

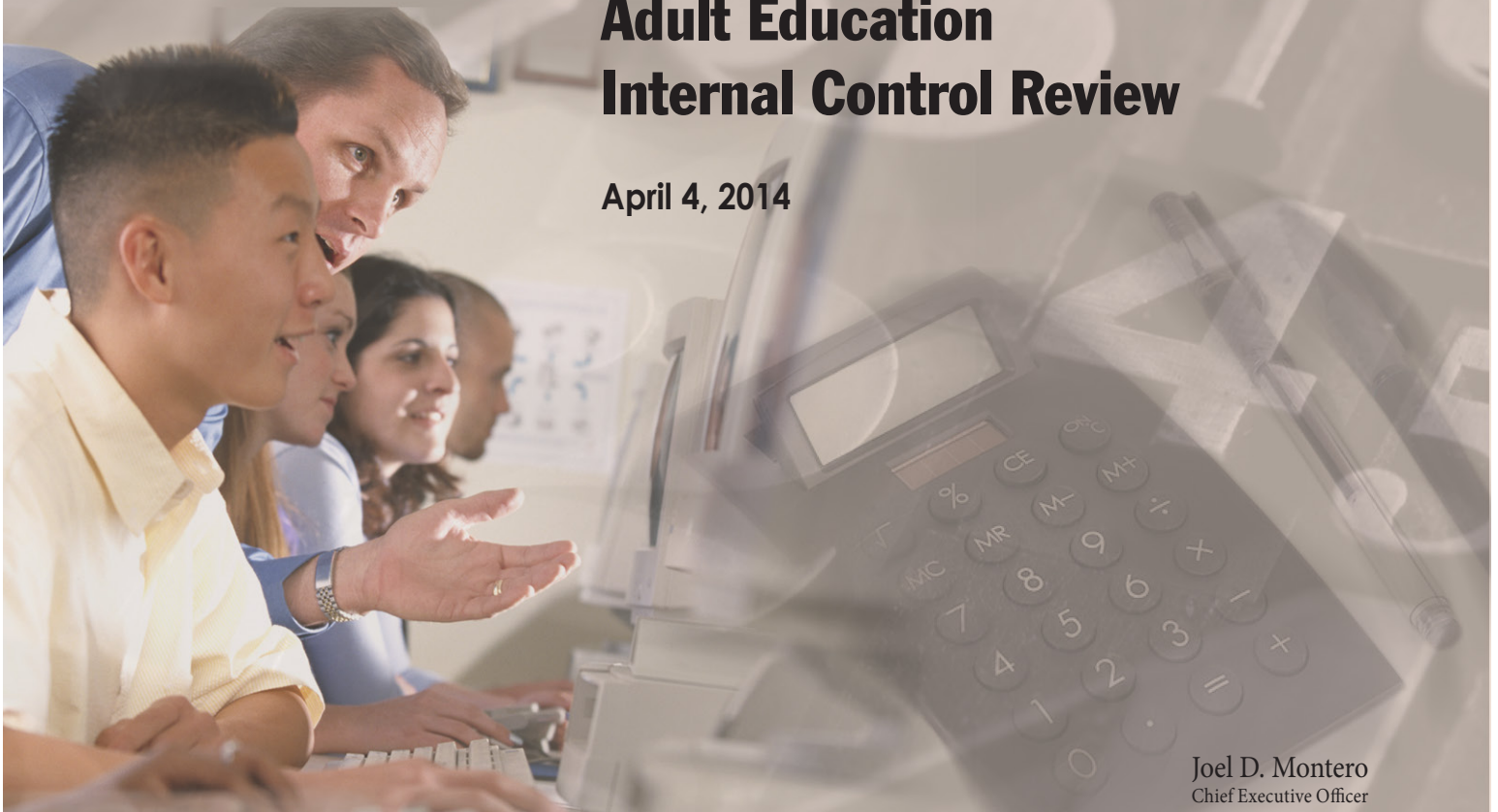


CSIS California School Information Services

West Contra Costa Unified School District

Adult Education Internal Control Review

April 4, 2014



Joel D. Montero
Chief Executive Officer





April 4, 2014

Bruce Harter, Ph.D., Superintendent
West Contra Costa Unified School District
1108 Bissell Avenue
Richmond, CA 94801

Dear Superintendent Harter:

In September 2013, the West Contra Costa Unified School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for management assistance. Specifically, the agreement states that FCMAT will perform the following:

1. Conduct an internal control review of the West Contra Costa Unified School District's adult education program's business office. Evaluate the current workflow and distribution of functions in the business office, and provide recommendations for improved efficiency, if any. This component will include reviewing documentation, including policies and procedures, and gathering data regarding current practices, procedures and separation of duties. Additionally, the team may interview other district or site staff to determine the efficiency and effectiveness of services delivered.
 - a. Internal controls: The primary focus is to provide the business office with reasonable assurance based on the testing performed that adequate internal controls are in place. Management or internal controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. The team will sample test transactions from the prior six months but will not test all financial records. Sample testing and review results are intended to provide reasonable assurance of the accuracy of processes and compliance.
 - b. Review business office procedures to provide reasonable assurance that payroll, accounts payable, accounts receivable and purchasing transactions are entered by properly authorized personnel and that the transactions are accurately summarized. The team will obtain the data needed to perform testing of various payroll records, purchase orders, requisition records, invoices and accounts payable and receivable transactions. This component will evaluate the effectiveness and efficiency of departmental transaction processing and

FCMAT

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operations, including new vendors, contracts, invoices, bid requirements and system operations.

- c. Provide reasonable assurance that access to the fee collection system is properly secured from unauthorized changes and that the proper internal control systems are in place.
- d. Evaluate the division of labor and segregation of duties between classified and management employees in the business office for all financial transactions. This component will include a review of payroll processes related to the setup and maintenance of position control data.
- e. Review the records processing procedures and file management protocol for the business office.
- f. Evaluate desk manuals and procedures for each business office employee.
- g. Verify that the district complies with the Education Code and Public Contract Code regarding bid limits. Review procedures related to vendor payments, including but not limited to purchase orders and sample contracts for professional services, construction and other purchases.

This final report contains the study team's findings and recommendations in the above areas of review. FCMAT appreciates the opportunity to serve the West Contra Costa Unified School District, and extends thanks to all the staff for their assistance during fieldwork.

Sincerely,

A handwritten signature in black ink, appearing to read 'Joel D. Montero', with a stylized flourish at the end.

Joel D. Montero
Chief Executive Officer

Table of Contents

About FCMAT	iii
Introduction	1
Background.....	1
Study and Report Guidelines	1
Study Team.....	2
Executive Summary	3
Findings and Recommendations	
Department Staffing and Structure	5
Internal Controls	9
Purchasing and Accounts Payable	13
Accounts Receivable and Cash Receipts	17
Payroll	25
Records Retention	33
Appendices.....	35

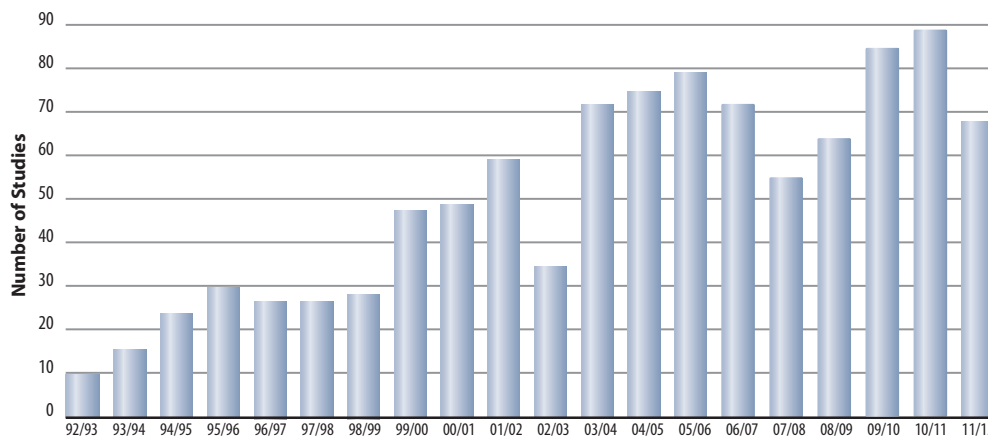
About FCMAT

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

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

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

Studies by Fiscal Year



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

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

In January 2006, SB 430 (charter schools) and AB 1366 (community colleges) became law and expanded FCMAT's services to those types of LEAs.

Since 1992, FCMAT has been engaged to perform nearly 850 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Introduction

Background

Located in Contra Costa County, the West Contra Costa Unified School District has a five-member governing board and serves approximately 30,398 K-12 students at numerous elementary, middle, comprehensive high, and alternative education schools. The district also has a large Adult Education program, which staff indicated serves approximately 14,000 students on two adult education campuses and at some of the district's K-12 school sites.

The community passed a \$360 million general obligation bond measure in 2012 to help provide funding to complete essential repairs. The community also passed a parcel tax in 2012 to help protect core academic programs, retain quality teachers, provide smaller class sizes, and improve safety on school campuses.

In September 2013, the West Contra Costa Unified School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for management assistance to review the internal controls of the district's Adult Education program business office.

Study and Report Guidelines

FCMAT visited the district on November 14 and 15, 2013 to conduct interviews, collect data, and begin reviewing documents. District staff continued to provide documents requested for testing through December 2013. This report is the result of those activities and is divided into the following sections:

- Executive Summary
- Department Staffing and Structure
- Internal Controls
- Purchasing and Accounts Payable
- Accounts Receivable and Cash Receipts
- Payroll
- Records Retention
- Appendices

In writing its reports, FCMAT uses the Associated Press Stylebook, a comprehensive guide to usage and accepted style that emphasizes conciseness and clarity. In addition, this guide emphasizes plain language, discourages the use of jargon and capitalizes relatively few terms.

Study Team

The study team was composed of the following members:

Diane Branham
FCMAT Chief Management Analyst
Bakersfield, CA

Julie Auvil, CPA, CGMA
FCMAT Fiscal Intervention Specialist
Bakersfield, CA

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San Anselmo, CA

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*As a member of this study team, this consultant was not representing his employer but was working solely as an independent contractor for FCMAT. Each team member reviewed the draft report to confirm its accuracy and to achieve consensus on the final recommendations.

Executive Summary

The five previous fiscal years were unprecedented budget years for California's local educational agencies (LEAs). To address the state's ongoing budget deficit, lawmakers used numerous strategies to help balance the budget including reducing expenditures, adding new taxes, borrowing money and using federal stimulus funds. During that time, the state provided several flexibility options to LEAs that allowed them to use previously restricted state categorical program dollars, including funding for adult education, for any educational purpose. Staff indicated that the district has exercised the flexibility option by reducing the adult education budget by approximately \$1 million per year, and that there has been a reduction in adult education administrative staffing during the last few years due to state budget cuts.

The 2013-14 state budget includes the Local Control Funding Formula (LCFF), which has significantly changed the way school districts are funded. The LCFF replaced revenue limits and most state categorical program funding with base pupil grants by grade span and supplemental and concentration grants determined by the number of students eligible for free and reduced-price meals, English learners and foster youth. The state budget requires LEAs to maintain 2012-13 adult education expenditure levels in 2013-14 and 2014-15.

The Adult Education program's 2013-14 organizational chart does not include reporting lines, which should indicate the formal relationships between employees in the department and to whom each employee reports. In addition, the job descriptions for adult education office staff include terms such as "under direction" and "under supervision" rather than the specific job title of the position's supervisor. This has created confusion among some staff regarding who their supervisor is and the chain of command. The organizational chart needs to be revised to reflect clear lines of authority.

The job descriptions for several adult education office positions need to be updated to ensure they are current, include the date the job description was approved and/or revised by the governing board, and comply with the Americans with Disabilities Act (ADA).

Internal controls are the foundation of sound financial management and allow districts to fulfill their educational mission while helping ensure efficient operations, reliable financial information and legal compliance. Internal controls also help protect the district from material weaknesses, serious errors and fraud. To help provide for proper internal controls, the district should implement several changes to the Adult Education program's purchasing, accounts payable, accounts receivable, and payroll processes as indicated throughout this report.

The Adult Education program does not fully utilize the services of the Human Resources Department for recruiting and hiring staff, determining salary schedule placement, evaluating staff performance and discipline issues, separation from service, and maintaining personnel files. Exposure to litigation costs can be significant if such activities are not conducted within the scope of applicable contracts, laws and regulations. The Human Resources Department needs to be involved and oversee the personnel activities of the Adult Education program just as it does for the other district sites and departments.

Interviews with staff indicated that additional training is needed for adult education staff in several areas, including the ASAP system, the Munis financial software system, account coding, budget review and analysis, and district office procedures.

Findings and Recommendations

Department Staffing and Structure

The director of adult and alternative education and the principal of adult education oversee the Adult Education program. Staff indicated that there has been a reduction in administrative staffing during the last few years due to state budget cuts.

The adult education offices consist of an office manager, a senior account clerk, and five typist clerk positions. At the time of FCMAT's fieldwork, the senior account clerk position was vacant and interviews indicated that two individuals were working on an hourly basis to help with office duties. As discussed in the Payroll section of this report, one of these individuals has worked in this capacity for several years.

Organizational Structure

A school district's organizational structure should establish the framework for leadership and the delegation of duties and responsibilities. As a district's enrollment increases or declines, the organizational structure should adapt to the changes. The district should be staffed according to basic, generally accepted theories of organizational structure and the standards used in other school agencies of similar size and type. The most common theories of organizational structure are span of control, chain of command, and line and staff authority.

Span of Control

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

Chain of Command

Chain of command refers to the flow of authority in an organization and is characterized by two significant principles. Unity of command suggests that a subordinate is only accountable to one supervisor, thus eliminating the potential for an employee to receive conflicting direction and instruction from a variety of supervisors. The scalar principle suggests that authority and responsibility should flow in a direct vertical line from top management to the lowest level. The result is a hierarchical division of labor.

Line and Staff Authority

Line authority is the relationship between supervisors and subordinates. It refers to the direct line in the chain of command. For example, in West Contra Costa USD the associate superintendent has direct line authority over the director of adult and alternative education, and the director has direct line authority over the principal of adult education. Conversely, staff authority is advisory in nature. Staff personnel do not have the authority to make and implement decisions, but act in support roles to supervisory personnel. The organizational structure of local educational agencies contains both line and staff authority.

The purpose of any organizational structure is to help a district's management make key decisions to facilitate student learning while balancing financial resources. The organizational design should

outline the management process and its specific links to the formal system of communication, authority, and responsibility necessary to achieve the district's goals and objectives.

Authority in a public school district originates with the elected governing board, which hires a superintendent to oversee the district. Through the superintendent, authority and responsibility are delegated to the district's administration and staff.

Management positions are typically responsible for supervising employees and overseeing the work of the department for which they are responsible. They must ensure that staff members understand all district policies and procedures and perform their duties in a timely and accurate manner. Managers must also serve as a liaison between their department and others to identify and resolve problems and design and modify processes and procedures as necessary. Management positions should not typically be responsible for routine daily functions of the department; these functions should be assigned to department support staff.

The Adult Education program 2013-14 organizational chart does not include the position titles of all office staff or indicate the current status of positions as either occupied by an employee or vacant. The chart also does not include reporting lines to indicate the formal relationships between employees in the department and to whom each employee reports. In addition, the job descriptions for adult education office staff include terms such as "under direction" and "under supervision" rather than the specific job title of the position's supervisor. Therefore, it is difficult to determine the assigned supervisor for each position and ensure that the chain of command principles, as indicated above, are followed.

Job Descriptions

Principal, Adult Education

The principal of adult education is responsible for planning, organizing and administering the program. The job description indicates that the principal is to interview and employ all certificated personnel and prepare the annual budget for adult education. However, interviews with staff indicated that the office manager has at times assumed these duties. Best practices would ensure that the administrator of the Adult Education program directly oversees or performs these functions and the work of other staff members who are assigned to assist with them.

Office Manager, Senior High School

The office manager job description is dated September 1999; however, it does not indicate that this was the governing board approval date. The title specifies that it is for a senior high school, which typically includes grades 9-12. Examples of duties included in the job description indicate that the position supervises, coordinates and helps perform a wide variety of clerical work; acts as secretary to the school principal; guides and instructs other clerical employees in their work; checks reports, records and other material for accuracy and compliance; and advises school officials regarding available funds and budget classifications. The district should consider working with its School Supervisors Association to retitle this position to better match the program name and students served.

Senior Account Clerk

The senior account clerk job description is dated August 21, 1974; however, it does not indicate that this was the governing board approval date. Examples of duties included in the job description indicate that the position independently maintains a set of financial records, such as budget accounts and payroll records; prepares financial statements and summaries; and receives financial documents and screens for accuracy and adherence to legal and procedural requirements.

Interviews with staff indicated that many of these types of duties have been assumed by the office manager. Adult education administrators should review each of the job descriptions for program employees and ensure that duties are properly assigned to staff and provide for the proper separation of duties.

Typist Clerk I, Typist Clerk II and Typist Clerk III

The job descriptions for the typist clerk I and III positions are dated August 22, 1974; however, they do not indicate if this was the governing board approval date. The job descriptions for typist clerk I – bilingual and typist clerk II – bilingual positions do not include a date. Examples of duties included in these job descriptions include a variety of clerical work and receptionist duties.

The job descriptions for the Adult Education program's positions do not include minimum weight lifting and repetitive duty requirements necessary for compliance with the Americans with Disabilities Act (ADA) and do not list essential job functions. As currently written, the district could not use some of its job descriptions as evidence of essential duties in accommodation cases, nor should it use these job descriptions when making employment decisions related to an applicant's ability to perform essential duties. Reviewing and revising job descriptions to ensure that duties are correctly identified as essential will help protect the district from disability discrimination claims from applicants and/or employees who may be eligible for reasonable accommodations under the ADA.

Recommendations

The district should:

1. Update the Adult Education program organizational chart to include position titles of all office staff, as indicated on the job descriptions; indicate the current status of positions as either occupied by an employee or vacant; and include clear lines of authority.
2. Ensure that the principal of adult education directly oversees the interview and budget processes of the Adult Education program and the work of other staff members who are assigned to assist with them.
3. Consider retitling the office manager, senior high school job description for the adult education office manager position.
4. Review each of the job descriptions for Adult Education program employees and ensure that duties are properly assigned to staff.
5. Review and update job descriptions to ensure that they are current, include the date the job description was approved and/or revised by the governing board, and comply with the ADA.

Internal Controls

Internal controls are the foundation of sound financial management and allow districts to fulfill their educational mission while helping ensure efficient operations, reliable financial information and legal compliance. Internal controls also help protect the district from material weaknesses, serious errors and fraud. All educational agencies should establish internal control procedures that do the following:

- Prevent internal controls from being overridden by management.
- Ensure ongoing state and federal compliance.
- Provide assurance to management that the internal control system is sound.
- Help identify and correct inefficient processes.
- Ensure that employees are aware of the proper internal control expectations.

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

- **System of checks and balances**
Formal procedures should be implemented to initiate, approve, execute, record and reconcile transactions. The procedures should identify the employee responsible for each step and the time period for completion. Key areas of checks and balances include payroll, purchasing, accounts payable and cash receipts.
- **Separation of duties**
Adequate internal accounting procedures should be implemented and changes made as needed to separate job duties and protect the district's assets. No single employee should handle a transaction from initiation to reconciliation, and no single employee should have custody of an asset (such as cash or inventory) and maintain the records of related transactions.
- **Staff cross-training**
More than one employee should be able to perform each job. Each staff member should be required to use accrued vacation time, and another staff member should be able to perform those duties. Inadequate cross-training is often a problem even in the largest business offices.
- **Asset security**
Cash should be deposited daily, computer equipment should be secured, and access to items such as supplies/stores, food stock, tools and gasoline should be restricted to designated employees.
- **Timely reconciliations**
Bank statements and account balances should be reconciled monthly by an employee independent from the original transaction and recording process. For example, the employee who reconciles the revolving checking account should not be the same person who maintains the check stock.
- **Comprehensive annual budget**
The annual budget should include sufficient detail for revenues and expenditures (by school site, department and resource) to identify variances and determine whether financial goals were achieved. Material variances in revenues and expenditures should be investigated promptly and thoroughly.

A system of internal controls consists of policies and procedures designed to provide the governing board and management with reasonable assurance that the organization achieves its objectives and goals. Hard controls include separation of duties, management review and approval, and reconciliations. Soft controls include management tone, performance evaluations, training programs, and maintaining established policies, procedures and standards of conduct. The district lacks some of these elements in its adult education office processes as indicated below and elsewhere in this report.

Although several district employees have experience and knowledge of other job duties and areas in the adult education office, little or no cross-training occurs for some of the program's key functions, such as purchasing, invoicing and processing time cards. These tasks are essential to operations, and the lack of cross-training could place the district at risk. The Adult Education program should place an emphasis on cross-training so that every position has at least one employee who can temporarily perform the related duties in the event of an employee absence or position vacancy, thus allowing essential functions to continue without interruption.

Desk manuals that include policies and procedures are important to ensure proper internal controls and provide a better understanding of each person's responsibilities. The manuals can also be a valuable tool for completing necessary functions when the employee normally assigned to a particular duty is absent or a position is vacant. The district has a desk manual for all office staff titled Clerical Office Procedures/2012-13 Secretaries Handbook published in May 2013, and documents titled District Office Procedures. However, the adult education office lacks desk manuals that include step-by-step procedures for each job duty.

The Adult Education program has three checking accounts: petty cash, refund, and principal's discretionary. Staff indicated that the \$2,500 petty cash account is used for purchases of up to \$100 each. The senior account clerk prepares checks for payment, prepares and submits the reimbursement request to the district office and completes the bank reconciliation form monthly. Proper internal controls provide that the bank statements and account balances should be reconciled monthly by an employee independent from the original transaction and recording process; however, the senior account clerk is responsible for all of these duties.

The petty cash reimbursement form dated June 19, 2013 included one purchase that exceeded the \$100 per item limit indicated in the Petty Cash Funds A-002 procedure issued by the district office. However, the reimbursement form did not clearly indicate if this purchase was for one or multiple items. The form was approved by the director of adult and alternative education, but does not include the signature of the employee that completed it. Best business practices are to have the individual that completes a form also sign and date it.

The \$2,500 refund account is used for refunding student fees, and staff indicated the account is handled in the same manner as the petty cash account. The principal's discretionary account is reportedly used for providing small scholarships to students and is overseen by the office manager; the senior account clerk completes the bank reconciliation form for this account monthly.

The study team did not receive any documentation that indicated the parameters for use of the principal's discretionary account or written procedures for managing the refund and principal's discretionary accounts. These types of documents are a necessary part of operating and managing bank accounts.

The bank reconciliations and statements for May through October 2013 were provided to the study team for review. However, the completed reconciliation documents provided repeat the

information from each of the bank statements rather than reconcile to the account check register. The district needs to revise the reconciliation form to ensure that it includes the steps necessary to properly reconcile each account.

Recommendations

The district should:

1. Ensure that adult education office employees are cross-trained in all key areas of responsibility.
2. Assign each adult education office staff member to complete step-by-step procedures for each of their job duties and include them in a desk manual.
3. Ensure that the employee assigned to reconcile adult education bank accounts is not the same individual that is assigned to prepare the checks and reimbursement requests.
4. Ensure that adult education petty cash purchases follow the Petty Cash Funds A-002 procedure.
5. Redesign the petty cash reimbursement form so that it includes a signature and date line for the person that completes it.
6. Develop and implement written procedures for each bank account that include the operational parameters, required tasks, and the employee assigned to each task. Ensure that the procedures provide for the proper separation of duties.
7. Revise the bank reconciliation form to include the steps necessary to reconcile each bank statement to the respective check register, and provide training to the employees responsible for completing it.

Purchasing and Accounts Payable

To initiate a purchase, the employee requesting the materials, supplies, etc. sends an email to the adult education office manager. The office manager uses information from the email to enter a requisition in the Munis financial software system, and checks each budget line in the requisition to ensure sufficient funds are available to process the purchase. If there are not sufficient funds for the purchase, a budget transfer must be completed prior to the requisition being processed. The completed requisition is then approved electronically by the principal of adult education and the director of adult and alternative education.

Once approvals have been obtained, the requisition proceeds to the purchasing department for processing. The district has negotiated rates or contracts for the most common purchases, such as office supplies. However, if the item is requested from a vendor that is not already in the Munis system, the requestor can add the name of the proposed vendor into the notes section of the requisition. The purchasing department is responsible to determine if the proposed vendor will be used or if another vendor will be used to obtain the optimum price. The purchasing department also determines if bidding is required. The study team's review of the 2012-13 and 2013-14 general ledgers for Adult Education program purchases did not reflect any that meet the bid limit requirements of Public Contract Code Sections 20111 and 22002. Other district personnel involved in purchasing and accounts payable functions were interviewed regarding the bidding process used for Adult Education program purchases, and they could not recall purchases that met the bid limit requirements.

The Adult Education program's requisition process has been in place for several years; however, it places the responsibility for ordering supplies for all of the program's employees on the office manager. The responsibility for purchasing could be more equitably distributed if employees were given access to Munis to enter their own requisitions. These requisitions would then be forwarded to the office manager for budget review.

The general ledger for Adult Education program services expenditures shows that entries are frequently made to transfer expenditures between unrestricted and restricted resources. District employees reported that this was a result of items being charged to restricted resources that were not permissible by the program's rules and regulations. An employee who is knowledgeable in allowable program expenditures should be included in the purchasing approval process to reduce the number of journal entries.

The purchasing department is responsible to convert the requisitions into purchase orders (POs) and place the orders with vendors. When the merchandise is received, receiver documentation is forwarded from the recipient to the adult education office manager then to the district office. The adult education office manager is also responsible to review and authorize invoices for payment.

To test the internal controls regarding purchasing and accounts payable functions in the Adult Education program, FCMAT requested a listing of accounts payable items for the periods May 1 through June 30, 2013 and July 1 through November 5, 2013. From those listings, 10 items were selected from each fiscal year and tested for the following seven attributes:

1. A signed requisition was used to start the purchase.
2. The signed PO was dated after the date of the requisition.
3. A signed contract was present, if applicable, that included the signature of an authorized district signatory.

4. The invoice or detailed receipt was attached to the accounts payable payment package.
5. The purchase was made after the date of the PO.
6. The invoice was initialed or signed to approve payment or the receiving document was attached.
7. The invoice or detailed receipt was stamped "Paid."

The results of this testing were as follows:

- None of the accounts payable payment packets included a signed requisition. Although the district uses an electronic process and a purchase cannot proceed without initiation of the requisition, only five of the 20 accounts payable packets (25%) included a printout of the Purchase Order Status Inquiry that showed a "Req. Dt" for testing.
- Three accounts payable packets included signed POs; however, only one was associated with a packet that contained a Purchase Order Status Inquiry that showed the PO was dated after the requisition date.
- Of the 20 packets, 15 did not need a separate contract between the vendor and the district. Of the five packets that did, the following anomalies were noted:
 - One contained a contract showing signature dates for the vendor and site in January 2013, yet the contract was for work performed between October 15, 2012 and May 10, 2013. The contract did not contain a district authorized signature or reflect board approval.
 - One contract did not include signature pages or reflect board approval.
 - Three packets had no contract, but instead included a quote for services.

When entering into agreements with consultants, it is best business practice to memorialize that arrangement with a written contract. The contract should include the duties of each party, such as the consultant's obligation to complete a W-9 form prior to any payment by the district, the consultant's insurance coverage and the consultant's fingerprint requirements. These provisions help protect the district and its students. Additionally, the contract is not legally enforceable until a district authorized signatory has signed the contract and the agreement has been approved or ratified by the governing board.

While the district has an Agreement for Special Contract Services form, it was not consistently used in the transactions tested.

- Six packets did not contain necessary invoices or receipts:
 - One was a journal entry that included a Budget Summary Report as backup but no documentation of the actual expenditure.
 - In one case, a PO was used for payment instead of an invoice.
 - In replenishing the adult education petty cash fund, a form that included a one-line explanation was used as evidence of expenses.
 - Two packets did not include an invoice.
 - One included an invoice but not the one that corresponded to the expenditure being tested.

Best business practice requires a three-way match between the PO, a receiving document and an invoice or receipts to initiate payment to a vendor. The PO is the written communication of the desire to order something from a particular vendor. The receiving document is the evidence that the goods or services have been delivered, and the invoice or receipt is the evidence of the vendor's desire to be paid. To comply with best business practice, payment should not be made without an invoice or receipt, one-line explanations should not be used in lieu of receipts, and a PO should not be used to generate a warrant.

- Eighteen of the 20 packets lacked the documentation needed to test whether the purchase was made after the PO was issued.
- Two of the 14 packets with invoices did not include a signature for approval of the payment. Authorization for payment is essential in ensuring that the payments being made are for approved purchases and that the merchandise or services have been received. This is also an internal control that can help avoid duplicate payments.
- None of the packets included invoices or receipts with a notation or stamp indicating the item had been paid. Cancelling vendor invoices by using a "Paid" stamp or other identifiable means is essential to ensure that invoices are not paid a second time if they become separated from their payment package.

Conferences and workshops often are an area that can pose challenges to internal controls. The district has adopted Board Policy 3350, Travel and Conference Expenses, and Administrative Regulation 3350, Travel/Conferences, to provide structure to these transactions. A travel procedure also was developed to help guide employees through the process. These documents indicate the authorization process for travel and provide the rules for transportation, overnight stays and meal allowances. For travel to destinations more than 80 miles from the district's boundaries or requiring an overnight stay, a requisition for travel is required to be completed and approved. However, interviews with staff indicated that approvals are not provided in written form but given by verbal consent.

Recommendations

The district should:

1. Consider providing employees with online access to Munis for entry of purchase requisitions.
2. Include an employee knowledgeable in allowable restricted program expenditures in the purchasing approval process.
3. Ensure that POs are dated after requisitions.
4. Require that written contracts be entered into for consultant services or large repairs, that those contracts be fully executed prior to services being performed, and that they be approved or ratified by the governing board.
5. Require an invoice or receipt to generate payment.
6. Ensure that the appropriate adult education staff member has approved the invoice prior to processing payment.

7. Mark invoices and receipts “Paid” after the payment is processed.
8. Require adherence to the district’s travel policies and procedures.

Accounts Receivable and Cash Receipts

Controls Over Cash Receipts

Separation of duties is a key aspect of a properly functioning system of internal controls that safeguards assets from misappropriation or theft; no one person should control the cash collection process from authorization to collection to recording transactions in the financial system. In a highly functioning system there is separation of duties among those who prepare deposits, deposit cash receipts, post cash receipts to the financial system, review the receivables aging trial balance, authorize write-offs of delinquent accounts and investigate discrepancies or issues related to revenue.

The procedures used by the Adult Education program for cash receipts provide for the separation of duties in many areas; however, as indicated below there are some areas in which internal controls need to be improved.

The study team identified the following four significant sources of cash receipts for the Adult Education program:

- funds from federal and state program revenue apportionments
- grants from a variety of sources
- agreements with other agencies to provide program services for adults and students
- local fees charged to class participants

Federal and state program revenue apportionments are received and processed by the Contra Costa County Office of Education, with corresponding entries recorded by district business office staff to the appropriate fund and accounts. Apportionments are generally provided in accordance with schedules established by the state of California, and can be verified by reference to information provided on the California Department of Education website.

The district also receives grant revenue. Grant applications are filed with the grantor agency and awards are provided to the Adult Education program. Typically grant payments are provided based on invoices prepared by the adult education staff that demonstrate grant criteria have been met and grant revenue has been earned. Invoices are prepared periodically, and payments are made to and deposited by the district business office.

The Adult Education program contracts with other public agencies, including adult education programs of neighboring school districts, to provide services specific to the needs of the program. Invoices are prepared and funds received on a periodic basis, in accordance with the agreement with the other agency.

Some adult education classes are offered on a fee basis. Fees are paid by class participants at either the Serra or Alvarado campus locations, or via an online registration system.

Students who register at the school site complete the free or fee-based class registration form. For fee-based classes, payment is provided to the adult education clerk at the time of registration, by either check or cash. The clerk (day or night shift, depending on the time of day) provides a copy of the registration form to the student as their receipt, provides another copy to the typist clerk position that performs registrar duties and places payment and the third copy in the cash register. At one adult education campus, the night shift clerk closes the register by balancing the register tape and the registration forms to cash and checks in the register; any discrepancies that cannot be reconciled are noted, and all items are placed in the safe. At the other campus funds are placed

in the safe at the end of the night shift and then balanced to the tape in the morning by the senior account clerk and the office manager.

Reconciliation of the register is not required at the change between morning and night clerk shifts. Reconciliation would provide increased staff accountability for transactions that occur on any given shift and would reduce the chance for error.

The following morning the adult education office manager reviews the cash receipts documentation for completeness and verifies that it balances. Funds are counted twice, by the office manager and by the clerk on duty at the time. If all is in order, the office manager signs the deposit form to certify everything is ready for deposit. Best practices would be to require both the clerk and the office manager to sign this form as both were responsible for verifying the accuracy of the deposit.

If any discrepancies are found, the office manager reviews supporting documentation to identify the source of the difference. The office manager reported that differences are detected from time to time, and often reconcile to differences noted with the previous or subsequent day's receipts. Best business practice is to find the source of and resolve any discrepancies the day they are identified, and review and adjust procedures as needed to help eliminate the possibility that discrepancies will reoccur.

The office manager performs these procedures each day at both the Alvarado and Serra campuses. She then transports the cash receipts to the bank for deposit. Funds are counted and two deposit slips are prepared by the bank; one slip is returned to the site clerk and the other is filed for the end-of-month accounting. At the end of the month the office manager summarizes the daily deposits on a ledger and submits all information to the district business office. Business office staff then record these deposits in the financial system.

Funds collected from the first school site are left in the office manager's vehicle while she performs cash receipt procedures at the second school. The risk of theft exists at all times cash is being transported between the schools and the bank, but particularly when cash is left unattended in a vehicle. Standard industry practices that significantly reduce this risk and increase employee safety include the use of armored car transport services for deposits.

The typist clerk position that performs registrar duties uses their copy of the registration form as source documentation to enter student information into the ASAP student information and class management system.

According to staff, some classes are offered free of charge, including certain English Language Learner courses. However, the following statement on the Adult Education program web page conflicts with this policy and practice:

Due to state budget cuts that have been imposed on California Adult Schools there is no state funding for classes. The entire cost of instruction, use of facilities, clerical and administrative support is built into the fee structure. Fees have been set to provide maximum services at the lowest possible cost to students. Senior discounts do not apply.

The Adult Education program web page should provide clear information about the nature of fees charged and specify when the fees apply and when they do not in accordance with district policy.

Other sources of cash collections at the Adult Education program school sites and adult education offices include classroom supply and textbook sales, General Educational Development

(GED) test fees and child care fees for the children of students. Procedures for collections at the two adult education offices are the same as class fees noted above. However, staff interviews indicated that class fee or other cash collections by individual class teachers has occurred from time to time. The collection of fees by class teachers should be strictly prohibited, unless directly authorized by the district. In that case, written procedures should be developed and training provided to adult education staff for collecting and processing such receipts.

Fees are also charged for community use of Adult Education program facilities. A facility use application is completed by the user organization and submitted to the adult education office manager, who submits the form to the principal for review and approval. The office manager submits approved applications to the district business office; fees are then paid by the applicant directly to the district office.

The Adult Education program utilizes the ASAP software system to manage student information. Staff indicated that the district office does not have access to the ASAP system. Access to this system is vital to the district's oversight function and should be provided immediately.

Online Registration

Prospective students can choose to register for classes in person or via the ASAP online registration system. Interviews with staff indicated that online registration is a developing trend in public schools, that it is a more secure means of registering and paying class fees, and that many adult education programs in neighboring school districts receive a significant portion of their class fees in this manner.

The online registration system provides students with a convenient option to register for class and pay associated fees. Registration is accomplished by the student, who completes an online application that includes all pertinent class and fee information. The student provides payment via their personal payment preference. The system creates a daily report of class registrations, and a monthly check is generated by ASAP and sent to the Adult Education program office.

Staff reported that implementation of the online registration system began in the 2012-13 school year and is not yet fully utilized by the community. Several explanations were offered, including lack of access to technology by some community members and a preference by some students for cash transactions as opposed to credit. However, the district should encourage the community to use online registration because it is more efficient than receiving cash or check payments from students and provides better control over payment processing.

Interviews with staff indicated that additional training is needed regarding the use of the online registration system, particularly with the process of linking transaction and class information in the ASAP student attendance and information system. Currently a clerk manually transfers online class information in ASAP, which is a duplication of effort by staff. Staff also reported that procedures to reconcile receipts per the ASAP online registration system with the check received from ASAP routinely reflected a difference that often favored the Adult Education program, but this difference was never resolved. Procedures should be established to reconcile online registration payments to amounts recorded in the system to verify the accuracy of records and that earned revenue is received.

FCMAT found that during the writing of this report, the Adult Education program web page link to the online registration system was not always available. The link should be available at all times to ensure maximum opportunity for students to register for classes.

Billing Practices and Delinquent Receivables

FCMAT reviewed cash receipt transactions for adequacy of internal controls and accuracy and completeness of transaction recording. Some of the transactions tested were for invoices prepared by the adult education office.

Several of the invoices were for services that had been provided months prior to the date of the invoice, and these invoices were recorded in the district's financial system with a journal entry at the close of the 2012-13 fiscal year. The district needs to issue timely invoices, preferably within 30 days of services. Terms for payment should be established and enforced; given the nature of complex governmental agency payment processing for some of the invoiced agencies, payment terms could be 45-60 days. Staff need to review delinquent invoices each month and follow up as necessary, including issuance of reminder invoices and contacts with the delinquent party.

Staff indicated there were circumstances where format and substantiating documentation of the invoices was under development in consultation with the grantor, and nine months of invoices were issued in June 2013 after an agreement was reached. The district and/or Adult Education program should develop the invoice format and determine the required supporting documents with the grantor either with the grant application or immediately after the grant is awarded to ensure the district receives funding timely. This practice will help avoid unexpected disagreements with grantors that could result in reduced financial support compared to expected levels.

Staff reported that students whose fee check was returned due to insufficient funds continue to enroll in other classes. Further, collection efforts were not initiated. Amounts owed related to student fee checks that are returned due to insufficient funds should be collected from the student, and no additional class participation or enrollments allowed until all outstanding fees are paid. In addition, bad debts should be identified and written off at the appropriate time, no later than the end of the fiscal year and only upon approval of the district's governing board.

Memorandum of Understanding

A Memorandum of Understanding (MOU) is a common method used in public education to document a working relationship between two parties, wherein each party provides resources and/or incurs obligations and responsibilities to fulfill the agreement's purpose. It is a legally enforceable agreement that has the same force and effect as a contract.

One such MOU requested by the study team for testing did not clearly articulate the entire agreement between the district and the third party, and the copy provided was not signed by both parties. The agreement, between the Adult Education program and Hillside Community Church Peter Pan Parent Nursery School, provides an arrangement wherein a district teacher serves as a director of the nursery school, and that parent fees are the source of these payments. While no direct evidence was presented that indicates a conflict of interest exists, the potential for such a conflict and the appearance of a conflict may be reason enough to avoid such arrangements.

Class Fees and Refunds

The Adult Education program provides community service classes for a fee, consistent with Board Policy and Administrative Regulation 3260. However, staff indicated that the fee list has not been approved by the governing board.

Current practice provides that each fee-based class will be operated only when an identified minimum number of students have enrolled. A chart has been developed to assist staff in iden-

tifying this number by class. If a class does not achieve the minimum enrollment, the class is cancelled by the Adult Education program and fees are refunded in full.

Fees are also refunded when students cancel their registration, subject to a \$10 processing fee if the cancellation is submitted more than two business days before the start of class. If the student cancels after the start of class, no refund is provided. FCMAT's testing of refund documentation indicated that application of the processing fee is not always consistent. The documents tested included one instance where the fee was not charged to a student who cancelled more than two days in advance of the class. The notation clearly indicates the student "could not attend" 16 days prior to the start of class.

A fee that covers processing costs should be applied to all cancellations submitted prior to the start of class, not only those submitted at least two days prior to the start of class, to ensure that all students are charged equitably. The district should develop a written document that outlines its refund practices and present it to the governing board for approval to help ensure best business practice and consistent procedures.

A check for refunds is drawn against an Adult Education program refund account and submitted for signature of the director of adult and alternative education and the principal. The account is reconciled periodically as needed by the senior account clerk. A replenishment request form, Request for Petty Cash Reimbursement, is prepared by adult education staff and authorized by the director or the adult education principal. The form is then submitted to the district business office for replenishment of the account.

Supporting documentation for refunds examined in FCMAT's review of cash receipt transactions did not include a refund request form prepared and signed by the student requesting the refund. To document the authenticity of the request, a refund request form should be prepared and signed by each student who requests a refund. The request should then be verified by the office manager and approved by the principal before a check is drawn for payment.

There are no fee refunds for sale of books or class materials, per current practices.

Training and Support

The district has a desk manual for all office staff titled Clerical Office Procedures/2012-13 Secretaries Handbook published in May 2013, and documents titled District Office Procedures. The adult education staff also prepared a procedure document for preparing daily deposits. The district should consider combining these documents into one comprehensive procedures manual for all staff to utilize to allow for easier reference. The district conducts an annual procedures training for all office staff. New or amended procedures are reviewed at these meetings, but participation is not mandatory. All clerical, accounting and secretarial staff should be required to participate to ensure that they understand and follow the most current procedures. In addition, this training should be provided to new and promoted employees in these positions to ensure understanding of applicable responsibilities.

Recommendations

The district should:

1. Require cash register reconciliations at the transition between day and night clerk shifts.

2. Identify the source of all cash receipt discrepancies the day they occur, and adjust procedures as necessary to eliminate the cause of such discrepancies.
3. Require the office manager and clerk to sign deposit forms as verification of the daily deposit.
4. Contract with an armored car transport service for deposit of daily cash receipts collected at the adult education campuses.
5. Review language on the Adult Education program webpage regarding class fees and ensure it complies with district policy.
6. Eliminate unauthorized cash collections from students by classroom teachers; if classroom collections are authorized by the district, develop written procedures and provide training for collecting and processing receipts.
7. Provide applicable district office staff, including the director of business services, access to the ASAP student information, class management and online registration system.
8. Encourage use of the ASAP online registration system to prospective and current students to improve controls over collection of class fees.
9. Provide additional training to staff on the ASAP system.
10. Prepare reconciliations for online class registrations and fee payments between the ASAP records and actual payments received.
11. Work with its Information Technology Services Department and ASAP representatives to ensure maximum user accessibility to the online registration system.
12. Periodically review the Adult Education program web page to verify that it is working properly.
13. Ensure that invoices for the Adult Education program are prepared and submitted within 30 days of provided services and that payment terms are established and enforced.
14. Ensure that staff review delinquent invoices each month and follow up as necessary with the delinquent party.
15. Develop billing formats with grantor agencies prior to or immediately after grant award to avoid reduced financial support and unexpected general fund contributions.
16. Implement procedures to collect student fees paid by checks that are returned due to insufficient funds.
17. Implement procedures to annually identify and write off bad debt, upon approval of the governing board.

18. Avoid entering into agreements that create the potential for a conflict of interest for district employees.
19. Submit the fee list for adult education classes to the governing board for approval.
20. Revise class cancellation refund processing fee practices such that fees are applied to all students who cancel, charge them consistently, and submit the policy to the governing board for approval.
21. Require each student who requests a refund of class fees to complete and sign a refund request form, and ensure that the request is reviewed by the office manager and authorized for payment by the principal of adult education.
22. Combine the various office procedure manuals and district office procedures into one document.
23. Require all clerical, accounting and secretarial staff to attend the annual procedures training, and provide this training throughout the year to new or promoted employees in these positions.

Payroll

Workflow and Controls over Payroll

Internal control policies and procedures should be adequate to ensure that all transactions are properly authorized, duties are separated (i.e., no employee should be in a position to commit an irregularity and then conceal it), accounting records and documentation are properly designed and maintained, access to both assets and records is controlled and accounting data is periodically compared with the underlying items they represent. These are the standards by which the study team evaluated internal controls over the payroll procedures of the district's Adult Education program.

Efficient management of payroll systems also requires a sufficient number of properly trained staff to perform their duties without compromising controls over district assets. In public education there is an ongoing demand for increased support services. In recent years this has become particularly challenging with funding reductions from the state and federal government, as well as local sources. This reality demands that public agencies be even more diligent in administrative staffing allocations while still complying with increasing mandates and balancing the budget. The Adult Education program has experienced such funding cuts, and has had to address increasing demands for services with fewer dollars.

However, control over the program's payroll functions resides with too few employees and duties are not properly separated. The procedures used by adult education conform to some but not all of the above internal control standards.

Hiring Practices

Staff interviews indicated that the Adult Education program does not fully utilize the services of the Human Resources Department when recruiting and hiring staff, determining salary schedule placement, evaluating staff performance and maintaining personnel files. The Human Resources Department provides guidance to district schools and departments regarding correct procedures for hiring, compensating, evaluating and terminating staff. Laws and regulations in these areas are complex and the risk of litigation is significant.

Interviews with staff indicated that much of the hiring process for the Adult Education program is managed by the office manager and program administrators. Staff members reported that the office manager has taken on the functions of recruitment, interview, award and submission of initial paperwork for processing newly hired personnel to the Human Resources Department, including teachers.

Costs associated with the risk of an inappropriately hired employee can far outweigh any time savings from the Human Resources Department not being involved in the hiring process, including exposure to work history issues, criminal background verification, and fiscal penalties associated with improper identification of part-time employee eligibility for federally guaranteed health insurance programs.

Costs associated with improper resignation, retirement or termination of employees can also be significant. Exposure to litigation costs can be significant if such activities are not conducted within the scope of applicable contracts, laws and regulations. The Human Resources Department's involvement is critical in the process for moving personnel out of the district to avoid risks.

The Human Resources Department needs to be involved and oversee the personnel activities of the Adult Education program just as it does for the other district sites and departments.

Position Control

Industry standard practices to control unauthorized hiring include utilization of a position control system. A properly functioning position control system allows management to verify the number of positions authorized and which of those positions are vacant and thus need to be filled.

Another tool to communicate the status of authorized and vacant positions is an organizational chart. Organizational charts should reflect authorized positions, their titles and the relationship between positions including lines of authority and responsibility.

The position control report provided to the study team for the Adult Education program does not match the organizational chart developed by program staff. As discussed previously, the organizational chart does not include the position titles of all office staff or indicate the current status of positions as either occupied by an employee or vacant.

Both of these tools are essential components of an effective system of internal control and are considered basic industry standard methods to control position costs. The position control system and the organizational chart need to be updated to reflect the accurate number of positions authorized, filled and vacant at any given time.

Read-only access to the position control screens of the district's financial software system necessary to readily determine positions that need attention could be provided to adult education management staff. Adult education management staff members should not be able to modify positions in the system; this should be the responsibility of district office personnel. If read-only access to position control screens is not provided, the district office should send position control reports to adult education managers at least twice each fiscal year, during budget development and at the start of the school year. The reports should include a list of all employees charged to the program with each employee's name, position, hours per day, and the funding source for the position. Adult education managers should review the report for accuracy and immediately report any inconsistencies to the Business Services Department. This process helps to verify the position control database that affects the budget and employee compensation.

Adult education management staff should communicate their position decisions via utilization of a position control or position requisition form that is submitted to the district office. Much like a purchase requisition for goods or services, a properly completed and authorized position requisition form provides evidence of all position related events, including position authorization, hiring, position changes such as location or salary schedule placement, resignations, terminations and retirements. This form then becomes the source document for all entries by district office staff into the position control module.

Teacher Payroll Processing

The Adult Education program compensates teaching staff by the hour for actual services provided. Approved time cards are summarized on a spreadsheet that includes the employee's name, hours worked and hourly rates. The summary spreadsheet is prepared by the office manager and includes three authorizing signature lines; however, only one of the documents provided to the study team included signatures, that of the office manager and the director of adult and alternative education. The spreadsheet is submitted to the Payroll Department for

uploading into the financial system. Time cards are not submitted to payroll; they are instead filed and stored in the adult education office and are shredded after five years.

According to staff this procedure is used as a matter of convenience for processing adult education's time cards, has been in place for many years, and is used only by adult education. While uploading directly from a spreadsheet may be a more convenient means to process payroll, the inability to examine supporting documentation prevents district office payroll staff from performing their duty to verify that claims for payment of services are a correct and authorized demand against district funds. Complete and authorized time cards need to be submitted directly to the Payroll Department for processing; no claim for payroll should be processed from a spreadsheet summary.

Two payrolls are processed each month: end of month payroll on the last business day of the month for salaried employees and supplemental payroll on the 10th of the month for those employees who are compensated by the hour. Time cards are completed for hourly services provided from the 21st of one month to the 20th of the following month.

Classroom teachers are compensated by the hour for teaching and for a certain number of hours for preparation time. According to adult education staff, paid preparation time varies depending on experience and hours worked and is compensated from 30 minutes per week to one hour per day. The study team was not provided any documentation that indicates this arrangement has been approved by district administration or the governing board. This arrangement should be approved by the governing board because adult education teachers are not included in the district's collective bargaining agreements.

The district also determines Adult Education program teacher hourly rates. According to staff, the base rate for teaching services is \$29.23 per hour; greater hourly rates up to \$34.72 are provided to teachers who work 750 hours or more, in increments of 750 hours of service. Non-credentialed teachers are paid \$27.30 per hour, lead teachers are paid \$35.72 and staff development activities are compensated at \$20 per hour. These rates have been in effect since 2009.

The West Contra Costa Adult Education Credentialed Teachers Pay Schedule that was provided to the study team does not include a governing board approval date. In addition, staff interviews indicated some confusion regarding the approved hourly rates for teachers, and that the Payroll Department does not have salary schedules for these employees.

Classified Staff Payroll Processing

Education Code Section 45103 provides that classified employees who work more than 75% of the school year shall be designated a part of the classified service, and as such entitled to permanent status and all rights and privileges that pertain thereto. Section 45103 defines 75% of the school year as 195 working days, including holidays, sick leave, vacation and other leaves of absence, irrespective of the number of hours worked per day. Interviews with staff indicated that one adult education hourly clerical employee may have worked more than 75% of the school year.

The employee has reportedly worked for 7.5 hours per day, four days per week for several years, and has completed a time card and been compensated in an hourly capacity the entire time. The study team reviewed time cards submitted by this employee for the period July 2012 to June 2013 and found they worked a total of 179 days. When accounting for paid leave as provided by Education Code Section 45103, the employee may have exceeded the 195-day requirement.

This employee has reportedly worked in this capacity for many years and thus may have met the 195-day requirement at an earlier point in time. If that is the case, the employee would be a permanent employee, entitled to placement on the salary schedule and any benefits afforded employees in the district's classified collective bargaining agreement. The employee would also be eligible for membership in the CalPERS retirement system retroactive to the first year of qualified service, based on the CalPERS regulations.

District management should review employment practices for hourly classified employees to determine if this or any other classified employee is eligible for permanent status and the benefits provided to permanent employees. Tracking procedures also need to be implemented to ensure that hourly employees do not work more than 75% of any school year.

Interviews with staff indicated that a relative of an adult education supervisory staff member was hired to provide services to the program. Hiring relatives of program staff without utilizing the standard hiring practices of the Human Resources Department can create a climate that reflects negatively on adult education and management staff.

Board Policy 4112.8, Employment of Relatives, states in part:

The Governing Board desires to maximize staff and community confidence in district hiring, promotion, and other employment decisions by promoting practices that are free of conflicts of interest or the appearance of impropriety.

The Board prohibits the appointment of any person to a position for which his/her relative maintains management, supervisory, evaluation, or promotion responsibilities and prohibits an employee from participating in any decision that singularly applies to any of his/her relatives.

In addition, the Superintendent or designee may determine, on a case-by-case basis, whether to appoint a person to a position in the same department or facility as an employee with whom he/she maintains a personal relationship when that relationship has the potential to create (1) an adverse impact on supervision, safety, security, or morale of other district employees or (2) a conflict of interest for the individuals involved which is greater because of their relationship than it would be for another person.

An employee shall notify his/her supervisor within 30 days of any change in his/her circumstances that may constitute a violation of this policy.

The study team was provided no information indicating that the supervisory employee was isolated from this hiring decision, that the superintendent or their designee was involved in this decision, or that any notices were provided by the employee. These steps should have been followed for this hiring to comply with board policy.

Following FCMAT's fieldwork, the adult education supervisory employee involved indicated they were unaware of this policy at the time the relative was hired.

Distribution of Payroll Warrants

Separation of duties is a necessary internal control that prevents the same employee from controlling a transaction from inception to completion. Interviews indicated that payroll warrants are distributed to employees in one of two ways at the employees' discretion: mailing directly to the home address or delivery to the work site for distribution to the employee.

This practice is common in the industry, provided the employees who authorize or process payroll warrants do not distribute warrants to employees. Any employee who has a role in authorizing or producing payroll warrants should be prohibited from distributing them to employees, no matter which form the distribution takes.

Contracted Services and Overtime

Classified employees are entitled to overtime compensation as designated in the Fair Labor Standards Act and Education Code Sections 45127, 45128 and 45131 for time worked beyond eight hours per day or 40 hours per week, and in instances where part-time employees work on the sixth and/or seventh day in a week. Some exemptions are applied for certain employees in executive, managerial, or supervisory positions as explained on the United States Department of Labor website at <http://www.dol.gov/compliance/topics/wages-overtime-pay.htm>.

Classified employees who are compensated via a monthly salary are obligated to provide services during their normal working hours, which are established by the employer. Authorized services provided by the employee to the district outside these hours are to be compensated at an hourly rate, subject to the overtime compensation laws indicated above. Interviews with staff revealed a perception that some employees may have completed a time card and been compensated for services that were performed during the normal contracted work hours, resulting in a possible double payment for these hours.

The study team reviewed the adult education staff time cards that were provided for 2012-13 and 2013-14. However, it is not possible to determine if double payments occurred because the time card does not require staff to identify the time of day services were provided. The district should develop a new time card that identifies the time frame in which services are provided to assist in verifying that employees are not already being paid for their normal contracted time.

Many of the time cards provided for review were incomplete in that an explanation was not provided to determine the nature of the services performed. The time cards also do not include the date in the signature lines for the employee and supervisor. Best business practice is to include explanations of the services provided and why they were required and dates in the signature lines of all time cards (a sample time card is provided in Appendix A).

Some overtime claims appear routine in nature; recurring month to month or year to year. For example, the office manager provides overtime services during the weeks leading up to and shortly after the start of school as registration events are held. This occurs again at the start of spring classes. Management should review overtime practices to determine if services can be provided during the normal work day or by a different employee at regular hourly rates thus yielding potential cost savings to the adult education budget.

Interviews with staff indicated that overtime is sometimes worked without advance approval from management staff and without regard to availability of budgeted funds. Furthermore, staff reported and financial reports indicated that overtime costs do not appear to be monitored and exceeded the budget by nearly \$200,000 during the 2012-13 fiscal year. Authorization of overtime in advance of service is critical to effective management of overtime related costs. Unauthorized overtime can expose the district to risk and is a common factor in public agencies that suffer from fiscal distress. It can also create divisiveness in terms of equity among staff members regarding access to overtime.

Standard internal control procedures include monitoring the budget to verify that funding allocations are not exceeded. This can be accomplished via review of budget and actual financial reports

by adult education administrative staff before overtime is authorized to verify that sufficient budget exists to fund it and/or to take corrective action before excess costs are incurred.

The adult education and district business office staff should also monitor Adult Education program financial system reports monthly to identify trends that suggest a budgetary problem is developing and the need for budget modification before accounts are overdrawn.

Payroll Account Coding

Sound fiscal management requires thoughtful consideration to determine the funding source of expenditures. The correct identification of funding sources enhances effective management of funds and helps avoid unfunded expenditures that may necessitate a contribution from the unrestricted general fund.

Interviews with staff indicated that the correct funding sources are not always identified as the expenditures are incurred, and that these decisions are often made as the books are closed at the end of the fiscal year. In addition, the Adult Education program financial reports for fiscal year 2012-13 included numerous journal entries that transferred payroll costs from one funding source to another.

The adult education staff should identify the correct funding sources for all planned expenditures when the district's budget is adopted in June. As new funding sources are identified, budgets should be revised and expenditures should be charged as appropriate to the new accounts established for that purpose. Budget adjustments and journal entries can be made as the year progresses, but they should represent the exception rather than the norm. In this manner, effective fiscal management and decision making is enhanced and costly budget overruns avoided.

Leaves

Hourly adult education teachers are provided sick leave time. The office manager tracks the leave with a spreadsheet, but no information is transferred to the Payroll Department for entry in the payroll system.

This is not consistent with industry standards and violates the separation of duties standard of sound internal controls. All leaves should be tracked by district office staff and leave balances regularly reported to employees, preferably on their monthly pay stubs. A district leave form should be completed by employees to report usage of accrued leave time to the adult education administrator. All completed and signed forms should then be submitted to the district office for tracking and reporting purposes.

Recommendations

The district should:

1. Require the Adult Education program to use the Human Resources Department for personnel functions, including recruiting and hiring staff, salary schedule placement, evaluating staff performance and discipline issues, separation from service, and maintaining personnel files.
2. Update and maintain the position control system and the Adult Education program organizational chart to reflect the accurate number of positions authorized and which ones are filled or vacant.

3. Provide the adult education managers with read-only access to the position control screens needed to review program position information or provide them with position control reports that include all employees charged to Adult Education program budgets, and ensure they are reviewed for accuracy.
4. Require Adult Education program staff to submit a position control or position requisition form to the district office for all employee changes.
5. Require the Adult Education program staff to submit all employee time cards to the Payroll Department and terminate the practice of submitting a spreadsheet summary in lieu of time cards.
6. Acquire governing board approval for all Adult Education program certificated and classified compensation arrangements not otherwise subject to a collective bargaining agreement, including rates of pay and salary schedules. Include the governing board approval date on all salary schedules and provide them to the Payroll Department.
7. Review employment practices to determine if any classified employee compensated hourly is eligible for permanent status and the associated benefits.
8. Implement tracking procedures to ensure that hourly employees do not work more than 75% of any school year.
9. Ensure that employees adhere to the requirements of Board Policy 4112.8 regarding employment of relatives, and train all staff regarding procedures necessary to implement this policy.
10. Ensure that an employee who has a role in authorizing or producing payroll warrants is prohibited from distributing them to employees.
11. Develop a new time card that identifies the time frame in which services are performed, includes explanations of the services provided and why they were required, and includes the date in the signature line.
12. Review overtime practices to determine if services can be provided during the normal work day or by a different employee at regular hourly rates.
13. Ensure that a management employee authorizes overtime or extra time for classified employees before such services are provided.
14. Ensure that the adult education financial reports are monitored routinely to identify potential overexpenditure of budget line items, and take corrective actions to avoid such overages.
15. Identify the correct funding sources for expenditures in the district's adopted budget and as new funding sources are identified throughout the year, thereby avoiding significant adjustments at year end.
16. Require leave time for all adult education employees to be recorded, authorized and submitted to the district office for tracking and reporting purposes.

Records Retention

The California Education Code, California Code of Regulations, Commercial Code and Government Code provide records retention guidelines for California school districts. California Code of Regulations, Title 5, Sections 16020-16027, categorize records as class 1 - permanent records, class 2 - optional records, or class 3 - disposable records, based on the following criteria:

- **Class 1 - Permanent Records.** The original, or one exact copy, unless microfilmed, shall be retained indefinitely. These records are specified in Section 16023 and include, but are not limited to, all state J-forms, most payroll records and the summary of expenditure and construction progress.
- **Class 2 - Optional Records.** Not required by law to be retained permanently but deemed worthy of further preservation as specified in Section 16024. This classification includes, but is not limited to, the consolidated application, architect agreements, and vendor files.
- **Class 3 - Disposable Records.** Required retention periods and procedures vary for destruction or transfer of records as specified in Section 16025 and include such items as purchase orders, requisitions, and garnishments.

The district has adopted Board Policy and Administrative Regulation 3580, District Records, which mirror these regulations, and has included some record retention policies in its Clerical Office Procedures/2012-13 Secretaries Handbook for areas such as attendance and student records. The district also provided FCMAT with copies of its district office procedures; however, no procedure has been written to address records retention. Interviews with district staff indicated some confusion on the length of time accounts payable records are to be held; some staff reported a five-year retention period and others a seven-year period. Title 5, Section 16025 of the California Code of Regulations defines accounts payable items as class 3 records requiring a four-year retention period; Section 16023 defines accounts payable warrant registers and detail records relating to land, buildings and equipment as class 1 records, which are to be retained indefinitely unless microfilmed.

While the Adult Education program does not normally include special education students, the district should be cognizant of issues surrounding these students in crafting its records retention policies. Special education is an area that may involve extensive litigation. Because of this, the district should consider whether special education documents should be retained for longer than the required retention period; for example, whether accounts payable documents should be kept for longer than the prescribed four years.

Recommendations

The district should:

1. Review its records retention policies and procedures to ensure compliance with retention periods prescribed by law.
2. Include a procedure for records retention in its district office procedures.
3. Revise its Clerical Office Procedures/Secretaries Handbook to include records retention policies for all areas including but not limited to accounts payable, human resources and payroll.
4. Determine if records retention periods should be extended for special education documents.

Appendices

Appendix A - Sample Time Sheet

Appendix B - Study Agreement

Appendix B



CSIS California School Information Services

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM STUDY AGREEMENT September 26, 2013

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the West Contra Costa Unified School District, hereinafter referred to as the district, mutually agree as follows:

1. BASIS OF AGREEMENT

The team provides a variety of services to school districts and county offices of education upon request. The district has requested that the team assign professionals to study specific aspects of the West Contra Costa Unified School District's operations. These professionals may include staff of the team, county offices of education, the California State Department of Education, school districts, or private contractors. All work shall be performed in accordance with the terms and conditions of this agreement.

In keeping with the provisions of Assembly Bill 1200, the county superintendent will be notified of this agreement between the district and FCMAT and will receive a copy of the final report. The final report will also be published on the FCMAT website.

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

The scope and objectives of this study are to:

1. Conduct an internal control review of the West Contra Costa Unified School District's adult education program's business office. Evaluate the current workflow and distribution of functions in the business office, and provide recommendations for improved efficiency, if any. This component will include reviewing documentation, including policies and procedures, and gathering data regarding current practices, procedures and separation of duties. Additionally, the team may interview other district or site staff to determine the efficiency and effectiveness of services delivered.
 - a) Internal controls: The primary focus is to provide the business office with reasonable assurance based on the testing performed that adequate internal controls are in place.

Management or internal controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. The team will sample test transactions from the prior six months but will not test all financial records. Sample testing and review results are intended to provide reasonable assurance of the accuracy of processes and compliance.

- b) Review business office procedures to provide reasonable assurance that payroll, accounts payable, accounts receivable and purchasing transactions are entered by properly authorized personnel and that the transactions are accurately summarized. The team will obtain the data needed to perform testing of various payroll records, purchase orders, requisition records, invoices and accounts payable and receivable transactions. This component will evaluate the effectiveness and efficiency of departmental transaction processing and operations, including new vendors, contracts, invoices, bid requirements and system operations.
- c) Provide reasonable assurance that access to the fee collection system is properly secured from unauthorized changes and that the proper internal control systems are in place.
- d) Evaluate the division of labor and segregation of duties between classified and management employees in the business office for all financial transactions. This component will include a review of payroll processes related to the setup and maintenance of position control data.
- e) Review the records processing procedures and file management protocol for the business office.
- f) Evaluate desk manuals and procedures for each business office employee.
- g) Verify that the district complies with the Education Code and Public Contract Code regarding bid limits. Review procedures related to vendor payments, including but not limited to purchase orders and sample contracts for professional services, construction and other purchases.

B. Services and Products to be Provided

1. Orientation Meeting - The team will conduct an orientation session at the district to brief district management and supervisory personnel on the team's procedures and the purpose and schedule of the study.
2. On-site Review - The team will conduct an on-site review at the district office and at school sites if necessary.
3. Exit Report - The team will hold an exit meeting at the conclusion of the on-site review to inform the district of significant findings and recommendations to that point.
4. Exit Letter – Approximately 10 days after the exit meeting, the team will issue an exit letter briefly summarizing significant findings and recommendations to date and memorializing the topics discussed in the exit meeting.
5. Draft Reports - Electronic copies of a preliminary draft report will be delivered to the district's administration for review and comment.
6. Final Report - Electronic copies of the final report will be delivered to the district's administration and to the county superintendent following completion of the review. Printed copies are available from FCMAT upon request.
7. Follow-Up Support – If requested, FCMAT will return to the district at no cost six months after completion of the study to assess the district's progress in implementing the recommendations included in the report. Progress in implementing the recommendations will be documented to the district in a FCMAT management letter.

3. PROJECT PERSONNEL

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

- | | |
|---------------------|--|
| A. Diane Branham | FCMAT Chief Management Analyst, Project Lead |
| B. To be determined | FCMAT Consultant |
| C. To be determined | FCMAT Consultant |

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

4. PROJECT COSTS

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

- A. \$500 per day for each staff member while on site, conducting fieldwork at other locations, preparing and presenting reports, or participating in meetings. The cost of independent FCMAT consultants will be billed at their actual daily rate.
- B. All out-of-pocket expenses, including travel, meals and lodging.
- C. The district will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon the district's acceptance of the final report.

Based on the elements noted in section 2 A, the total estimated cost of the study will be \$12,000.

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

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

5. RESPONSIBILITIES OF THE DISTRICT

- A. The district will provide office and conference room space during on-site reviews.
- B. The district will provide the following if requested:
 - 1. A map of the local area.
 - 2. Existing policies, regulations and prior reports that address the study scope.
 - 3. Current or proposed organizational charts.
 - 4. Current and two prior years' audit reports.
 - 5. Any documents requested on a supplemental list. Documents requested on the supplemental list should be provided to FCMAT only in electronic format; if only hard copies are available, they should be scanned by the district and sent to FCMAT in electronic format.
 - 6. Documents should be provided in advance of field work; any delay in the receipt of the requested documents may affect the start date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's online SharePoint document repository, where the district will upload all requested documents.

- C. The district's administration will review a preliminary draft copy of the report resulting from the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the team prior to completion of the final report.

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

6. PROJECT SCHEDULE

The following schedule outlines the planned completion dates for different phases of the study:

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

7. CONTACT PERSON

Name: Daniela Parasidis
 Telephone: (510) 231-1142
 E-mail: dparasidis@wccusd.net



9-30-13

Bruce Harter, Ph.D., Superintendent
 West Contra Costa Unified School District

Date



September 26, 2013

Anthony L. Bridges, CFE, CICA
 Deputy Executive Officer
 Fiscal Crisis and Management Assistance Team

Date