses QSS for its payroll/human resources system as of July 1, 2002. The system serves the district's base needs at this time, however the QSS system has additional modules and or options that may provide greater assistance to the district during extremely large payroll runs. Many payroll calculations are still handled manually, which leaves more opportunities for errors.
5. Because the district is extremely decentralized, the Human Resources and Payroll departments sometimes have inadequate information on personnel hired by the schools. This often delays payroll or causes pay to be calculated incorrectly. Although the district has mandated many times that all personnel are to be hired through the district office, the practice of hiring at the sites continues to occur, causing extra work for the Human Resources and Payroll departments. Human Resources Department personnel indicated that their biggest concern was that the sites should work with the district office when hiring new positions.
6. The Payroll Department sometimes has an inadequate amount of information to properly process various employees' pay, which causes payroll employees to devote needless time and energy to finding the missing information. In the May end-of-month payroll, for instance, 102 issues were researched due to inadequate, missing or incorrect paperwork in the Payroll and Human Resources departments. The majority of these items were due to either overpaying or underpaying employees in previous months or years. The list of outstanding items and research is compiled monthly by the new Director of Payroll Services and Data Evaluation position, who works closely with the Human Resources Department to determine the final outcome of the monthly questions and/or issues. The two departments are now working very closely together.
7. The district has an end of-month-payroll for normal and contracted employees, a mid-month payroll for the various timesheets employees that need to be processed (extra hire, overtime, stipends, etc.) and a special payroll to handle overpayments, underpayments and late timesheet so that they can be completed in the appropriate month. This has increased customer service by allowing employees' payroll issues to be resolved in a more timely manner.
8. Each site/department is required to submit time cards to the Payroll Department in time for payroll processing. However, many time cards are not submitted in a timely manner and are sometimes delinquent enough to affect a prior year. As a result, employees' leave balances are not always accurate, and some employees' paychecks are not docked even though they should be.
9. The district's timekeeping system is manual. Time cards are sent to the Payroll Department for processing. The time cards require the budget numbers, number of hours, and type of pay to be filled out. Due to the large number of time cards, the payroll staff has not had time to validate that the time cards are added correctly and that they have been properly signed. A random sample is now performed by the payroll staff. Completion of time cards by the sites is inconsistent and often late. The Payroll Department has begun organizing timesheets by employee name, which has assisted in eliminating many duplicate payments. In some months, one employee may have 15 different timesheets for different types of supplemental pay.

10. The district has an automated substitute calling system. However, the system does not interface with the district's payroll system. There is no district-level matching of substitute time-to-leave records to ensure that substitute time and pay are appropriate. By not having district-level reconciliation, unauthorized substitute pay can go undetected. Time cards are not always received in a timely manner, thus requiring that a manual check be written.
11. The Human Resources Department performs the initial setup of new hires. This is completed on the QSS position control system, which can interface with the QSS payroll system that has not yet been implemented. There is an appropriate segregation of duties between the two departments without position control driving payroll, but linking the two systems would decrease the amount of data entry into the system and would function as one more internal control to ensure employees are being paid and budgeted correctly.
12. In the 2002-2003 year, it was discovered that various tax reports in the previous year were not completed and/or filed with the Internal Revenue Service. The employee responsible for these reports did not complete them, and there was no process in place to warn the supervisor that the work was not completed. As a result, employees are now devoting a substantial amount of time and energy to completing these extremely overdue reports and working with the IRS to decrease the penalties. A plan should be implemented requiring employees to notify their supervisors when they are unable to complete their work, and the supervisor should be provided with some type of checklist or other control that will make it easier to notice when a specific report has not been submitted for review. These types of missed reports are costly and time-consuming when they are not completed in a timely manner.
13. The addition of the Payroll Director position has improved the effectiveness of the organizational structure. Items that were completed in the first three months include: revised and updated job duties and reclassification; written procedures for the transition from fiscal accountability to submitting information to the county office; a new Excel spreadsheet formulated so that teacher contract calculations can be completed in a more timely, accurate and understandable manner; completion of teacher recalculations so that employee complaints and problems can be resolved; and implementation of new W-2 software.
14. The Payroll Department staff is being proactive instead of reactive. Monthly payroll/human resources/position control meetings are held to ensure information is being shared and used efficiently. Monthly quality control reviews are being completed on current data so that fewer errors occur. Employee complaints are being resolved more quickly. With the addition of the Director position, the staff feels issues are heard and resolved more quickly.

Recommendations and Improvement Plan

1. The district should adopt and require appropriate fiscal and human resources personnel to sign before personnel are hired for open and approved positions. This will ensure that an open position truly exists and that there is an adequate amount in the budget to pay for this position.

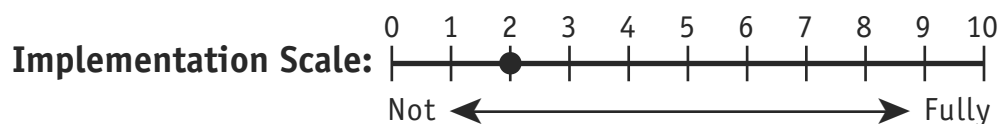
2. Human Resources and Payroll staff need to continue working closely together to ensure that they are sharing information and discussing ways to increase efficiency and accuracy.
3. When the position control system is fully reconciled and implemented, the system should also drive the payroll system. This would increase checks and balances and would eliminate many manual calculations and additional data entry.
4. The submission of time cards needs to be improved. Incomplete and untimely time cards are typically the main cause of payroll errors. Incomplete and untimely time cards should be tracked over a period of time to identify the problem work sites to hold those site leaders accountable. The site staffs should be interviewed to determine why incomplete and untimely time cards continue to be submitted and so that solutions can be found. Without consequences for those site leaders, poorly prepared and untimely time cards will continue to be a major cause of payroll errors. When an administrator signs a timesheet, the signature should indicate that all information is correct.
5. Procedures for STRS and PERS reporting should be validated and written. Retirement coding is a confusing area, and it is critical to ensure that employees' retirements are calculated correctly. In the past, a "cheat sheet" has been used when utilizing the system. This helps ensure codes are entered correctly, but cheat sheets sometimes prevent employees from learning why certain entries are made.
6. Although the Payroll Department is not directly responsible for health and welfare benefits, the department should be part of the overall process so that employees contribute the appropriate amounts. Because deductions are taken from payroll checks, a connection should be established and maintained between personnel who pay the invoice, those who add and change employee benefit information and those who drop employees from specific insurance plans. For example, as of October 19, 2001, \$393,853.29 had been overpaid to Kaiser-Permanente for terminated employees who had not yet been properly dropped from Kaiser. The district was still being billed for these past employees although they were no longer employed. In September 2003, the district will benefit from a re-enrollment in which all employees will have to renew their benefits and update their dependent information. This should allow for the invoices to be corrected once that process is complete. However, systems need to be established to ensure that the information is kept updated once re-enrollment occurs. Otherwise, instances of this type of overpayment will continue, and the district cannot afford it.
7. Timesheets should be sampled to monitor compliance with procedures. Additional problem areas include appropriate signatures that were missing, duplicate timesheets that were paid, incorrect rate that was paid, hours that were not totaled correctly, overtime that was paid but not really worked and timesheets that were submitted for holidays. If the major issues are identified, administration can identify strategies and ideas for improvement.
8. The district should investigate the possibility of interfacing the automated substitute calling system with the payroll/human resources system. An interface can result in increased efficiencies and reduction of errors. Properly interfaced, the process of paying substitutes, affecting the permanent employee's leave balances, and docking as necessary, could be

automated. In addition, the district would be able to reconcile substitute time and pay to the central office system to ensure that only authorized transactions are processed. The district would also be able to reconcile employees' leave time to the substitute pay event.

9. The district should obtain examples of timesheets, automated processes used by other school districts using the QSS system, and absence tracking systems used by other school districts. If district personnel were to visit other districts using the same accounting system, they may be able to find solutions to various issues that they are encountering. Berkeley's issues are not unique since payroll rules and regulations do not vary by school district. Visiting other districts would be both educational and helpful in formulating helpful relationships.
10. The number of timesheets that an employee may file in one month can range from one to 15, which causes the potential for a large margin of error. The system needs to be controlled so that timesheets can be combined, or the negotiated agreement should be analyzed to determine how this process can be simplified. Some type of compromise must be reached to decrease the error ratio.
11. The authorization process required for timesheets needs to be reviewed and streamlined. Depending on the budget from which the employee is paid, up to four authorizations may be needed. This increases the amount of time necessary for the timesheet to reach payroll, and also leaves less time for the Payroll Department to ensure the information is correct. This authorization process needs to be reviewed determine whether it can be streamlined, increasing timeliness.

Standard Implemented: Partially

July 2003 Rating: 2



12.5 Accounting, Purchasing, and Warehousing—Accounting Procedures: Supervision of Accounting

Professional Standards

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 to allow the preparation of periodic financial statements.

Sources and Documentation

1. The district's organization chart/structure
2. Observation of employees and work
3. Monthly budget reports
4. Annual Independent Audit reports

Findings

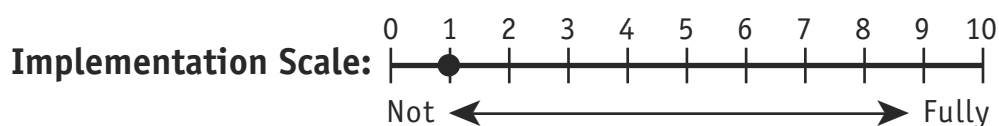
1. The district has a formal organizational structure with a working Director of Fiscal Services assigned to directly oversee all accounting functions other than payroll. There is a new position, the Director of Payroll Services and Data Evaluation, who supervises payroll. This position was added because attention was needed in this area. The district has an extremely large number of monthly timesheets and needed extra leadership to assist employees in answering questions and performing reconciliations on past payments that may be erroneous. This has increased customer service to employees.
2. Some staff members perform accounting functions for other departments (e.g. adult education and state and federal projects), but do not report to the Director of Fiscal Services. They report directly to that program manager.
3. Various consultants have been working in the Business Department for more than one year. They have been hired for a variety of reasons, such as to help with conversions to the new accounting system and to the Standardized Account Code Structure. In addition, these consultants assisted in entering position control data, budget development, budget transactions and reconciliations. These are ongoing responsibilities that other employees were not performing correctly or were unable to complete in a timely manner. These consultants have also assisted because the position of Senior Budget Analyst, which would have handled some of these duties, remained vacant until recently.
4. Various processes can be completed manually, but should be automated. These processes include running financial reports, performing budget revisions and completing purchase requisitions. Automating these types of functions, with security controls to ensure that those performing online functions are able to access only the appropriate information, would free time for employees to concentrate on their assigned responsibilities.
5. The Director of Fiscal Services performs duties that should be handled by the assigned staff.

Recommendations and Improvement Plan

1. Employees in other departments that perform accounting duties should report to both the program manager and the Director of Fiscal Services. This would ensure that these employees complete their responsibilities using the current practices and procedures and are accountable for Business Department guidelines and requirements. Otherwise, the employees may not meet business office requirements.
2. Vacant positions in key accounting areas should be filled as soon as possible. Training consultants to perform ongoing responsibilities is a poor business practice. Consultants should train existing and/or new employees to perform these duties correctly. Employees should be trained to complete their assigned duties. Otherwise, these employees will never perform to capacity, which is a detriment to the district in the long run.
3. The position of Senior Budget Analyst had been vacant for almost one year, and attempts to fill it have been unsuccessful until very recently. Open positions should be filled as soon as possible. The district should consider making the Senior Budget Analyst position more attractive.
4. The district should automate many functions that are being performed manually and consume an inordinate amount of employees' time. Automating these functions would still allow for proper checks and balances.
5. Job descriptions should be updated so that they list all applicable tasks based on individual responsibilities. Staff members have had the same job descriptions for so long that they are not performing all the appropriate duties. This change would not add to their work load, but rather ensure that they are kept abreast of all applicable statutory changes and requirements at the state and federal levels.
6. Adequate training should be provided along with updated job descriptions. Employees should understand how to complete their assigned duties.
7. The Director of Fiscal Services should be provided with sufficient time to supervise employees and improve processes and procedures, including performing internal audits. The director is unable to ensure that transactions are recorded on time and correctly by assigned employees until it is time to prepare required financial statements. Updates to the budget are more difficult because of all of the required correcting entries.

Standard Implemented: Partially

July 2003 Rating: 1



12.6 Accounting, Purchasing, and Warehousing—Accounting Procedures: Categorical and Program Accounting

Professional Standards

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.

Sources and Documentation

1. The district's accounting manual and chart of accounts
2. Review of budget reports
3. Interview with the Manager of State and Federal Projects and the Director of Fiscal Services

Findings

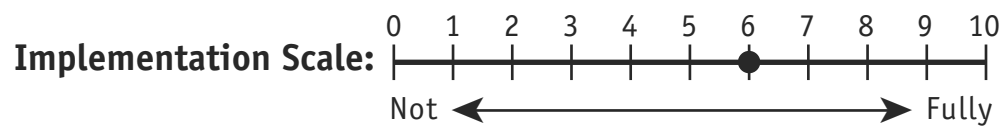
1. The Manager of State and Federal Programs works closely with the state and federal accountants and assigned accountants in the budget office to ensure that all state and federal programs are properly managed and that the revenue is updated based on the latest grant award letter. For these funds, both the district and the sites have their own specific allocations. In order for those allocation budgets to be transferred into different categories, a budget revision form must be submitted to the appropriate Accountant in the business office so that the Accountant can enter the transfer into the accounting system. Sites are responsible for reviewing their specific budget with the assistance of the State and Federal Accountant in order to highlight overspent budgets and/or to recommend different spending categories. The Accountant in the budget office enters any submitted revisions and ensures that the revenue is recorded correctly.
2. The Manager of State and Federal Programs is responsible for determining grant compliance and overseeing the budget. She is also responsible for determining the specific site and departmental allocations. The Accountant in the budget office also monitors compliance for these programs. The Accountant requests a copy of the compliance report from the State and Federal Office at least quarterly.
3. The district had various audit findings related to noncompliance concerning staff charged to categoricals needing to complete appropriate time logs. This has since been remedied by keeping information on all staff members who are paid out of state and federal monies in a database and ensuring that the staff fill out the logs on an ongoing basis.

Recommendations and Improvement Plan

1. Accountants should be more responsible for reviewing assigned budgets so that funds will not be under or overspent.
2. Procedures must continue for staff members to appropriately account for their time when charged to categorical programs.

Standard Implemented: Partially

July 2003 Rating: 6



12.7 Accounting, Purchasing, and Warehousing—Accounting Procedures: Yearend Closing

Professional Standards

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 yearend. The district's yearend closing procedures should be in compliance with the procedures and requirements established by the county office of education.

Sources and Documentation

1. Board policy
2. Discussions with the Director of Fiscal Services
3. Experience based on time in the district as Fiscal Advisor
4. Budget and general ledger Reports from QSS
5. 2001/2002 audit

Findings

1. For the 2001-2002 year end close, the unaudited actuals were submitted to the board on October 30, 2002, weeks after the September 15, 2002 deadline set by the Education Code. This data was late primarily because the district was transitioning to a new accounting system, the newly hired director was unfamiliar with what had transpired in the past year, and the director was unfamiliar with the closing duties that had been assigned to the staff.
2. Although by October 30, 2002, the financial records for 2001-2002 were considered closed, cash reconciliations had not been completed for all funds. This fact was not discovered until the independent auditors made their initial visit to the district. When they asked for year-end information, including cash reconciliations, all of the expected documents were not available. An integral part of closing accounting records is reconciling general ledger accounts, including cash. The district should not have considered their records closed until all pertinent reconciliations had been completed.
3. Prior to 2002-2003, the district had not conducted periodic year-end closing meetings, nor did it use a checklist that assigned time lines and responsibility. In preparation of the 2002-2003 closing, the director has held one meeting with the staff on year-end closing processes and anticipates holding more as time progresses and as time permits.
4. The district had various audit adjustments for the year ending 2001-2002. This was due to insufficient time to adequately analyze the data prior to the 2001-2002 closing, and to analyze prior-year data that staff did not know about.

Recommendations and Improvement Plan

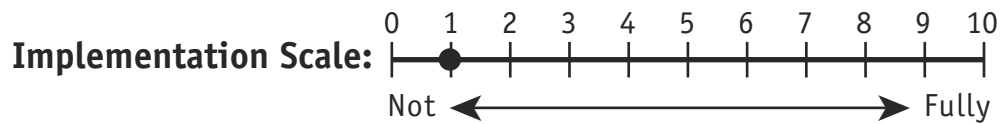
1. The district should develop a year-end closing checklist/calendar that assigns responsibility and deadlines for each major event in the process to specific staff members. Preparation of a checklist and periodic meetings will ensure that everyone is on task and that the sequence of events is appropriate and understood by the staff. Good planning would

assist in ensuring that the district meets various deadlines such as report deadlines, data processing deadlines, and physical inventory deadlines.

2. The staff should become more familiar with the QSS accounting system, which will result in more timely information and facilitate the closing of the books.
3. The staff should ensure that reconciliations and other required tasks are completed during the year.
4. The district should monitor the budget more closely during the year so that the ending balance does not significantly change, prompting questions and concerns when the unaudited actuals are produced.

Standard Implemented: Partially

July 2003 Rating: 1



12.8 Accounting, Purchasing, and Warehousing—Accounting Procedures: Purchasing and Warehousing

Professional Standards

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.

Sources and Documentation

1. The district's organizational chart
2. Discussion with the Purchasing Agent
3. Discussion with the Director of Facilities
4. Review of the purchasing manual

Findings

1. Documented Purchasing Procedures and Policies: The district's purchasing procedures were found to be well-documented. They are well detailed and compartmentalized to aid users in the procurement process and appear to be updated. Areas covered include: types of district purchases; role of the budget managers in procurement; role of district accounting office in procurement; deadlines; blanket purchase orders; bulk orders; petty cash purchases; auto mileage reimbursement; travel requests; receiving; partial payments; how to prepare a requisition for supplies, services and equipment; change orders; requisitions for blanket purchase orders; how to lease or rent equipment; printed forms procedures; bid evaluation and rejection of bids; equipment specifications and purchasing policy; surplus of district owned equipment or supplies and various other areas.
2. Vendor Selection: The district is decentralized in the area of selecting vendors. Sites/departments notify purchasing if they are selecting a new vendor. Only the Purchasing Department can establish new vendors in the financial system. Inactive vendors with no activity for three to five years are purged from the system. Overall, controls over the vendor file appear to be effective and functioning as designed. There is a slight concern that since the process of selecting vendors is decentralized, the district could expend excessive funds. This could occur if vendor costs are not compared, and no one alerts users about the most cost-effective vendors.
3. Purchase Requisitions: Although the QSS system has the capability to handle online requisitioning, the function has not yet been implemented. There are plans to potentially use this capability in one year, but not on a districtwide basis. School sites and departments initiate the procurement process by preparing a paper purchasing requisition. This document includes all pertinent purchasing information, including the budget number. The purchase requisition is sent to one of two places: (1) the Purchasing Department for unrestricted and other budget numbers; (2) the State and Federal Programs department. When the purchase requisition arrives at the Purchasing Department, the staff enters the information into the system. If there is a sufficient budget, the process will continue. If there is an insufficient budget or if an invalid account code is used, the requisition is sent

back to the initiator. The initiator would then have to complete a manual budget transfer form, send it to the budget office, and when that budget revision is completed, send the requisition back to the Purchasing Department. For these types of transactions, the entire process can take from one to two months.

4. Encumbrances: When purchase orders are printed, the amount is encumbered against the accounting line. The encumbrance will post only if there are sufficient funds available. When an invoice is paid, the payment references the purchase order and the encumbrance is liquidated.
5. Bid Requirements: The district has a well-documented bid process. The Purchasing Department maintains the files for the process, and works closely with the Facilities Department in the progress of each bid. Since the district initiated the current bid procedure, there has been a reduction in the number of appeals.
6. Central Receiving: Central receiving is responsible for receipt of all goods and subsequent delivery to school sites. Most shipments are made to central receiving. Central receiving coordinates site deliveries with shippers for drop shipments and assists with expediting of orders and assists with delinquent orders when needed. It also tracks past due receiving copies of purchase orders for items that have been received. There is also an inventory of district printed forms in the warehouse. Any duty of this department is marking items over \$500 for inventory, with the inventory record kept at this department. Vendor packing slips that are received with the shipment are attached to the appropriate work copy. When the purchase order is complete, the work copy with the packing slips and appropriate notations on over and under shipments and cancellations are submitted to central receiving for posting to and clearance of the Material Received Report (MRR). A signed MRR serves as proof of satisfactory and complete (or partial) delivery of the materials ordered or services requested and authorizes payment to the vendor. The vendor's payment is dependent on the original blue MRR copy of the purchase order being signed and promptly forwarded to the Purchasing department.
7. Payments to Vendors: The Accounting Department audits all receiving documents by comparing invoices received from the supplier with documentation of receipt of the goods by the school or the department who ordered the items. If there is a discrepancy of \$25 or less, the Accounting Department can move forward. It has been determined that disputing something of less than a \$25 value costs more than that amount. Partial payments are made if the supplier requests it or when the remaining backordered items will be 30 days or more than those already received and invoiced. When making partial payments, the remaining balance should be more than \$1,000.
8. Open/Blanket Purchase Orders: The district uses open/blanket purchase orders for items that demand immediate purchase and for needs that cannot be anticipated. Matching delivery tags with invoices before payment causes extra work, so the business office has requested that these types of orders be used as little as possible. In order to use them, requisitions must be set up in the Purchasing Department 15 days prior to the commencement of the term covered by the requisition. Aside from the 15-day prior rule, the requisition process is basically the same as that which is used for regular purchase requisitions. The

open/blanket purchase order lists the authorized purchasers on the form. Purchasers are required to keep detailed receipts for submission to the Accounting Department for payment. There is also a requirement for the vendors to request identification prior to pickup of the merchandise.

9. Physical Inventory: Inventory has not been kept up to standards, which has been a finding in the annual audit the last few years. With the district needing to comply with GASB 34, an inventory is currently occurring in May and June. When this inventory is completed, the district will comply with GASB 34 and have an inventory base that will be able to remain compliant with this standard.
10. Travel: Travel outside of a 50-mile radius must be approved beforehand. A travel request form is signed and approved by an Associate Superintendent. A copy of that form is attached to a general requisition form that is submitted after travel, with all receipts documented and attached. Cash advances can be requested if needed. This travel request form must be completed 10 working days before travel. The original form stays with the traveler, and one duplicate copy of the form is sent to accounting if a cash advance has been requested. Per Diem is used for meals rather than requiring receipts. Receipts are required for air travel, lodging, fees, and other necessary expenditures. Reimbursements must be claimed within 30 days of travel. After the trip, the employee fills out an actual travel cost report.
11. QSS System: The Purchasing Agent is not favorable to the new QSS accounting system. The agent feels that the system has many cumbersome functions, including change orders and the stores module. Additional training is needed for the purchasing staff.
12. Service: The district procurement process is cumbersome, manual and labor intensive. The level of service provided to the sites and departments can be improved by automating many of the internal control features that are now handled manually. Unless the process is rushed, the time from initiating the original purchase requisition to receiving the merchandise can take weeks or months. The Purchasing Department tracks requisition processing to monitor purchase order generation. Fast, efficient service is difficult because of the manual forms and also because requisitions are returned to the originator if the budget code is incorrect or if the budget has insufficient funds. The Purchasing Administrator indicated that online purchase requisitioning would be initiated at some time in the future, but seemed resistant to giving sites and/or departments much access for online capability.

Recommendations and Improvement Plan

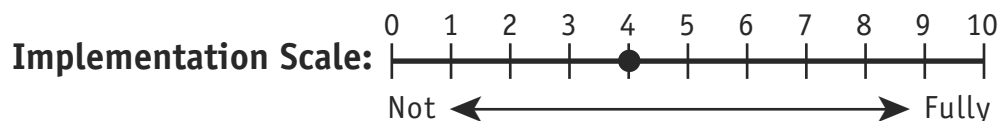
1. Overall controls over the vendor file appear to be effective. The district should develop a method to compare vendors who are recommended by individual sites to ensure that their prices are cost effective. Before a vendor is added to the vendor file, some type of verification should occur in purchasing to ensure costs are competitive.
2. More training should be provided on the new QSS system in the area of purchasing.
3. The district should implement online requisitions and purchase orders for several reasons. The length of time it takes to get a purchase order in place is excessively long. Online

purchase orders would eliminate manual forms, and the budget automatically would be checked when the requisition is entered into the system. If insufficient funds exist in the budget (and sites had already been trained to do online budget transfers as we have recommended in other sections) the site could perform a budget transfer. Once the budget transfer is approved, the requisition could be re-sent to the Purchasing Department. When the Purchasing Department validates the purchase order, it can be approved online.

- When implementing online requisitions, the district should develop a step-by-step work plan to ensure the implementation of online purchasing is performed in a timely manner with trained district and site staff. Successful training is needed to ensure that employees react to the change in a positive way and fully understand how the new system works.
 - Online requisitions will also allow the district to pre-encumber funds when the requisition is accepted into the system. This will alleviate the timing difference between manual verification of funds and posting of the transaction. Also, the sites and departments could view their budgets online and eliminate the need to manually track their budgets using monthly budget reports.
4. To ensure compliance with Internal Revenue Service guidelines, the district should process all independent contractor agreements through the district's financial system. The student body check would then be made payable to the district, thus removing the Form 1099 tax reporting responsibility from the school site. In addition, the school site could rely on the district office's expertise in determining whether the payee is an independent contractor, as defined by the Internal Revenue Service, as opposed to an employee.
 5. Periodic reconciliations should be completed on encumbered funds. This process will help ensure that partial purchase orders are not still encumbered and that purchase orders are cancelled correctly. If funds are encumbered when they should not be, the district's budget does not provide an adequate financial picture of available funds.

Standard Implemented: Partially

July 2003 Rating: 4



12.9 Accounting, Purchasing, and Warehousing—Accounting Procedures: Construction-Related Activities and Expenditures

Professional Standards

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.

Sources and Documentation

1. Board policy
2. Discussion with the Purchasing Agent
3. Discussion with the Director of Facilities
4. Sample accounts payable warrants
5. Review of specific budgets

Findings

1. The district seems to manage its facility and construction funds in an accurate and complete manner. Although specific processes, policies and procedures are not in place for all construction activities, it is clear that district staff understand what is necessary in order to retain funds.
2. The district maintains annual capital planning budgets for its various funding sources. These planning budgets identify anticipated resources and expenditures for specific facility improvements so that progress can be monitored throughout the year. Specific budgets exist for Measure A, Measure AA, Measure BB, deferred maintenance, bond funds and various other funds.
3. The district prepares yearly maintenance plans and facilities division goals that are presented to the board of education annually. Budgets are developed to support these goals once they are approved by the board.
4. The district prepares annual facilities construction plan updates that are presented to the board of education so that board members are aware of the projects' progress and can ask any questions that they have or that community members have raised.
5. The district has a Citizens Construction Advisory Committee and a Maintenance and Security Advisory Committee that assist in ensuring the district is making positive progress and ensuring that funds are spent correctly.
6. The district has processes and procedures for obtaining all required approvals for change orders prior to their implementation. Current written procedures exist to guide the change order process for district projects. It is important to approve change orders prior to implementation because of the financial implications of not taking the appropriate steps.
7. The district updates the five-year deferred maintenance plan regularly and submits it to the Office of Public School Construction for approval.

8. The district annually transfers sufficient funding from the bond proceeds to the deferred maintenance fund to ensure that the district will receive maximum state funding.
9. The district has a system to evaluate and review progress payment requests within respective projects.
10. The district has board policies relating to construction. The policies and accompanying administrative regulations cover planning (master plans), designing, financing, constructing and the naming of facilities. There is no documented procedures guide for fiscal accounting for construction projects.
11. The district's accounts payable procedure for construction payments appears appropriate with sufficient documentation and authorizations. The district withholds 10 percent until the project is complete. Thirty-five days after completion, provided that there are no mechanics liens, a final payout of the retention is made.

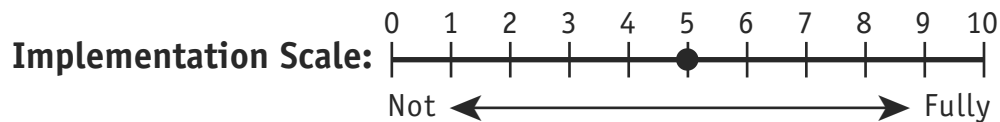
Recommendations and Improvement Plan

1. The board should adopt policies and accompanying administrative regulations to cover fiscal accounting for construction projects. This information could be included in the policies that have already been adopted and implemented for construction.
2. A documented procedures guide for the fiscal accounting for construction projects should be developed and implemented. This guide will be crucial in case there is employee turnover.
3. The district should continue to develop annual capital planning budgets and present them to the board of education for approval.
4. The district should continue preparing annual plans and present them to the Governing Board and the community. Keeping the community involved through meetings with the Citizens Construction Advisory Committee and a Maintenance and Security Advisory Committee are important to fostering community support for facilities.
5. A board policy should be established stating the district's goals for the use of deferred maintenance funds and prioritizing deferred maintenances sites and projects.
6. The five-year deferred maintenance plan should continue to be updated annually so that maintenance projects completed during the year can be removed, and newly eligible projects can be included.. State funding will probably never reach the level necessary to cover total district needs, but the district nevertheless should have a plan for all available funding
7. At a minimum, the district should continue transferring the maximum amount possible to match the state deferred maintenance apportionment.
8. The district should take steps to continue to address the effective and systematic review of progress payments.

9. The board should consider adopting a policy stating the district's goals for the use of the deferred maintenance funds or the facilities that will carry the highest priority for the deferred maintenance program.
10. A procedure guide should be prepared for the fiscal monitoring and accounting of construction projects. Administrative regulations should also be developed to support the policy with as much detail as possible.
11. Contracts for legal and construction management companies related to facilities and construction should be evaluated and discussed. The district has a competent full-time administration devoted to this area. Legal and consulting costs seemed high because the district also employs staff members who have expertise in this area.

Standard Implemented: Partially

July 2003 Rating: 5



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

Professional Standards

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

Sources and Documentation

1. Discussions with staff
2. Observations of FCMAT staff while in the district
3. Independent audit report

Findings

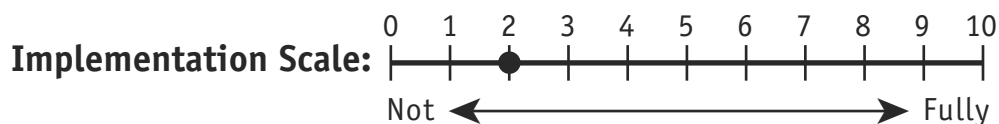
1. Interviews with district administration showed that there is a clear understanding of what internal controls should be, and there is a goal to strengthen present controls. The district's current system of internal controls provides the minimum proper checks and balances for an accounting system. However, due to the lack of automation for various accounting functions, staff responsibilities and lack of training, the district is subjected to delays in processing and timing differences between receipt, validation and actual processing.
2. Included in the 2001-2002 independent audit completed by Gilbert Associates, Inc. is a section regarding internal controls over financial reporting. The audit states "...we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the district's ability to record, process, summarize and report financial data consistent with the assertions of management in the general-purpose financial statements. The reportable conditions are described in the accompanying finding and recommendations Section as items 02-01 to 02-05." The items referred to in this statement are in the areas of: payroll costs, hourly employees; account reconciliations; student body reconciliations; self-insurance; and cafeteria cash receipts.
3. Also included in the 2001-2002 independent audit is a section regarding material weaknesses. The audit states: "...material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions." The items referred to as being material weaknesses are payroll costs, account reconciliations, student body reconciliations and self-insurance.

Recommendations and Improvement Plan

1. The district should proceed with the implementation of QSS by studying and testing modules of the software that would allow many duties to be more automated rather than manual. The staff may have additional time for other duties that would enhance checks and balances being performed on accounting functions. The QSS system has taken internal controls into account when developing many of the manual options, such as budget revisions and online purchase requisitions. These automated functions require approval steps at many levels to maintain integrity.
2. Once automated functions are implemented, these online capabilities should be extended to sites and departments. Proper security administration would ensure that internal controls are automated, thus reducing manual checking and rechecking for routine transactions. Online control would also allow the preferred preventative controls that prohibit unauthorized transactions.
3. The 2002-2003 fiscal audit scheduled to occur soon will be an important tool to determine whether the district has been able to improve internal controls in the opinion of the independent auditor. This will allow the district to receive input areas of improvement and areas that have not improved. The district should pay close attention to the next audit, targeting internal control weaknesses and material weaknesses for correction. The district should devote time and attention to the area of internal controls because the community and the board need to have confidence in the data. Confidence can be enhanced by ensuring that internal controls are in place to ensure accurate data.
4. Once it has been assured that internal controls are in place, transactions would be timelier, the level of service provided to sites and departments would improve, and time would be freed for the fiscal staff to focus on analysis rather than transaction processing.

Standard Implemented: Partially

July 2003 Rating: 2



13.1 Student Body Funds—Management of Student Body Funds

Professional Standards

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]

Sources and Documentation

1. Interviews with district and school site staff
2. Review of prior year independent audit reports
3. Review of other pertinent documents
4. Review of board policies

Findings

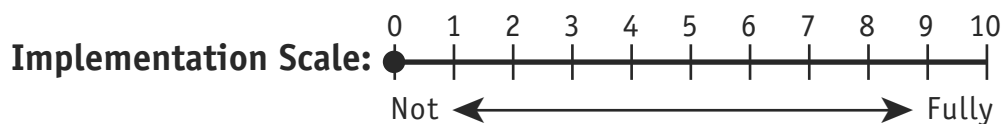
1. The audit report dated June 30, 2002 and prior year audit reports included findings related to student body accounting. Board policies and administrative regulations should provide direction about proper administrative oversight and how student body accounting functions are managed.
2. A board policy on student body funds could not be found.
3. A limited number of district staff members received training presented by FCMAT on student body funds. Attendance was not required.

Recommendations and Improvement Plan

1. The board policies and administrative regulations related to student body organizations should be approved and updated regularly to reflect proper business procedures, internal controls, generally accepted accounting principles, and the latest requirements from the state.
2. Generally accepted accounting practices should be followed at all times.

Standard Implemented: Not Implemented

July 2003 Rating: 0



13.2 Student Body Funds—Supervision of Student Body Funds

Professional Standards

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.

Sources and Documentation

1. Interviews with district and school site staff
2. Review of prior year independent audit reports
3. Review of other pertinent documents

Findings

1. The high school ASB Bookkeeper is experienced and has been in that position for a long period of time, but plans to retire soon. The middle schools and elementary schools have been operating as unorganized student body organizations without proper employee training or adequate accounting controls and oversight.
2. At the high school, ASB funds are collected by teacher-advisors. Advisors are supposed to submit funds to the ASB Bookkeeper but there is no way to determine whether this happens in a timely manner. Many advisors do not prepare revenue potential documents to support the funds that are turned in to the Bookkeeper.
3. Some advisors handling student funds have not turned the money into the high school ASB Bookkeeper. The Drama and Performing Arts departments submitted funds to ASB last year, but to date, no funds have been turned in for this year. The activities have still occurred.
4. The ASB Bookkeeper does not have adequate administrative support or the authority to question the behavior of advisors. The administration has not held advisors accountable for following proper cash handling procedures.
5. The high school ASB Bookkeeper's computer was destroyed in the fire and has not been replaced. Although the records the Bookkeeper maintains are neat and appear to be accurate, she now prepares all accounting records manually, which is very time consuming.
6. The high school ASB financial records include a trust account titled "accommodation accounts," which are funds that are not approved or controlled by the student body.

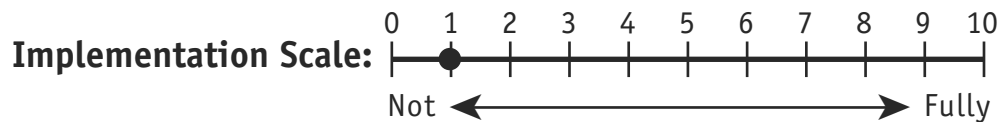
Recommendations and Improvement Plan

1. The high school should recruit and select a new ASB Bookkeeper before year-end to allow for proper training prior to the current employee's retirement.
2. Employees must be held accountable for following proper procedures. Their annual employee evaluations should include this requirement.

3. School administrators should be familiar with proper ASB procedures and supervise both certificated advisors and classified staff appropriately.
4. The middle schools should be converted to organized study bodies by formally following required procedures for board approval. The student council should record minutes of meetings, approve financial activities and maintain proper accounting records.
5. The ASB computer destroyed in the fire should be replaced by the district as were the other computers at Berkeley High School.
6. No funds other than student funds should be processed through the ASB.
7. Proper cash collection controls should be developed and implemented immediately to ensure that all cash collected by students and/or advisors is submitted to the ASB Bookkeeper.

Standard Implemented: Partially

July 2003 Rating: 1



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

Professional Standards

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.

Sources and Documentation

1. Interviews with district and school site staff
2. Review of prior year independent audit reports
3. Review of other pertinent documents.

Findings

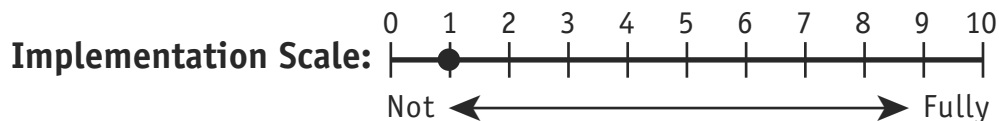
1. Employees working with ASB funds, both certificated and classified, should be properly trained and updated regularly, perhaps annually, concerning the proper procedures.

Recommendations and Improvement Plan

1. The district should provide annual training regarding ASB accounting procedures. This training should be mandatory for all certificated and classified employees collecting or working with student funds.
2. ASB bookkeepers should attend the annual CASBO Student Body Workshop to obtain knowledge about this complicated subject. ASB funds may be used for this purpose.
3. All employees involved with student activities should have access to and be familiar with the Associated Student Body Accounting Manual produced by FCMAT. It is accessible at no charge on the FCMAT Web site at <http://www.fcmat.org>.

Standard Implemented: Partially

July 2003 Rating: 1



13.4 Student Body Funds—Periodic Financial Reporting

Professional Standards

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

Sources and Documentation

1. Interviews with district and school site staff
2. Review of prior year independent audit reports
3. Review of other pertinent documents.

Findings

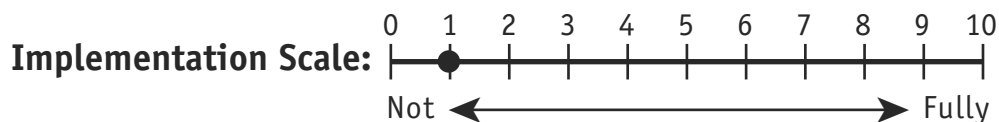
1. The high school ASB submits financial statements quarterly. The middle and elementary schools do not prepare financial statements regularly. Monthly statements would provide more accurate financial information in a timely manner.
2. ASB financial reports have not regularly been submitted to the board of education for review and approval.

Recommendations and Improvement Plan

1. All organized ASBs should prepare monthly financial statements for submittal to the district office and board of education.
2. The district office business staff should review monthly ASB statements for accuracy and reasonableness.
3. ASB financial statements should be provided to the board of education for review and approval.

Standard Implemented: Partially

July 2003 Rating: 1



13.5 Student Body Funds—Internal Audit Functions

Professional Standards

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.

Sources and Documentation

1. Interviews with district and school site staff
2. Review of prior year independent audit reports
3. Review of other pertinent documents.

Findings

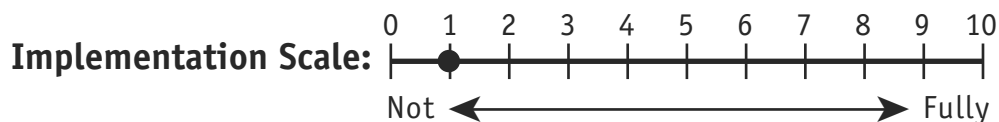
1. In the past, the district business office has not provided for internal audits of the ASB functions at school sites.
2. No specific ASB accounting activities appear to be taking place at the district level at this time.

Recommendations and Improvement Plan

1. District business office administration should conduct regular internal audits of all student body activities both at the site and the district level to ensure that proper accounting procedures are being followed. The Director of Finance has explained to FCMAT that she intends to begin these audits in the 2003/2004 year.
2. One district employee should be given the responsibility to oversee the student body funds and activity to provide better support to the sites. In most cases, the Director of Finance should be that person, but because the director handles several other fiscal duties, someone else may have to be assigned this duty.

Standard Implemented: Partially

July 2003 Rating: 1



14.1 Multi-Year Financial Projections—Computerized Multi- Year Projection

Professional Standards

A reliable computer program that provides reliable multi-year financial projections is used.

Sources and Documentation

1. Copies of past Multi-Year Projection reports
2. Interview with Director of Fiscal Services

Findings

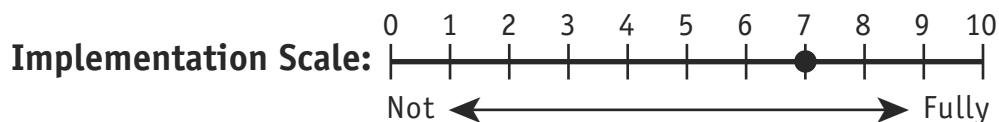
1. FCMAT has been preparing the Multi-Year Projections since it became the district's fiscal advisor.
2. The projections have covered a three-year period and have been completed using the School Services of California software.
3. FCMAT staff trained the Director of Fiscal Services on how to use the SSC software during the second interim process. This training will continue during third interim. FCMAT believes that with this training, the Director of Fiscal Services is now able to update and present Multi-Year Projections in an accurate and timely manner on her own due to her technical expertise.

Recommendations and Improvement Plan

1. The Director of Fiscal Services should be fully trained on how to use the School Services of California Multi-Year Projection software so that the district can produce the projections on its own in the future in an accurate and timely manner.
2. Multi-Year Projections should be made available to the Governing Board at the time of budget adoption, at each interim report, and during collective bargaining and after bargaining concludes.

Standard Implemented: Partially

July 2003 Rating: 7



14.2 Multi-Year Financial Projections—Projection of Revenues, Expenditures and Fund Balances

Professional Standards

The district annually provides a multi-year 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]

Sources and Documentation

1. Samples of past Multi-Year Projections

Findings

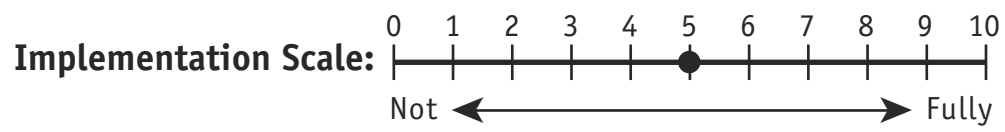
1. The Multi-Year Projections are developed using School Services of California's software.
2. The Multi-Year Projections are limited to the general fund, which includes BSEP and BB, and does not cover funds other than the general fund.
3. The interim reports submitted to the board of education do not contain Multi-Year Projections for public distribution prior to the board meetings. These projections are instead available the night of the meeting.
4. The Multi-Year Projections do not include information on what funds are one time, what funding streams only exist for a certain number of years and any other information that the Board may need to make correct spending decisions based on the length of specific funding.
5. Explanations of major changes in total revenues and expenses are included in the Multi-Year Projections narrative.

Recommendations and Improvement Plan

1. The Multi-Year Projections also should include projections of funds other than the general fund at least annually at budget adoption.
2. Additional information should be include in the Multi-Year Projection software or in the narrative explaining what funding sources are ongoing, which ones are one-time and which ones have a specific amount of time that they will be available.
3. Multi-Year Projections should be available for public review prior to board meetings so that the public can ask questions and request any additional information.
4. Multi-Year Projections should be made available to the Governing Board at the time of budget adoption, with each interim report and with the conclusion of collective bargaining agreements.

Standard Implemented: Partially

July 2003 Rating: 5



14.3 Multi-year Financial Projections—Use of Projections in Planning and Decision-Making

Professional Standards

Multi-year financial projections should be prepared for use in the decision-making process, especially whenever a significant multi-year expenditure commitment is contemplated. [EC 42142]

Sources and Documentation

1. FCMAT's work in the district

Findings

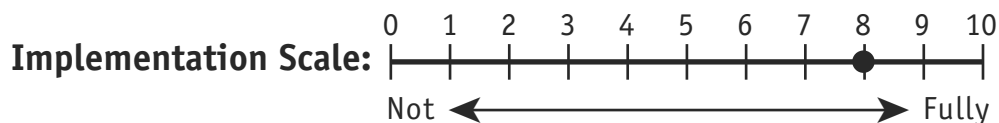
1. The district prepares Multi-Year Projections to comply with the requirement at adopted budget and interim reporting.
2. The projections are completed using School Services of California software, and this process was initiated in the district by FCMAT.
3. While the potential salary and benefits are identified in the Multi-Year Projections, the information has not been used when developing negotiation positions or making decisions on significant fiscal issues. This is mostly due to the cursory attention given to Multi-Year Projections and the fact they are often considered a county office requirement rather than a tool to make financial decisions.
4. FCMAT has made aggressive use of multi-year plans as part of the approval process for fiscal decisions, especially as it relates to budget cuts and the recovery plan.
5. FCMAT has set up the process and the template for the district to continue preparing and using Multi-Year Projections when fiscal decisions are made.

Recommendations and Improvement Plan

1. Continue to develop and use reliable Multi-Year Projections to help the administrative staff make fiscal decisions and to assist the negotiation process.

Standard Implemented: Partially

July 2003 Rating: 8



15.1 Long -Term Debt Obligations—Public Disclosure Requirements

Professional Standards

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]

Sources and Documentation

1. Discussions with the Associate Superintendent of Business and Operations
2. The district's independent audit report
3. The district's actuarial evaluation report for accrued unfunded Workers' Compensation claims
4. Discussion with the district Risk Manager

Findings

1. The district maintained a self-insurance program to cover its Workers' Compensation exposures through December 31, 1995. Since then, it has purchased commercial insurance coverage on a guaranteed cost basis, through the California State Compensation Insurance Fund (SCIF). Management has determined that due to a transfer of liabilities for the period prior to December 31, 1995 in a portfolio transfer with commercial insurer AIG, no additional claims liabilities exist.
2. The district's collective bargaining agreements have been disclosed at regular board of education meetings as required by law. In the current year, 2002-2003 no disclosures have been made since this was the third year in a three-year contract agreement for the certificated staff, and none of the other unions received any cost-of-living agreements in the current year.
3. The district is self-insured for dental care for all employees. Coverage includes employee, spouse, domestic partner as well as dependent children to age 25. Service coverages vary, and the maximum benefit paid per calendar year ranges from \$500 to \$1,500 per person based on coverage class. All claims are administered by outside parties, and the self -insurance fund accounts for and liquidates these insurance claims.
4. The district accrued a liability of \$1,146,000 on June 30, 2002 for its self-insured claims and deductibles in the self-insurance fund, which includes an amount for claims incurred but not reported. Liabilities are undiscounted. The liability is based upon an evaluation by outside administrators for known claims and management's evaluation of incidents incurred but not reported, excluding incremental costs. The district has stated that the amounts accrued are adequate to cover claims incurred but not reported, in addition to known claims.
5. The district participates in one joint powers agreement with the Schools Excess Liability Fund (SELF) for excess property and liability coverage. The relationship between the district and SELF is such that SELF is not a component unit of the district for financial reporting purposes. SELF arranges for and provides excess property and liability and Workers' Compensation insurance coverage for its members. SELF is governed by a board consisting of a representative from each member district. The board controls the

operations of SELF, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and may be subject to assessments and/or receive dividends.

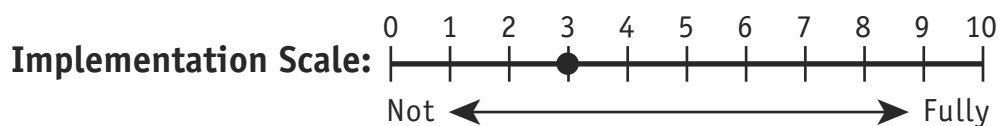
6. Although some employees past age 65 are able to receive retiree health benefits, an actuarial study has not been done in the past.
7. During 2001-2002 reconciliations of amounts paid were not reconciled against those amounts on the loss run for self-insured property and general liability insurance.
8. The last actuarial review for claims liabilities was done in November 2001, and the only copy that could be found of that study had “draft” on the cover. Good business practice is to have an actuarial review done every two years or when operations changes significantly.

Recommendations and Improvement Plan

1. The district is compliant in the disclosure of the terms of collective bargaining agreements, health and welfare benefits, excluding retiree benefits, and Workers’ Compensation.
2. A contract for an actuarial study should be awarded regarding health and welfare benefits for retirees receiving benefits past the age of 65.
3. Periodic reconciliations of amounts paid to amounts reflected on the loss run for property and general liability insurance must occur. Differences are usually due to explainable situations, such as subrogation recoveries, reinsurance claims, direct-claim payments and the timing of postings to the general ledger. But without reconciliations being performed, the integrity of the system cannot be assumed.
4. An actuarial review is needed for property and general liability insurance so that the district knows what it should be setting up as an obligation. The district did not report the November 2001 claims liability amount, which has caused an obligation to be accounted for. Without a recent actuarial, the true liability amount is not known.

Standard Implemented: Partially

July 2003 Rating: 3



15.2 Long-Term Debt Obligations—Policies Regarding Unsecured Debt

Professional Standards

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.

Sources and Documentation

1. Discussions with the Associate Superintendent of Business and Operations
2. The district's independent Audit Report

Findings

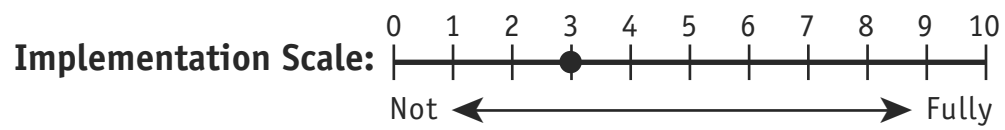
1. The district reports long-term debt of governmental funds at face value in the General Long Term Debt Account Group.
 - a. The tax override fund is used to account for the accumulation of resources from ad valorem tax levies for the repayment of state school building fund apportionments. These taxes will continue to be levied until the debt is fully paid.
 - b. The general obligation bond interest and redemption fund is used to account for the accumulation of resources for, and the repayment of, district bonds, interest and related costs.
2. The district's outstanding general obligation bondedness as of June 30, 2002 was \$143,082,558. The bonded debt balance at July 1, 2001 had to be restated to correct errors in the calculation of bonds outstanding at June 30, 2001 in the district's prior year report. This means that the disclosure is not in conformity with generally accepted accounting principles because the information was not readily available. The district administration has stated that the district is in compliance with all significant limitations and restrictions of the general obligation bond indenture.
3. There is a state school building loan of \$415,661 outstanding as of June 30, 2002.

Recommendations and Improvement Plan

1. The district needs to ensure that debt accounting is recorded correctly and monitored so that accounting records represent the district correctly. The district must ensure that accounting records are meticulous so that the district financial picture is correctly portrayed.
2. The district should gather information districtwide to ensure that all lease purchases and/or straight leases are identified and disclosed. Accounting records for these types of transactions have not been identified separately, and the information necessary to correctly estimate cash flow needs.

Standard Implemented: Partially

July 2003 Rating: 3



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

Professional Standards

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.

Sources and Documentation

1. The district's schedule of outstanding long-term debt
2. Discussions with the Associate Superintendent of Business and Operations
3. The district's independent audit report

Findings

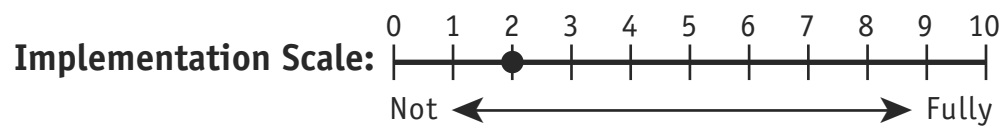
1. The district's 2001-2002 audit did not disclose the details for bonds payable and the required disclosure for refunded and defeased debt. Disclosure is required in order to conform to accounting principles generally accepted in the United States, but it was not practical for the district to develop the necessary information as of June 30, 2002 based on the timing of the audit. The latest schedule of long-term debt that was available was dated February 3, 1999.
2. There is no identification of a dedicated funding source in the audit to make debt-service payments.
3. No cash-flow document has been developed associated with long-term debt. General fund cash flow is developed only to meet the needs of required state reports at budget and interim-reporting periods.

Recommendations and Improvement Plan:

1. The district should, at a minimum, update the long-term debt schedule and provide a report to the board of education, including the funding source for each identified debt. This knowledge is important whether or not the general fund has to make the payments.
2. Cash flow should be identified as it pertains to the long-term debt, identifying the source of funds.
3. A general fund cash flow report needs to be developed monthly rather than only at budget and interim time. The district needs to ensure that adequate cash exists at all times.

Standard Implemented: Partially

July 2003 Rating: 2



16.1 Impact of Collective Bargaining—Collective Bargaining Agreement: Development of Parameters and Guidelines for Collective Bargaining

Professional Standards

The district should develop parameters and guidelines for collective bargaining that ensure that the collective bargaining agreement is not an impediment to efficiency of district operations. At least annually, collective bargaining agreements should be analyzed by management to identify those characteristics that are impediments to effective delivery of district operations. The district should identify those issues for consideration by the Governing Board. The Governing Board, in the development of their guidelines for collective bargaining, should consider the impact on district operations of current collective bargaining language and propose amendments to district language as appropriate to ensure effective and efficient district delivery.

Sources and Documentation

1. Interview with the Superintendent
2. Interview with Assistant Superintendent for Human Resources
3. Interview with the Director of Classified Services
4. Interview with the Associate Superintendent of Business and Operations
5. Review of union contracts
6. Review of union comparison data

Findings

1. The district has contracts with five employee unions, and these contracts require a significant amount of time for the district to manage and negotiate. The unions are: Berkeley Federation of Teachers (BFT), Berkeley Council of Classified Employees (BCCE), Local 39 (classified maintenance and operations, custodial and transportation unit), Local 21 (classified supervisory unit), and United Berkeley Administrators (UBA). Two unions are new to the district, and they necessitate a significant amount of negotiation. These numerous collective bargaining agreements affect the effective and efficient delivery of operations. Specific items and sections in all the union contracts are costly and sometimes impede district operations. Administration has identified for the board the contract provisions that are costly and difficult to administer.
2. Although all five district union contracts have different provisions, there are various costly issues in the Berkeley Federation of Teachers contract that are cited below as examples of the types of provisions that are difficult for the district. This information was taken from documentation presented to the board for review:
Berkeley Federation of Teachers
 - a. There are three staff development days on the certificated salary schedule. There is no language stating that the funding on the schedule is dependent on the state's continuous funding of this program. Without the language, the district is not protected in years that the funding is eliminated or cut.
 - b. Sabbatical leaves for 10 teachers are required to be granted annually. In years of limited funding, this is a significant detriment. Instead, the sabbaticals should be granted at board discretion. Criteria could be established for the board to judge applications when reading and evaluating the application.

- c. Special education caseloads and class sizes should be reviewed and increased. Items for review include increasing the Resource Specialist caseload average from 24 to 28 students; eliminating special day class averages of 10 students with no more than 18 for grades 7-12 and 15 for grades pre-K to six; or eliminating required equalization at grade level when enrollment reaches 12.
 - d. The current contract allows teachers in grades 1-3 one preparatory period per week, which is a total of 4.2 FTE, or \$311,585 per year. Grades 4-6 have five prep periods a week at a total of 9.8 FTE or \$727,032 per year. BSEP funds 3.76 FTE of this release time, which lowers the district's share by \$278,943.
 - e. The district's caseload for speech/language pathologists is based on a weighted point system and is much lower than the state SELPA average of 58 and the local SELPA caseload of 55. Approximately \$385,035 per year could be saved if the speech-language pathologist caseload conformed to the SELPA caseload of 55.
 - f. The current practice of paying retiree health benefits until the age of 67 should be reviewed. If a lower age limit could be negotiated such as age 65, the district could save considerable funds. The district also would not have to contract for an actuarial study on benefits for those above 65 (the district is currently out of compliance in this area).
 - g. The Education Code requires a 30-minute duty-free lunch, but district lunch periods, which are duty-free, are actually 40 to 45 minutes long per day. The district should consider negotiating for certificated employees to perform part of the yard supervision during this time, or lunch should be shortened to 30 minutes. If this portion of the contract remains unchanged, the annual cost of this extra 10- to 15-minute time period would total \$1,012,320 per year.
 - h. The current contract allows staff members to take time off for maternity/paternity, and their compensation is the difference between the substitute rate and the teacher's salary. Instead, this time could be taken from sick leave, which is what employee contracts usually reflect. The unfunded liability for this issue is unknown.
3. Total compensation includes salary, benefits, step-and-column, and cost-of-living increases. This definition should be clearly explained to the public and included in all four union contracts. In years when the state does not fund COLA or provides only a minimal COLA, employees still receive increased compensation in step-and-column provisions, unless they have reached the schedule maximum, and in health-and-welfare compensation because district benefits are not capped. At least part of this compensation comes from district resources. When unions request an increase, step-and-column and benefit increases should be included in the calculation of the percentage received in order to determine the actual cost savings or increase to employees. These types of increases limit the amount of additional funding available for other purposes from any state COLA that the district might receive.
 4. None of the union contracts include a monetary cap on medical benefits. These benefits have increased by approximately 20 percent annually for the past few years, and the same percentage increase is projected in the future. In 2002-2003, the total health and welfare cost to the district was approximately \$8,939 per FTE. If medical and/or dental benefits were capped, the number of dependents allowed on a contract was reduced, or employees contributed to costs, the district could save a considerable amount of money annually.

The health-and-welfare re-enrollment scheduled for this fall is an important opportunity to update employees and their dependents on insurance vendor records. The district is being charged more than necessary due to incorrect information included on invoices because of incorrect data. The district should take measures to ensure that the appropriate amounts are charged because typically, corrections can only be made for the prior two months. If insurance data is not kept current, the district can incur a considerable loss that cannot be corrected to compensate for a time period longer than two months.

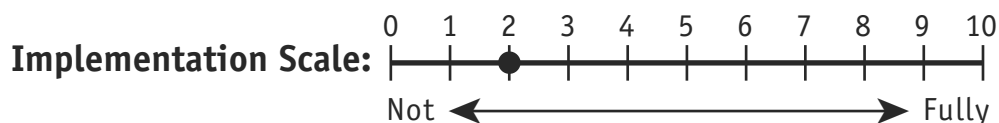
5. The callback provision in the classified contract states that the callback employee will receive a guaranteed overtime of two hours per call. The language could be changed to two hours total of overtime a night if calls are received, unless the employee actually spends more than two hours at the district. If a fire alarm goes off, an employee drives to the district to turn the alarm off three times during the night, and the employee lives 15 minutes away, it is not equitable to grant the employee six hours of overtime as the contract currently stipulates. Two hours of overtime is a more realistic amount. The callback person is chosen based on how close they live to the district so that travel time is minimal. An employee should receive two hours of overtime only when he actually works two hours or more based on the circumstance.
6. The maternity/paternity leave provision should be clarified so that sick leave, extended sick leave and the Family Medical Leave Act are taken into consideration when an employee takes time off for maternity or paternity reasons. The current language allows the employee to be off for 89 work days and receive between 50 percent and 66 2/3 percent of regular pay, depending on the employee's salary, with no requirement to use sick or vacation leave first. In addition, the employee receives full benefits. Employees should be required to utilize any available leave banks first. Otherwise, an employee could be off for 89 work days for a birth, then use accrued personal necessity, sick and vacation days, at great cost to the district.
7. The Education Code requires that the districts provide employees with 11 holidays, but the district contract increased that number to 15 holidays at increased cost to the district. The district has made various agreements with employees for holidays, leave of absence provisions and additional contractual agreements at great expense rather than expending those resources on other priorities.
8. Some issues may be based on past practice rather than upon what the contract actually stipulates. For example, the contract includes provisions specifying what portion of the day an employee must work in order to receive prorated health benefits. However, some part-time employees may receive benefits to which they are not entitled because employees and managers adhere to past practice instead of contractual provisions. As the Payroll and Human Resources departments work more closely together, they are finding more solutions to these types of contract issues. This is a positive step because otherwise, perceptions about the contract, rather than the actual provisions of the contract, dictate practice. Additional management training on contract issues should be provided to ensure that practices coincide with contracts as much as possible.

Recommendations and Improvement Plan

1. The district administrative staff should continue to examine the certificated and classified contracts for impediments to efficiencies and economies. These issues should be identified and shared with the Governing Board in special sessions. As a result of those reviews, the board should make decisions regarding which contract amendments should be submitted to the bargaining units for possible modification. These types of reviews and discussions have occurred in the past. They need to continue and result in action in order to prompt positive change.

Standard Implemented: Partially

July 2003 Rating: 2



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 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.

Sources and Documentation

1. Interview with the Superintendent
2. Interview with Associate Superintendent for Human Resources
3. Interview with the Director of Classified Services
4. Interview with the Associate Superintendent of Business and Operations
5. Review of union contracts

Findings

1. Because the district has five union contracts, resulting in a considerable number of negotiation sessions, a fiscal person does not regularly attend negotiations. A Human Resources Department administrator is assigned to attend all negotiations (one administrator is assigned for certificated and the other for classified) along with an attorney for the district. If fiscal information is required, the human resources administrator asks the business office to calculate the impact of different scenarios (either the Director of Fiscal Services or the Associate Superintendent). The fiscal office reportedly complies with this request in a timely manner. The fiscal analysis is then provided to the district negotiators.
2. Sometimes, but not always, the business administrator submits the requested cost analysis directly to the negotiating team. The business office representative reportedly does not attend all negotiating sessions because doing so would consume a considerable amount of time.
3. There is no evidence that multi-year projections are a part of the fiscal analysis provided to the board of education or the negotiating teams when information is being presented and decisions are being made.
4. The district has spent time analyzing the existing union contracts and determining what sections are the least cost effective. This information has been shared with the board at a study session. It is hoped that this type of analysis can help the board and community understand why the district is severely restricted in making budget cuts. Since contract

provisions cannot be changed without agreement from the union and the district, it is difficult to decrease costs. Since salary and benefits make up approximately 90 percent of the general fund's unrestricted expenditures when parcel tax measures are not taken into account, the cost of salaries and benefits would have to decrease in order to save funds since these costs make up the majority of the expenditures in the unrestricted budget.

5. The public is not provided with an opportunity to evaluate and comment on collective bargaining agreements when they are submitted to the Board for approval. As required by the Education Code, the negotiated contract is usually presented to the board and voted on by the board at the same meeting. Although the public can speak on the contract because it is an action item, the public is not provided with sufficient time to analyze the data.
6. Once the negotiations have been completed and approved by the board, the Fiscal Division implements the contract fiscally. Since the district is implementing the position control module in the software, additions to salary and/or steps and column can be entered into the position control system so that future estimates can be calculated.

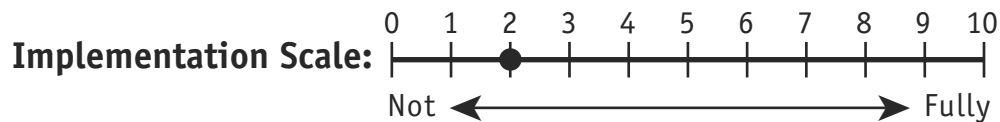
Recommendations and Improvement Plan

1. The district should develop fiscal multi-year projections when ongoing expenditures are being discussed and proposed. New expenditures must be analyzed in a multi-year analysis to ensure that the budget can continue to pay for new ongoing expenditures. Problems may arise if future years are not part of this analysis. The analysis should take place before the vote on new expenditures occurs so that, years later, the district will not be forced to make budget cuts to fund a negotiated settlement that it cannot afford.
2. The district should encourage the participation of a fiscal representative on all district bargaining teams to ensure communication between the negotiating teams and the finance office. Although this would consume much of the business administrator's time, most of the topics addressed during negotiations relate to money. If the expert on district finances is not there, and no one obtains the business administrator's opinion, financial decisions could be made that adversely affect the district.
3. The district should ensure that all proposed changes to the contract proposal are:
 - a. Communicated to both the fiscal division and the board of education with the fiscal implications clearly analyzed prior to inclusion in the final negotiated document.
 - b. Analyzed as to the impact on a multi-year projection basis.
4. The district should make every effort to give the public an opportunity to react to the proposed final contract by presenting the proposed contract at a board of education meeting with ratification to follow, if appropriate, at the next scheduled board of education meeting. This is also positive for Board members because it provides them with more time to analyze the data and ask questions as they arise.

5. The public should be made aware of any budget reductions that will have to take place if the negotiated contract results in a negative affect on the district budget in the current or future years. Communication is an important part of budget decisions.
6. The board and the Superintendent should publicly report on their view and/or approve the multi-year characteristics of the bargaining agreement. The multi-year projection is critical in the discussion so that the impact of the decision will be understood.
7. The fiscal adviser, assigned by the County Superintendent, requires comprehensive evaluation of multi-year projections prior to approval by the Governing Board. The advisor, more than the district, considers the multi-year costs and exercises considerable influence to ensure the agreement does not jeopardize the district's fiscal integrity.

Standard Implemented: Partially

July 2003 Rating: 2



17.1 Management Information Systems—Secure Networks

Professional Standards

Access to administrative systems should be reliable and secure. Communications pathways that connect users with administrative systems should be as free of single-points-of-failure as possible and should be highly fault tolerant.

Sources and Documentation

1. Generally accepted practice/no formal source defined

Findings

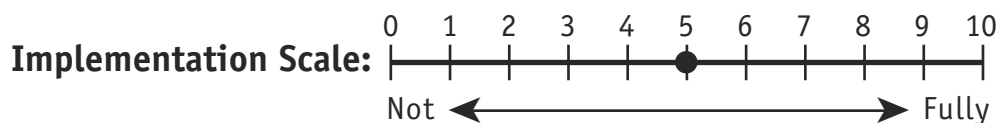
1. The district's financial administrative system is currently hosted by the Pleasanton Unified School District.

Recommendations and Improvement Plan

1. When the business office is relocated to the new University Avenue facility in 2006, the district should strongly consider purchasing and implementing an in-house computer capable of hosting the financial system software and locating it at the new facility.
2. An in-house system will give district staff greater control over system maintenance functions, and reduce the number of points-of-failure currently associated with the Pleasanton-hosted communications configuration.

Standard Implemented: Partially

July 2003 Rating: 5



17.2 Management Information Systems—Technology Standards

Professional Standards

Hardware and software purchases should conform to existing technology standards. Standards for copiers, printers, fax machines, networking equipment, and all other technology assets should be defined and enforced to increase standardization and decrease support costs. Requisitions that contain hardware or software items should be forwarded to the Technology Department for approval prior to being converted to purchase orders. Requisitions for nonstandard technology items should Technology Department approval unless the user is informed that district support for nonstandard items will not be available.

Sources and Documentation

1. Generally accepted practice/no formal source defined

Findings

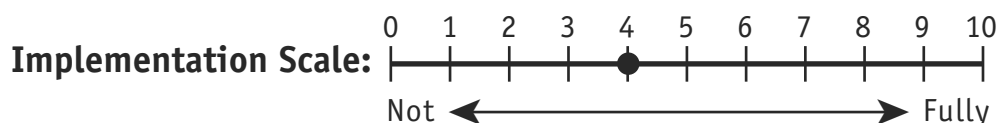
1. The district has defined standards for some hardware and software, but the standards are not uniformly enforced across the district.
2. Standards for copiers, printers, fax machines and networking equipment do not exist.
3. Requisitions that contain hardware and software items are not sent to the technology department for approval prior to purchase.

Recommendations and Improvement Plan

1. The district must uniformly enforce the already in place defined standards for hardware and software purchases.
2. Standards for copiers, printers, fax machines and networking equipment need to be defined and enforced across the district just as the hardware and software standards should be.
3. The requisition processing workflow should be modified to ensure that technology department staff reviews technology requisition items for approval prior to purchase.
4. The district should develop and implement a policy that explains that all nonstandard technology items that are purchased without Technology Department approval will not be supported by the district with maintenance or any other type of assistance requiring time and/or money resources.

Standard Implemented: Partially

July 2003 Rating: 4



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

Professional Standards

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

Sources and Documentation

1. Generally accepted practice/no formal source defined

Findings

1. The district Technology Plan states that “Replacement of computers that are four years or older will happen through local and outside funding sources, including SRTG funds. Each site will develop a 3-year replacement policy as part of their required BSEP Plan which must be approved by the Associate Superintendent before funds are released.”
2. The Technology Plan also states that “By 2004, an annual equipment replacement plan will provide for the upgrading of administrative and teacher workstations on a four year rotating basis.”

Recommendations and Improvement Plan

1. A hardware inventory needs to be completed in order to accurately assess how many computers need immediate replacement. This inventory will also enable the district to plan for future replacement of computer hardware.
2. The Business Department computers appear to be in the greatest need of replacement at the current time.
3. Administrative computers that are Macintosh should be replaced with PC based computers that align with the needs of the district business systems.
4. The following list will correspond with standards set in the district technology plan:
2002/2003
Immediate Replacement:
PCs that are less than 300 MHz and 64 MB Ram
Macintosh computers that are less than a G4

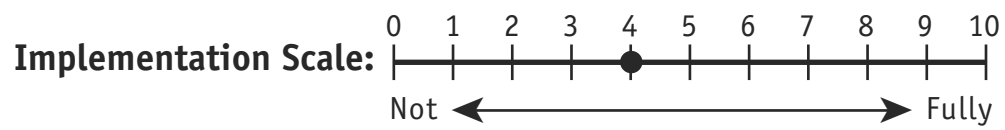
2003/2004
PCs that are less than 500 MHz and 128 MB Ram

2004/2005
PCs that are less than 800 MHz and 256 MB Ram

2005/2006
PCs that are less than 1.5 GHz and 512 MB Ram

Standard Implemented: Partially

July 2003 Rating: 4



17.4 Management Information Systems—Facility Improvements

Professional Standards

Refurbishing, modernization, and new construction projects should take into account technology infrastructure needs.

Sources and Documentation

1. Generally accepted practice/no formal source defined

Findings

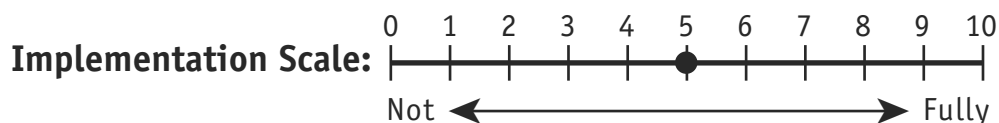
1. The district plans to demolish an existing building located on University Avenue where the current Adult Education program is located and build a new facility in that same location in 2006 to accommodate the district administrative staff that is currently located in various buildings in the city of Berkeley.

Recommendations and Improvement Plan

1. Technology infrastructure implications should be considered prior to demolishing the existing building to ensure that there is no disruption of network services or financial system access.
2. Technology infrastructure requirements associated with the new facility should be considered during the design phase to ensure that communications, connectivity, and bandwidth requirements are addressed adequately.

Standard Implemented: Partially

July 2003 Rating: 5



17.5 Management Information Systems—Technology Selection Process

Professional Standards

Mandatory Standards:

The following network standards have been established for school districts:

- A stateful firewall should be used with a separate DMZ and “inside” network.
- The district should follow EIA/TIA 568-B for all network cabling.
- A Web content filter should be used for all outbound Internet access.
- The district should use an e-mail spam filter for all inbound e-mail.
- Administrative and academic network traffic should be kept separate.
- Switches and never hubs should be installed, and the district should ensure that switches support certain features.
- Login banners should be added to all network elements that will support them.
- The district should transition from all non TCP/IP protocols.
- The district should use a VPN for any access to the internal network from the outside.

Indicators that Standards are being followed:

- Connections to inside devices from the Internet fail, unless they are specifically allowed. Devices on the DMZ cannot connect to devices on the inside network. Devices on the inside network can connect to devices on the DMZ network, and the Internet.
- All newly installed cabling should be tested with a cable tester that conforms to the 568-B specification. Documentation of all tests should be maintained for review.
- Internal and DMZ devices should not be able to reach several inappropriate Web sites. Playboy.com, whitehouse.com, and dannii.com are all examples of sites that the Web content filter should block.
- Inbound email should be reasonably free of obvious “spam” email.
- Network devices on the administrative network segment should be unreachable from the academic network segment. Connections from the academic network segment to the administrative network segment should fail.
- Switches should always be installed. The mandatory features are: 802.1d, 802.1q, 802.1p, 802.3ad, SNMP, and RMON. A hardware inventory should reveal that the network is free from hubs.
- Connecting to a network element should result in the presentation of a login banner. This banner should state that unauthorized access is prohibited, and that unauthorized access will be considered criminal.
- Samples of network traffic taken from multiple locations should reveal no other protocols other than TCP/IP. If other protocols are in use on the network, a plan should be created to transition to TCP/IP in a timely manner.
- All access to the internal network subnet from the external Internet will occur via an IP-SEC VPN. External connections to the internal network subnet should fail with the use of a VPN.

Sources and Documentation

1. Generally accepted practice/no formal source defined.

Findings

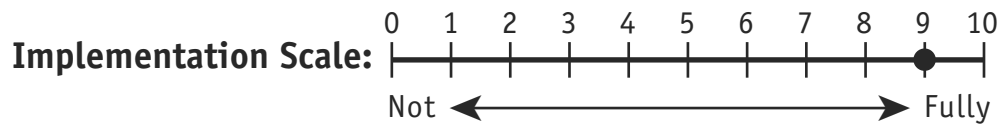
1. The district core fiber optic WAN and administrative networks conform to each of these standards.

Recommendations and Improvement Plan

1. Schools within the district should be assessed as to the level of meeting these objectives.

Standard Implemented: Fully-Substantially

July 2003 Rating: 9



17.6 Management Information Systems—Implementation and Training

Professional Standards

Adequate training facilities should be available to ensure that business office employees can be trained on administrative systems. The lab should have at least 12 Windows compatible computers.

Sources and Documentation

1. Generally accepted practice/no formal source defined

Findings

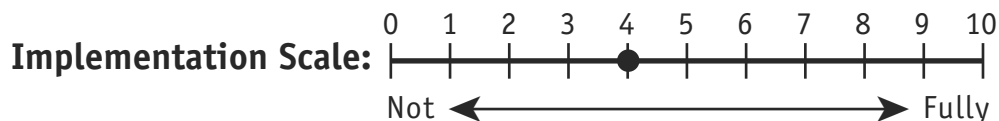
1. The district has a training room at the Oregon Street facility. The lab consists of six Windows compatible computers and six Macintosh computers.
2. During training sessions, the trainer must take additional time to provide specific instructions for Windows system users followed by specific instructions for Macintosh users.

Recommendations and Improvement Plan

1. The Macintosh computers should be replaced with Windows compatible computers to enable the district to more effectively offer training courses to administrative system users.
2. The Macintosh computers should be set aside for use as loaners and to fulfill equipment replacement needs as required.

Standard Implemented: Partially

July 2003 Rating: 4



17.7 Management Information Systems—Food Services Program

Professional Standards

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

Sources and Documentation

1. Generally accepted practice/no formal source defined

Findings

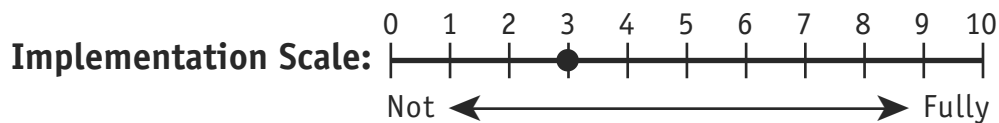
1. The district has not implemented point-of-sale (POS) transaction processing capabilities for the food services program.
2. The current food service software offers POS, but the hardware upgrade required to enable POS transactions has not yet been completed.

Recommendations and Improvement Plan

1. The hardware upgrade required to enable POS transactions in the district's current food service software should be purchased and implemented.
2. The district's Technology Department should devote the necessary personnel and financial resources to ensure the distribution of equipment that has already been purchased.

Standard Implemented: Partially

July 2003 Rating: 3



17.8 Management Information Systems—Staff Development

Professional Standards

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.

Sources and Documentation

1. Generally accepted practice/no formal source defined

Findings

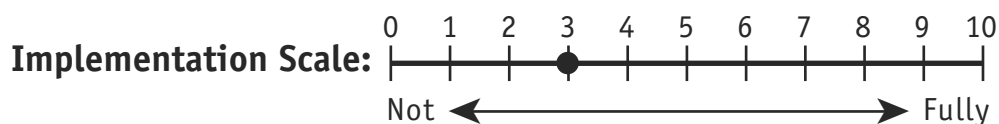
1. The district converted to new accounting system software, QSS, as of July 1, 2002.
2. Business office personnel have not been trained in the use of position control, absence tracking, or financial system reporting capabilities.

Recommendations and Improvement Plan

1. The district should contract with QSS for training in these three critical areas.
2. The district should periodically contract with QSS for refresher training such as year-end closing and other functions that are performed on an infrequent basis.
3. District staff should also take advantage of other training opportunities such as the Carter-Pertaine Users Group (CPUG) annual conference.

Standard Implemented: Partially

July 2003 Rating: 3



17.9 Management Information Systems—Business Office Technology

Professional Standards

Business office computers, computer screens, operating systems, and software applications used for administrative system access should be kept up to date.

Sources and Documentation

1. Generally accepted practice/no formal source defined

Findings

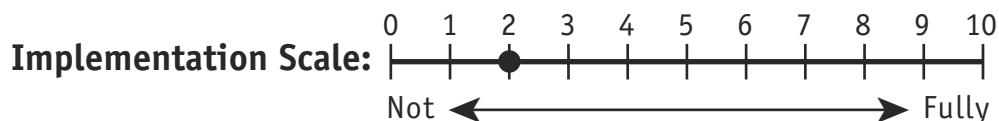
1. District computers and screens used by business office employees are not up-to-date and should be replaced immediately.
2. The district staff are conducting an inventory of these systems to identify how many will need to be replaced.

Recommendations and Improvement Plan

1. Once district staff complete the inventory of these systems and identify how many systems need to be replaced, an action plan should be implemented to replace the systems as soon as possible.
2. The district should ensure that new computers can accommodate the latest operating systems and applications.
3. Computer screens should be 19-inch or larger to provide a larger amount of viewable screen area.

Standard Implemented: Partially

July 2003 Rating: 2



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.

Sources and Documentation

1. Interview with the Associate Superintendent of Business and Operations
2. Interview with the Risk Management Manager
3. Interview with the Associate Superintendent for Human Resources

Findings

1. During the year that ended June 30, 2002, the district participated in one joint powers agreement (JPA) to pool the risk related to property and liability claims. This JPA is with the Schools Excess Liability Fund (SELF) for excess property and liability coverage. The relationship between the district and SELF is such that SELF is not a component unit of the district for financial reporting purposes.
2. The district is self insured for the primary layer of property, liability and dental claims.
3. The Risk Management Manager has reported to the Associate Superintendent of Human Resources until recently, when she began reporting to the Associate Superintendent of Business and Operations.
4. The 2001-2002 annual audit contained a finding regarding property and general liability insurance. The finding indicated that monthly or periodic reconciliation of amounts paid per the general ledger were not being reconciled to loss runs. The differences were not investigated or explained during the audit.
5. The last actuarial review for claims liabilities was completed in November 2001, and only a draft copy of that review could be found.
6. Little attention is given to the area of health and welfare. For some time, reconciliations have not been completed to ensure that employees and their claimed dependents were being properly reported on health-and-welfare plans. The district may be paying an estimated \$100,000 per month in excess costs for health and welfare benefits because records are not up to date. The district will be holding a re-enrollment for employee benefits in September 2003 so that the records can be as up to date as possible, ensuring that payments are accurate and validated.

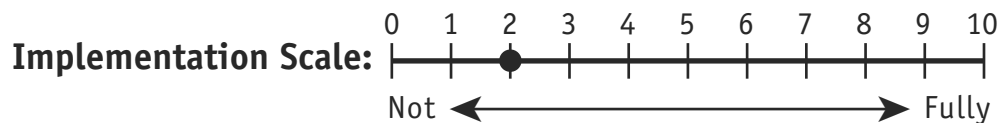
Recommendations and Improvement Plan

1. An actuarial review for claims liabilities needs to be performed as soon as possible. Good business practices dictate that actuarial reviews should be performed approximately every two years or when there is a significant change in coverage. The district's response in the 2001-2002 audit was that an actuarial valuation would occur prior to June 30, 2003. The district submitted a contract to the board recently for the actuarial study, which shows that the district is attempting to abide by its response in the audit.

2. Monthly reconciliations need to be performed between the general ledger and loss runs for property and general liability insurance. Differences should be investigated and corrected. Procedures should be implemented to ensure that monthly reconciliations of paid claims are properly recorded and claimed.
3. The re-enrollment of employees for health and welfare benefit plans should occur in September as planned so that the district can ensure it is not overpaying benefits. Once the re-enrollment is completed and the district calculates its actual liability, the budget can be updated and the district could request repayment of overpaid benefits for a period of two or more months (two months is the normal standard).

Standard Implemented: Partially

July 2003 Rating: 2



18.2 Maintenance and Operations Fiscal Controls—Work Order System

Professional Standards

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.

Sources and Documentation

1. Interview with Director of Facilities
2. Interview with Director of Maintenance
3. Work order system input data, logs and reports

Findings

1. Work order requests are submitted by sites and departments to the Maintenance Department through the network. The work order is able to track the request, the worker assigned, the date completed, the labor time spent, and the cost of materials as the request is moved through the system.
2. The work order system is computerized. Work orders come into a central location and are assigned a number. The work orders are then reviewed and assigned both a number and a priority. Emergencies are handled as soon as possible, and all other work orders are handled on a first-in, first-out priority basis. The district has a backlog of work orders for routine maintenance. The routine maintenance work orders are, for the most part, stored due to other work order priorities.
3. The Director of Maintenance reviews work orders and determines whether the priority level assigned by the site or department reflects actual need before she decides whether or not to approve them.
4. Work orders are assigned to different supervisors depending on the request. The supervisor decides the person who will complete the work, the deadline for completion, orders necessary materials to complete the job and arranges the time of repair.
5. All health and safety or emergency repairs are given top priority.
6. If it is determined that a project is too large for the current staff to handle, the bid/quote process is initiated.
7. Maintenance supervisors periodically determine whether a work order was completed correctly and in a timely manner. Due to the large number of orders, not every order is validated in this manner at the conclusion of the process.
8. The district uses the work order system to develop an accurate accounting of time and materials related to the specific work order when it is completed.

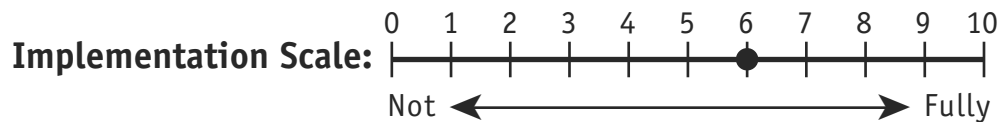
Recommendations and Improvement Plan

1. The district should continue the current work order prioritizing process.

2. The district should continue training site personnel and maintenance personnel to use the computerized work order system. Standards need to be developed that will provide for the evaluation of the quality of work and employee performance on the projects assigned.
3. The district should document both the positive and negative comments received from the sites regarding the maintenance staff and include them in employee evaluations.
4. The district should memorialize a written process to enter and follow work orders in the system.
5. The district should monitor the recently added practice of using nighttime maintenance employees who are able to do work when school is not in session. The goal is to increase work order production with the addition of this night shift. Feedback to date has reflected that the addition of this shift has been a positive one.

Standard Implemented: Partially

July 2003 Rating: 6



18.3 Maintenance and Operations Fiscal Controls—Facilities Use Fees

Professional Standards

The district should control the use of facilities and charge fees for usage in accordance with district policy.

Sources and Documentation

1. Discussion with the Associate Superintendent of Business and Operations
2. District board policy
3. Accounting records
4. District policy and procedures for renting school district property
5. District facility use permit”

Findings

1. Although facility use is in a state of transition, the district’s intent is in accordance with the Education Code. Various rates are charged for use, based on what type of group is submitting the request: a school group; a city agency; a community group; a nonprofit group or any other type of group. Appropriate fee schedules (free, direct cost, fair market) are available. Until recently, fee schedules were low and did not cover actual direct costs. The rates have been revised recently to include various direct costs that were previously excluded such as processing permits, utilities and custodial costs. The effects of that increase are not yet known because users were only recently informed of the new rates, and they have not yet been put into practice. Usage may decrease, but that will not be determined for some time.
2. Property use permits are obtained from the Maintenance Department. School sites are contacted prior to finalization of any facility use permit to avoid scheduling conflicts with school activities. Schools have the final decision regarding the availability of their site. Requests for the district administration building are being handled in the Business Department
3. If a facility use request is for after school hours, a custodian is required to help set up for the event, clean after the event, and lock the doors once the event is over. The user pays for the custodian when the event is after hours. If a large theatre event is occurring (Berkeley has the second largest theatre in California), the police department works with the district to ensure that security is sufficient.
4. Several internal control problems were found in the Facilities Department when reviewing the facility use process. Because facility use permits were not prenumbered, there is no way to determine how many different permits have been issued and/or approved. Also, facility use permits, invoices and payments were all handled by the same person in facilities, which is a major breach of internal control. Invoices were not sent promptly after facilities were used. Checks were stored in a closet in the same department instead of being promptly remitted to accounting.

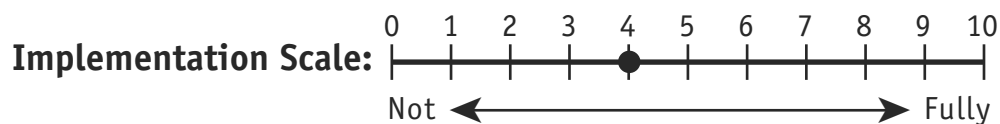
5. Once the checks were remitted to the Accounting Department, internal controls appeared to be in place. The facility checks were handled just as other receipts. Deposits should be made more often than weekly.

Recommendations and Improvement Plan

1. A policy for the use of facilities should be adopted by the Governing Board, including clear administrative regulations specifically addressing necessary internal control processes.
2. The district should consider raising rates more often than in the past to reflect the current costs of providing custodial services, utilities, and other services. This will help decrease or eliminate encroachment upon the general fund. All direct and indirect charges should be included in revised rates.
3. The district should recognize that opportunities exist for fraud and abuse because of current practices and procedures used in the facility use area. Additional oversight, staffing and safeguards are required to ensure that internal controls are implemented and followed accordingly. Training should be provided so that personnel understand what is expected of them.
4. Prenumbered forms should be considered so that there is a history of transactions, improving internal controls.

Standard Implemented: Partially

July 2003 Rating: 4



18.4 Maintenance and Operations Fiscal Controls—Control Over Purchase Orders

Professional Standards

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.

Sources and Documentation

1. Interview with the Director of Maintenance, Grounds and Custodians
2. Interview with the Purchasing Agent
3. Review of district's purchasing manual

Findings

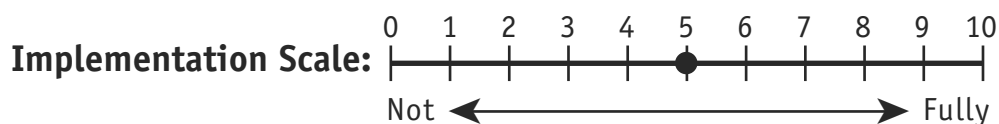
1. The district's purchasing manual addresses the issue of open purchase orders in a section with the imprecise title, "blanket purchase order." The manual defines a blanket purchase order as a "purchasing agreement initiated upon receipt of requisition by the district purchasing department giving authorization to a vendor to provide supplies or services during a stated period of time. This document encumbers a specific sum of money which is to be used to periodically pay (usually monthly) for services rendered by the vendor."
2. The purchasing manual contains additional sections further defining blanket purchase orders and describing how to complete a purchase requisition when a blanket purchase order is required.
3. Blanket purchase orders normally have no more than three authorized signatures, but this was not stated in the manual.
4. The Maintenance Department regularly uses open purchase orders for parts and materials to be used in connection with work orders. This department is the largest user of these types of agreements. When items are purchased through the blanket-purchase order system at the Maintenance Department, there are strong controls for vendors. The Director of Maintenance, Grounds and Custodians has a specific form that she or another supervisor signs when an employee needs to purchase something using a blanket purchase order. This form also allows for the product to be verified and includes a blank for the item's relationship to the project, which is to be used when invoices are processed. The vendor will allow the transaction to occur only after the employee produces a signed form. Employees are easily recognized at the vendor's place of business because they have identification on their shirts. Upon purchase, the employee brings back to the district a signed receipt with the signed authorization form attached, including the work order number or any other specific information on the form for tracking purposes. All invoices require a signed receipt and signed authorization to be processed. The invoice must also contain the work order number and description of the project for which the materials will be used.

Recommendations and Improvement Plan

1. The purchasing manual should be updated to include additional information such as the vendors' understanding of who is authorized to use these purchase orders, and more specific examples of the items that can be purchased with this method. It may be beneficial to have someone with no knowledge of open purchase orders update this section to provide clearer descriptions that even a novice could understand.
2. The district should clarify the difference between an open purchase order and a blanket purchase order. The purchase orders should always be referred to by the same name to avoid confusion.
3. The district should consider limiting the authorization list for open purchase orders. The form used by the Maintenance, Grounds and Custodial departments is very effective in keeping control, but without the vendor having an authorized list of users, confusion can result at the vendor's place of business, allowing for potential abuse of this practice.
4. All vendors should be instructed to require identification via a driver's license or district badge number rather than a district logo on a shirt.

Standard Implemented: Partially

July 2003 Rating: 5



18.5 Maintenance and Operations Fiscal Controls—Materials and Tools Inventory

Professional Standards

Materials and equipment/tools inventory should be safeguarded from loss through appropriate physical and accounting controls.

Sources and Documentation

1. Work orders
2. Inventory records
3. Purchase orders for supplies and equipment
4. Discussions with the Associate Superintendent of Business and Operations
5. Discussions with the Director of Maintenance, Grounds and Custodians

Findings

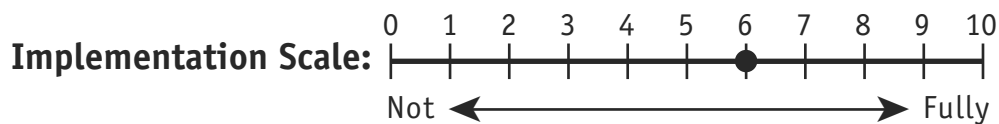
1. The district provides all tools that are to be used on any jobs/assignments. The district does not have any type of checkout system that monitors the employee and the project for which the tools are being used.
2. Materials that are purchased on the open purchase order system require the product and the project to be listed on the work order that is checked for approval by the maintenance supervisors or Director. Materials in stock are identified for use and identified on the work order being completed.
3. The district keeps some materials on hand for projects. There are plans to increase the amount of materials in stock so that open purchase orders are not used as often, and projects can be completed more quickly.
4. All the district's equipment and materials are not included on a complete inventory listing that is reconciled annually. There is an inventory, but it is incomplete. The district plans to implement this control, and the night shift employees have begun saving receipts so that this data can later be consolidated into a complete inventory.
5. The open purchase order system has the controls required to safeguard the district. However, a relatively high number of people are authorized to acquire materials on an open purchase order with the signed authorization, on a separate form, of a Director or supervisor. Restricting the list of people who are authorized to use purchase orders would provide the district with a greater amount of protection than the current process.
6. During site observations and interviews, the majority of site personnel felt that they had adequate supplies for cleaning and maintaining the facilities on hand.
7. The work order system allows the maintenance staff and administration to anticipate the materials needs for future projects to determine if large materials orders can be made before the project begins.

Recommendations and Improvement Plan

1. The district should formulate a type of checkout system that monitors the employee and the project for which district tools are used. There should be a formal policy specifying that district tools cannot be used outside of the district or for personal projects.
2. The district should continue to monitor the work order system to determine if cost savings are possible through bulk purchases in anticipation of large or similar work orders in the system. Increasing the amount of materials in stock would allow projects to be completed faster and would require fewer open purchase orders.
3. All the district's equipment and materials should be included on an inventory listing that is reconciled annually.

Standard Implemented: Partially

July 2003 Rating: 6



18.6 Maintenance and Operations Fiscal Controls—Use of District-Owned Vehicles

Professional Standards

District-owned vehicles should only be used for district purposes. Fuel should be inventoried and controlled as to use.

Sources and Documentation

1. Interview with the Director of Maintenance

Findings

1. The district supplies vehicles to the maintenance, operations and grounds staff for use within the district for district business. On occasion, it may be necessary for the vehicle to be used outside the district to pick up materials. Some additional supervisory staff members use their own vehicles for business during the day, but they have not requested reimbursement for mileage.
2. Fuel is obtained at several places. Diesel fuel is required for some of the school buses and for one of the maintenance vehicles, and is purchased in Berkeley. Unleaded gasoline for the remaining school buses and other district vehicles is obtained at the AM/PM fuel station and Trillium CNG station in Berkeley.
3. Data is maintained on the amount of fuel the vehicles use. District drivers fill out a fuel log and provide receipts from the unleaded gasoline vendors. All receipts should be returned to the Transportation Department, but not all employees return them. This causes problems because the unleaded vendor's software does not provide accurate data on invoices. The city of Berkeley provides accurate data, and that operation plans to implement individual tracking capability. Because of staffing shortages, the district staff has not had sufficient time to perform ongoing calculations of miles per gallon. Therefore, vendor invoices are important in determining vehicle efficiency.
4. The district security employee and the assistant theatre manager at Berkeley High School take vehicles home at night. Both are subject to callback for fire alarms and for evening performances by the community theatre. These are the only two employees authorized to use district vehicles outside of their normal workday and to take home a district vehicle. There is no written policy specifying who may take home a district vehicle.
5. The district maintains various data on the vehicles. For inventory purposes, the data of purchase, the odometer reading at purchase, the vehicle identification number, the year, make and model and the names of vehicle users should maintained in the records.

Recommendations and Improvement Plan

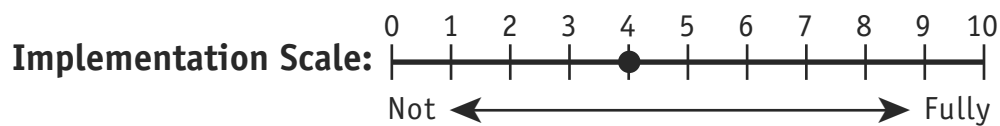
1. Fuel utilization should be taken more seriously. Accurate records should be kept in order so the district can calculate fuel utilization both by vehicle and staff member. Receipts should be turned in and matched to invoices. These controls should exist to ensure that

all purchased gasoline is for district vehicles and is not being used inappropriately. Fuel efficiency needs to be tracked to determine whether some of the current vehicles are too costly to be used.

2. A policy should be adopted by the board addressing specifying who is allowed to take home vehicles at night. A written policy would protect the employee and the district in case something out of the ordinary happens after school hours, prompting questions. A policy also would specify the appropriate reasons for taking a vehicle home.
3. The district should decide who is responsible for district-owned vehicles and who is responsible for maintaining and updating records on fuel efficiency, employees using specific vehicles and cost of maintaining vehicles. Better records should be maintained if these determinations are made.

Standard Implemented: Partially

July 2003 Rating: 4



18.7 Maintenance and Operations Fiscal Controls—Vending Machines

Professional Standards

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]

Sources and Documentation

1. Discussion with Food Services Director
2. Discussion with Associate Superintendent of Business and Operations
3. Director of Facilities and Maintenance
4. Discussion with the Director of Maintenance

Findings

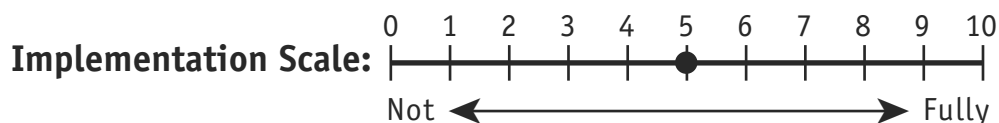
1. The district has a policy of prohibiting vending machines for student access.
2. The few vending machines in the district are restricted to community use after school hours, and they are locked during the day so that students cannot use them.
3. Contracts for the vending machines on school grounds were not readily available, so FC-MAT was unable to determine who is responsible for them, how the funds are used and how the product inventory is maintained.

Recommendations and Improvement Plan

1. The district should determine who owns the remaining vending machines and either eliminate them or formulate processes and procedures to ensure that someone is assigned to monitor fund use and product inventory. Contracts for the machines should be located and placed in district files.

Standard Implemented: Partially

July 2003 Rating: 5



18.8 Maintenance and Operations Fiscal Controls—Fixed Asset Inventory

Professional Standards

Capital equipment and furniture should be tagged as district-owned property and inventoried at least annually.

Sources and Documentation

1. Interview with purchasing
2. Interview with the Associate superintendent of Business and Operations
3. Annual independent audits

Findings

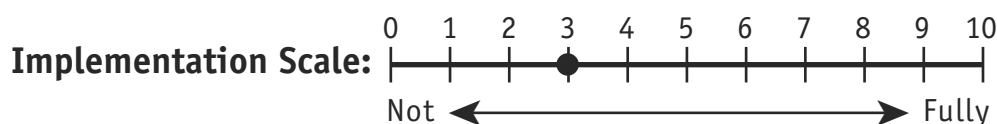
1. Reconciliations have not been performed for fixed assets or completed in the current or past few years. The district received an audit finding during these years, meaning that reporting integrity is not in place as required by generally accepted accounting principles.
2. The district has contracted with a company to prepare a complete fixed asset inventory in light of GASB 34, which was issued in June 1999 and requires districts to report all capital assets, including infrastructure assets, at historical cost. Berkeley Unified must satisfy this requirement as of June 30, 2003. Once completed, this inventory will be maintained by the district staff so that the annual requirement is met in the future.
3. Furniture and equipment purchased and received by the district at central warehousing is marked and/or etched before it is sent to the appropriate site or department. If furniture or equipment is received at a specific site instead of at central warehousing, the staff at the central warehouse would be notified and would travel to the specific site to mark or etch the item.

Recommendations and Improvement Plan

1. The district should inventory all furniture and equipment at a minimum of once a year.
2. The district should consider requiring all equipment to be received centrally at all times and marking or etching the equipment before delivery to the appropriate location. This will help ensure that all items are properly identified and included in the appropriate inventory. If all items are not received at the same place, there is greater chance that inventories will not be kept up to date.
3. The district should consider acquiring bar-code equipment to help inventory all equipment and furniture in the future.

Standard Implemented: Partially

July 2003 Rating:3



18.9 Maintenance and Operations Fiscal Controls—Bid and Force Account Requirements

Legal Standard

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 \$56,900; capital projects of \$15,000 or more; and, labor when the job exceeds 750 hours or the materials exceed \$21,000.

Sources and Documentation

1. Review of Board policy
2. Copy of bid processing documents
3. Sample bid documents including ads, bid packets, awards, and correspondence
4. Discussions with the Director of Facilities
5. Discussions with the Purchasing Agent

Findings

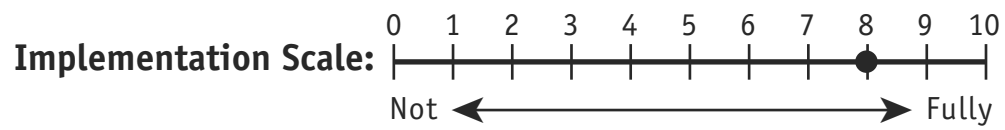
1. The district has a well-documented bid process. FCMAT reviewed sample bid documents and found that the staff has a clear understanding of bidder requirements, including the minimum documentation required for a bid to be considered, the deductive alternatives to the bid, the composition of the company bidding on the project, and lengthy details of the work being considered.
2. The process is well documented and adhered to, according to the files. The Purchasing Department maintains the files for the process, and works closely with the Facilities Department in the progress of each bid.
3. The number of appeals has decreased since the current bid process was implemented.
4. The district has implemented the uniform-cost accounting program, which allows the Maintenance Department to complete more projects without going to bid.
5. The district has developed extensive board policies that are related to requirements for materials, equipment and maintenance projects that exceed \$56,900, capital projects that exceed \$15,000, and labor when the job exceeds 750 hours or the materials exceed \$21,000.

Recommendations and Improvement Plan

1. The district complies with the Legal Standard as it relates to bid and force accounts as prescribed in the Public Contract Code.
2. The district should continue to develop and update board policies relating to the bid process and detailing the expectations of the staff by the Governing Board.
3. The district should continue with the current bid process and the related documentation.

Standard Implemented: Fully - Substantially

July 2003 Rating: 8



19.1 Food Service Fiscal Controls—Fiscal Policies and Procedures

Professional Standards

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.

Sources and Documentation

1. Interview with Director of Food Services
2. Examination of accounting and budget documents
3. Review of prior year independent audit reports

Findings

1. 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 Director of Food Services authorizes all purchase orders and monitors purchase-order spending with a spreadsheet. The Purchasing Department processes all purchase orders and adheres to proper bidding procedures as needed.
2. The warehouse is kept locked and the building has an alarm, however, the School House Food Services Inventory Module has not been fully implemented. The district plans to add this feature in 2003-04.
3. Food at schools is stored in locked facilities. Menu production worksheets are prepared daily. These assist the cafeteria managers and Director of Food Services in monitoring food use. Spoilage is kept to a minimum by using items that are left over.
4. The Director of Food Services and staff have not received adequate training to properly use the Quintessential School Systems (QSS) financial system.
5. Monthly profit-and-loss statements are not prepared. The food services program operated at a deficit in 2000-01 and 2001-02. The budget for 2002-03 indicates that deficit spending in the amount of \$1.2 million will occur this year, and the program will end the year with a large negative fund balance or require a contribution from the general fund.
6. The proposed budget for 2003-04 also indicates that negative spending is planned for next year. The Food Services Director has not been instructed to make operational changes to correct deficit spending.

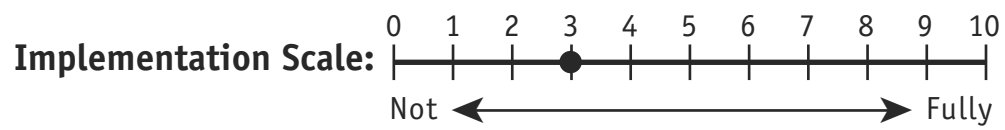
7. Food services provides food to the child development program, but the child development fund is not reimbursing the cafeteria fund for the total cost of the food. A transfer from the child development fund in the amount of \$166,001 to the cafeteria fund was made in 2001-02, but no similar transfer is budgeted in 2002-03.
8. The district used to transfer meals for needy funds in excess of \$400,000 from the general fund revenue limit to the cafeteria fund annually. This practice was discontinued in 2002-03 after the cafeteria fund budget was adopted. However, there was inadequate time to plan for this unexpected revenue loss.
9. In the past, the required payment for reduced priced meals was not collected from students. This practice was changed March 1, 2003 and should provide as much as \$90,000 in future years.
10. Meal prices were increased by 50 cents per meal effective March 1, 2003. This change should yield additional revenue, but participation in the program may decrease as in other districts when prices increased.
11. The district's commitment to small school settings increases labor costs for food services.
12. The high school has very limited food sales but will open a new cafeteria facility in 2003-04 that should increase sales. The Director of Food Services has budgeted revenue for 700 more student participants. However, because there is an open-campus policy, and the high school is in the middle of town, the projected level of participation may not be achieved unless the food served by the cafeteria program appeals to students.

Recommendations and Improvement Plan

1. Train the director and staff to properly use QSS.
2. Profit-and-loss statements must be created and presented to the board monthly.
3. Establish a district policy stating that the child development program must reimburse the general fund for the full cost of food served.
4. Discontinue deficit spending.
5. Complete the installation of School House Software to include the point-of-sale system and inventory control system.
6. Carefully monitor food sales after the price increase.
7. Survey students for what they want to eat, especially at the high school since the new cafeteria will be open in 2003-04.
8. Track high school participation to determine that the budgeted increase in participation materializes.

Standard Implemented: Partially

July 2003 Rating: 3



19.2 Food Service Fiscal Controls—Program Compliance

Professional Standards

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

Sources and Documentation

1. Interview with Director of Food Services
2. Examination of accounting and budget documents
3. Review of prior year independent audit reports.

Findings

1. A review of the last three years' audit reports and the 2002-03 budget and proposed 2003-04 budget indicate that the food services program is operating at a large deficit. The district business office staff has determined that the program will be self-supporting in 2002-03, however, the budget available to FCMAT at the time of this study did not indicate solvency. To date, no one from the district's business office or administration has notified the director of food services that the program must be self-supporting. Program spending adjustments should be made to ensure fiscal solvency.
2. There is no process to produce monthly profit-and-loss statements. The food service program uses the new QSS system, but reports are not readily available to provide accurate profit-and-loss information to the director or the business office.
3. There is no reliable food inventory system. The warehouse is locked when no one is there, and the building has an alarm. The warehouse staff regularly counts food and supply items. Food at schools is kept in locked areas.
4. The School House Software program is not fully operational. The district plans to implement the inventory control module and the point-of-sale system in 2003-04.
5. These two systems will enhance fiscal accountability and assist the director in monitoring the financial condition of the operations.
6. The new Director of Food Service has made significant progress toward bringing the food services program into compliance with applicable regulations. Some of the changes that have been made are as follows:
 - a. Applications for free and reduced meals are kept confidential.
 - b. Verification of eligibility is performed in accordance with program rules.
 - c. Documents are filed accurately.
 - d. Procedures are updated regularly.
 - e. Employee standards have been established.
 - f. Employees receive proper training.
 - g. Employees are held accountable for their performance, and evaluations are conducted as required by Human Resources.
 - h. Misuse of employee sick leave has been stopped.
 - i. The department uses School House Software for food service accounting.

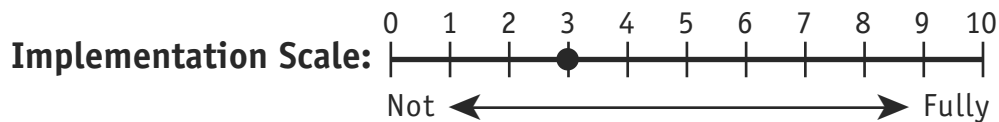
- j. Nutritional and food safety standards are in place.
- k. Menu production worksheets are prepared by cafeteria managers.
- l. Daily sales reports are reconciled to cash and reimbursement claims.
- m. Reimbursement claims are accurate and filed in a timely manner.

Recommendations and Improvement Plan

1. Schedule regular meetings between the business office and the Director of Food Services to discuss budget issues.
2. Establish specific financial standards for the food services program to remain solvent.
3. Implement the School House Software inventory module to facilitate proper food inventory practices.
4. Implement the School House Point of Sale module to ensure that accurate daily sales activity is recorded and provide the director with reliable monthly profit and loss financial reports.
5. Include monthly food services financial reports in board agendas.

Standard Implemented: Partially

July 2003 Rating: 3



20.1 Charter Schools—Financial Management and Oversight

Professional Standards

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.

Sources and Documentation

1. Interview with the District Superintendent and the Associate Superintendent of Business and Operations
2. Review of board policies

Findings

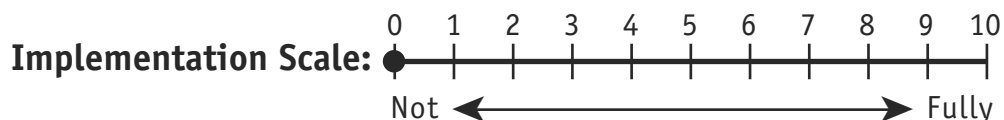
1. The district has no petitioning charter schools or approved charter schools.
2. There is no board policy or administrative regulation regarding charter schools. The Governing Board should draft and approve a policy that specifically addresses educational and fiscal accountability issues between the charter and the district. The process of granting permission for a charter school often takes up to one and a half years, and a board policy and administrative regulation should be in place before a petition is submitted. This regulation should specify the district's expectations. In addition, available district services should be outlined either in the policy or in a draft memorandum of understanding so that the charter school petitioners know what operational issues can be contracted directly from the district.

Recommendations and Improvement Plan

1. The district should draft and approve a board policy, administrative regulations and a memorandum of understanding concerning charter schools so that these documents are in place prior to any charter school petitions being submitted.

Standard Implemented: Not Implemented

July 2003 Rating: 0



21.1 State Mandated Costs—Management of Reimbursement Claims Filing

Professional Standards

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 new mandates for which the district might be eligible for reimbursement; 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 timelines for reporting mandated cost information; and review of data and preparation of the actual claims.

Sources and Documentation

1. Discussions with the Associate Superintendent of Business and Operations
2. Contract with Mandated Cost Services (MCS) through June 30, 2003 to collect data for mandated cost reimbursements
3. Contract with Reynolds Consulting Group (RCG) through June 30, 2004 to collect data for mandated cost reimbursements.

Findings

1. The district currently has an outside consultant providing services, which includes collecting supporting documentation in order to file claims with the state. The district will contract with a new consultant in 2003-2004. The expectation is that having a new consultant will allow additional training on current and new mandates, reviewing of data and submission of data.
2. The Associate Superintendent of Business and Operations and the Director and Fiscal Services oversee the area of mandated cost claims. Specific managers are also responsible for documenting specific claims, such as negotiations.
3. The consultant trains staff on what claims are, how to complete the claim forms, what data must be used to support the filing of claims, how to file the claims and the necessary time line for submitting claims to obtain state reimbursement. The consultant also ensures that mandated claim forms are completed and filed correctly.
4. Claims are not filed by all applicable sites, and departments that perform eligible mandated activities. This reduces the amount of unrestricted revenue that could be generated for the district.
5. The district's claims are gathered annually by the consultant.

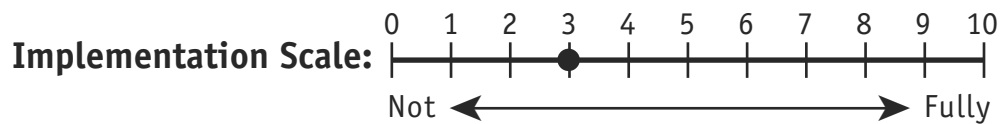
Recommendations and Improvement Plan

1. The district should assign a staff member as a liaison with the consultant for mandated cost claims. In doing so, the district will be able to ensure that all appropriate departments and sites file claims, and will be able to remind those departments/sites not sending submissions to the district office to do so. A schedule should be set so that supporting documentation is submitted to the liaison regularly, perhaps monthly. The liaison can then validate that all applicable claims have been submitted and that they include the data necessary to obtain reimbursement.

2. Upon validating that all claims are submitted and correctly filled out, the liaison will send the forms to the consultant. This should be accomplished monthly or bimonthly. The consultant should ensure that all claims are allowable and reasonable based on prior year filings. Reviews by both the liaison and the consultant should ensure that all eligible claims are submitted, and district revenue is maximized.
3. Implementing a consistent process will ensure that district revenues are maximized on all allowable claims. Although the state is not reimbursing mandated claims in the current year, potential future revenues could be lost if the district does not strengthen the program by the time the state begins reimbursements. Since mandated cost claim reimbursements are unrestricted revenues, a successful effort could increase revenues district wide.
4. The district should consider establishing an incentive program for sites and departments to maximize the number of claims they submit. For example, school sites and departments could be allowed to retain a percentage of earned revenues, such as 50 percent. This may motivate them to ensure they file all appropriate claims. Filing claims is often considered cumbersome and time-consuming, but some districts that offer similar incentives have seen related revenues more than double.

Standard Implemented: Partially

July 2003 Rating: 3



22.1 Special Education—Cost and Quality

Professional Standards

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.

Sources and Documentation

1. Interview with Director of Pupil Support Services who serves as Director of Special Education (The director and entire special education management staff resigned effective July 1, 2002)
2. Interviews with special education teachers
3. Interviews with special education management staff
4. Interviews with financial accountants working in the special education department
5. Review of the special education encroachment study conducted February 19, 2002 by School Services of California
6. Review of the district's 2000-2001, 2001-2002, and 2002-2003 budgets
7. Review of the J-380 program cost report

Findings

1. The district has a very high level of special education encroachment upon the general fund when compared with statewide averages. The encroachment is approximately \$9 million, but because this number was based on the available fiscal data, which was insufficient for a more precise estimate, the encroachment could actually be as high as \$14 million.
2. Approximately nine percent of the district's K-12 students qualify for special education services. This is slightly less than the statewide average of 10 percent. Because the percentage of students being served is not unusually high, special education encroachment may be due to other factors such as the high number of support staff, litigation, and current contract language that restricts the district in areas of staffing.
3. The district's collective bargaining agreement with the Berkeley Federation of Teachers includes provisions that mandate a higher level of service than that is required by both the state and federal law. These provisions increase the district's encroachment.
4. The district employs 135 full-time equivalent (FTE) instructional aides to provide special education services to pupils. This is an excessive number of FTE aides and contributes to encroachment. The position-control process for hiring in the special education department is ineffective. Staff members are hired based on IEP meetings with no required authorization by administration. The district lacks an instructional aide policy that includes elements such as: The approval process for obtaining instructional aides, alternatives to requesting additional aide services, identification of the reason an aide is needed, and the requirement of re-evaluating the situation periodically to determine whether an aide is still needed.

5. Speech and language services cost the district more than \$50,000 per month. This cost is in addition to the costs incurred by the district's regular speech and language staff. Due to restrictions within the teachers' union contract, the district must contract for additional services. Many of these services could be provided by existing staff, reducing some encroachment on the general fund.
6. The district has a significant level of special education encroachment upon the general fund. It is unreasonable to expect elimination of this encroachment, but it is reasonable to expect significant reduction. This can be accomplished by taking appropriate steps and without violating student rights.
7. The majority of special education expenditures are for salaries, benefits, contracts with private vendors, and nonpublic school placements. Because the district lacks districtwide procedures on special education, some unnecessary services are provided.
8. The Director of Pupil Support Services was hired July 1, 2002. The entire special education management staff resigned effective July 1, 2002. The current director assumed leadership of the special education department. He is student-oriented and making progress in holding the special education process accountable.

Recommendations and Improvement Plan

1. The district should continue efforts to reduce excessive spending in special education so that encroachment is minimized.
2. The Berkeley Teachers Union contract should be renegotiated to increase fiscal efficiency in regular and special education. The contract limits resource specialists' average caseload to 24 pupils per FTE, and the speech and language specialists' contract language provides for a weighted pupil formula. The district should immediately address these two significant issues by trying to increase the teachers' average caseload to the maximum levels allowed by state law.
3. Position control must be fully implemented to cover the hiring and replacing of all special education personnel. The district is implementing position control, which will help ensure that personnel are being correctly charged to the special education program. It is imperative that the Director of Pupil Support Services or an assigned representative validate salary-and-benefit reports from the position control system monthly to ensure that appropriate personnel are being charged to the special education budget. The name of the employee, the FTE equivalent and the assigned site should be validated during this monthly review. The district should adopt and implement a personnel-action plan policy requiring appropriate fiscal and human resources personnel to sign the appropriate forms before personnel are hired to fill open and approved positions.
4. Filling the Director of Special Education position should be a top priority. An experienced administrator, with direction and support from the Superintendent, could begin the process for change and fiscal accountability within the district and special education program. Working with other departments will be essential for the Director of Special Education. Teamwork between the Business, Human Resources and Superintendent's offices is the key to fiscal accountability in the special education department.

5. When reducing expenditures in the special education budget, the district should ensure that pupils receive a free and appropriate public education. Significant reductions and controlled hiring can still occur, but quality education can be provided in a more cost-effective manner through the appropriate IEP process.
6. In addition to the position control reports mentioned previously, the district business office should provide a monthly cost analysis that reflects current income, expenditures, and the projected costs of special education programs. The Superintendent's cabinet should review this report and monitor the special education budget process in addition to other district programs. The staff must be directed to implement procedures to control encroachment.

Standard Implemented: Partially

July 2003 Rating: 2

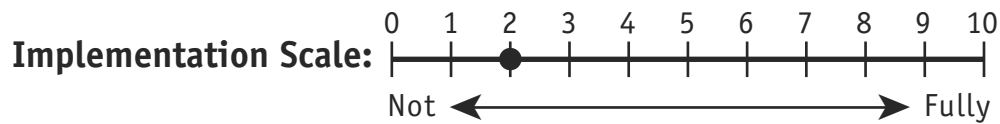


Chart of Facilities Management Standards

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Progress Ratings Toward Implementation of the Improvement Plan

| Financial Management | | | |
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| Standard to be addressed | | July 2003 rating | Focus for January 2004 |
| 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 | |
| 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 | |
| 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 | |
| 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 | |
| 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 | |
| 1.6 | The district should have procedures for recruiting capable financial management and staff and hiring competent people. [SAS-55, SAS-78] | 6 | |
| 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 | |
| 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 | |

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| 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 | <input type="checkbox"/> |
| 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 | |
| 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 | |
| 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 | |
| 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 | |
| 3.2 | 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 | <input type="checkbox"/> |
| 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 | |

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| 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 | |
| 4.3 | Qualified staff should be assigned to conduct internal audits and be supervised by an independent body, such as an audit committee. | 1 | |
| 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 | |
| 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 | |
| 5.2 | The budget development process includes input from staff, administrators, board and community. | 5 | |
| 5.3 | Policies and regulations exist regarding budget development and monitoring. | 3 | |
| 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 | |
| 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 | |

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| 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 | |
| 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 | <input type="checkbox"/> |
| 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 | |
| 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 | |
| 6.3 | Standardized budget worksheets should be used in order to communicate budget requests, budget allocations, formulas applied and guidelines. | 3 | |
| 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 | |

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| 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 | <input type="checkbox"/> |
| 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 | <input type="checkbox"/> |
| 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 | <input type="checkbox"/> |
| 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 | <input type="checkbox"/> |
| 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 | |
| 7.7 | The district should arrange for an annual audit (single audit) within the deadlines established by Education Code section 41020. | 0 | |
| 7.8 | Standard management practice dictates the use of an audit committee. | 0 | |
| 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 | |
| 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 | |

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| 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 | <input type="checkbox"/> |
| 8.1 | All purchase orders are properly encumbered against the budget until payment. | 2 | |
| 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 | <input type="checkbox"/> |
| 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 | |
| 8.4 | Budget revisions are made on a regular basis and occur per established procedures and are approved by the board of education. | 3 | <input type="checkbox"/> |
| 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 | <input type="checkbox"/> |
| 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 | |
| 8.7 | The district should be monitoring the site reports of revenues and expenditures provided. | 2 | <input type="checkbox"/> |
| 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 | |
| 9.2 | Clearly identify one-time source and use of funds. | 1 | |

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| 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 | <input type="checkbox"/> |
| 11.1 | An accurate record of daily enrollment and attendance is maintained at the sites and reconciled monthly. | 1 | <input type="checkbox"/> |
| 11.2 | Policies and regulations exist for independent study, home study, inter/intradistrict agreements and districts of choice, and should address fiscal impact. | 1 | |
| 11.3 | Students should be enrolled by staff and entered into the attendance system in an efficient, accurate and timely manner. | 5 | |
| 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 | |
| 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 | |
| 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 | |
| 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 | <input type="checkbox"/> |
| 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 | |
| 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 | |
| 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 | |

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| 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 | <input type="checkbox"/> |
| 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 | <input type="checkbox"/> |
| 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 | |
| 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 | |
| 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 | |
| 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 | |

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| 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 | |
| 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 | |
| 15.1 | 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 | |
| 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 | |
| 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 | |

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| 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 | |
| 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 | |
| 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 | |

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| 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 | |
| 17.3 | Automated systems should be used to improve accuracy, timeliness, and efficiency of financial and reporting systems. Needs assessments should be performed to determine what systems are candidates for automation, whether standard hardware and software systems are available to meet the need, and whether or not the district would benefit. Automated financial systems should provide accurate, timely, relevant information and should conform to all accounting standards. The systems should also be designed to serve all of the various users inside and outside the district. Employees should receive appropriate training and supervision in the operation of the systems. Appropriate internal controls should be instituted and reviewed periodically. | 4 | |
| 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 | |
| 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 | |
| 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 | |
| 17.7 | Food service software should permit point-of-sale transaction processing for maximum efficiency. | 3 | |

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| 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 | <input type="checkbox"/> |
| 17.9 | Business office computers, computer screens, operating systems, and software applications used for administrative system access should be kept up to date. | 2 | <input type="checkbox"/> |
| 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 | |
| 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 | |
| 18.3 | The district should control the use of facilities and charge fees for usage in accordance with district policy. | 4 | |
| 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 | |
| 18.5 | Materials and equipment/tools inventory should be safeguarded from loss through appropriate physical and accounting controls. | 6 | |
| 18.6 | District-owned vehicles should be used only for district purposes. Fuel should be inventoried and controlled as to use. | 4 | |
| 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 | |
| 18.8 | Capital equipment and furniture should be tagged as district-owned property and inventoried at least annually. | 3 | |

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| 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 | |
| 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 | |
| 19.2 | The district should operate the food service programs in accordance with applicable laws and regulations. | 3 | |
| 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 | |
| 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 | |
| 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 | |