

April 3, 2018

Alex Cherniss, Ed.D., Superintendent
San Marino Unified School District
1665 West Drive
San Marino, CA 91108

Dear Superintendent Cherniss:

The purpose of this management letter is to provide the findings and recommendations identified by the Fiscal Crisis and Management Assistance Team (FCMAT) following completion of fieldwork for the San Marino Unified School District's procurement and accounts payable systems.

On October 9, 2017, the district entered into an agreement with FCMAT for management assistance. The study agreement specifies that FCMAT will complete the following:

1. Review operational processes and procedures for procurement and accounts payable, to include internal controls for procurement and make recommendations for improved efficiency, if any.

FCMAT visited the district on November 13 – 14, 2017 to conduct interviews, collect data and review documents. Following fieldwork, district personnel continued to provide additional documents as requested by the FCMAT study team.

Introduction

The San Marino Unified School District has four schools located at the base of the San Gabriel Mountains in Los Angeles County. This is the third consecutive year in which the district has had the highest percentage of students meeting and exceeding standards on the CAASPP, a computer adaptive standardized test administered to all public school students in grades 3-8 and 11. Before CAASPP, the district had ranked first among unified school districts for 12 consecutive years because of its high percentage of students meeting and exceeding state standards as reflected by the Academic Performance Index (API)

The district expressed concerns about the length of time necessary to process requisitions from sites and departments into purchase orders and send purchase orders to vendors. Many complaints from school sites and departments to district management indicate the procurement process takes several weeks to occasionally months to complete. Because of the length of time needed to process requisitions and receive materials and supplies, some district personnel purchase these items with their personal funds and request district reimbursement. In addition to complaints from district staff, management receives complaints from vendors regarding the length of time necessary for the Accounting Department to process vendor payments.

FCMAT

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The purchasing manager has worked in the department for approximately six years and previously worked in the accounting office. In addition to interviews with the Purchasing Department's two employees, FCMAT interviewed central office, department and school site staff to evaluate the procurement workflow and delivery process from a customer perspective. Several personnel interviewed indicated that the processing time was much shorter for purchase orders during the tenure of the former purchasing manager. The FCMAT study team evaluated the workflow and found duplicative processes and an antiquated software system.

The district uses the PeopleSoft financial system provided by the Los Angeles County Office of Education (LACOE) for processing purchase requisitions and vendor payments. The current system is antiquated and has limited ability to process a purchase requisition, perform queries or any ability to create specialized reports. LACOE is implementing a new financial software system to be used by all local education agencies within its jurisdiction; however, San Marino Unified is in the last implementation cycle estimated for 2021-22.

The district is implementing a secondary purchasing and procurement software called KissFlow to decrease the length of time necessary to process requisitions, prepare purchase orders, pay vendors timely and provide transparency to customers. This system tracks the progress of requisitions, purchase orders, contracts and service agreements. To compliment KissFlow, the district is seeking recommendations from FCMAT for improvement and efficiency within the procurement and accounts payable processes.

The primary focus of this review is to provide recommendations to improve the timeliness, efficiency and accuracy of the procurement and vendor payment process.

Financial Management

Professional and Legal Standards for Business Operations

FCMAT has developed an extensive list of financial management standards for local education agencies. These downloadable standards encompass each facet of business operations providing information to help public school agencies develop best practices and strong internal controls. District management can view a complete list of the standards at the following website:

<http://fcmat.org/wp-content/uploads/sites/4/2014/02/FCMATStandards2009.pdf>

Standards related to the district's study objectives include the following:

1.1 - PROFESSIONAL STANDARD – INTERNAL CONTROL ENVIRONMENT

All governing board members and management personnel set the tone and establish the environment, exhibiting high integrity and ethical values in carrying out their responsibilities and directing the work of others. Appropriate measures are implemented to discourage and detect fraud. (State Audit Standard (SAS) 55, SAS 78, SAS 82: Treadway Commission)

1.2 - PROFESSIONAL STANDARD – INTERNAL CONTROL ENVIRONMENT

The LEA has an internal audit committee to: (1) prevent internal controls from being overridden by management; (2) ensure ongoing state and federal compliance; (3) provide assurance to management that the internal control system is sound; and (4) identify and correct inefficient processes. In addition, the LEA has formal policies and procedures that provide a mechanism for individuals to report illegal acts and provide a formal investigative process. (SAS-55, SAS-78)

1.3 - PROFESSIONAL STANDARD – INTERNAL CONTROL ENVIRONMENT

The organizational structure clearly identifies key areas of authority and responsibility. Reporting lines in each area are clearly identified and logical. (SAS-55, SAS-78)

10.1 - LEGAL STANDARD – ACCOUNTING, PURCHASING, AND WAREHOUSING

The LEA adheres to the California School Accounting Manual (CSAM) and Generally Accepted Accounting Principles (GAAP) as required by Education Code Section 41010. This helps to ensure that transactions are accurately recorded and financial statements are fairly presented.

10.2 - LEGAL STANDARD – ACCOUNTING, PURCHASING, AND WAREHOUSING

The LEA complies with the bidding requirements of Public Contract Code Section 20111. The LEA has controls to ensure that only properly authorized purchases are made and independent contracts approved.

10.4 - PROFESSIONAL STANDARD – ACCOUNTING, PURCHASING, AND WAREHOUSING

The LEA timely and accurately records all financial activity for all programs. GAAP accounting work is properly supervised and reviewed to ensure that transactions are recorded timely and accurately, and allow the preparation of periodic financial statements. The accounting system has an appropriate level of controls to prevent and detect errors and irregularities.

10.5 - PROFESSIONAL STANDARD – ACCOUNTING, PURCHASING, AND WAREHOUSING

The LEA has adequate purchasing and warehousing procedures to ensure that: (1) only properly authorized purchases are made, (2) authorized purchases are made consistent with LEA policies and management direction, (3) inventories are safeguarded, and (4) purchases and inventories are timely and accurately recorded.

Internal Controls

Internal controls provide the foundation for sound financial management and help organizations obtain timely feedback on producing reliable financial reports and ensuring compliance with applicable laws and regulations. Internal controls include policies, procedures, checks and balances to ensure that financial information provided to management for decision-making is reliable and complies with laws and regulations.

Employees with administrative responsibility have a fiduciary duty to the organization in the course of their employment to ensure that activities are conducted in compliance with all applicable board policies, laws, regulations, and standards of conduct.

Internal controls are important to protect the organization from fraud or misappropriation of funds. Management personnel are entrusted to safeguard assets and ensure that internal controls function as intended; therefore, internal controls should do the following:

- Provide assurance to management and the governing board that the internal controls are operating as intended.
- Ensure ongoing compliance with state and federal laws and regulations.
- Prevent management and other key employees from overriding existing internal controls.

- Provide timely notification to management of a material weakness, errors and/or fraud.
- Ensure that the organization's employees are aware of internal controls and how to report abuse or possible misappropriation of assets.

Board Policies

Board policies and administrative regulations provide guidance to staff. District management is responsible for ensuring that district policies and regulations are updated frequently and regularly reviewed by management. The California School Board Association provides an online subscription service, GAMUT, for the policy updates five times each year. The district has a current subscription and should consider implementing a calendar that coincides with GAMUT releases to ensure board policies and administrative regulations are updated and reflect the latest regulatory changes in law.

District policies related to expenditures, purchases, bids, contracts and payments for goods were last updated in 2014 and financial reports and accountability in 2015. A best practice is to update board policies at least annually to ensure that any changes in legislation are properly reflected.

Excerpts of district board policies related to procurement, payment processing, internal controls and fiscal accountability are provided below.

BP 3300 - Expenditures and Purchases – Revised 4/22/2014

- The district will develop and maintain effective purchasing procedures that are consistent with sound financial controls...
- Records of expenditures and purchases are maintained in accordance with law.
- The Superintendent or designee may authorize an expenditure which exceeds the budget classification allowance against which the expenditure is the proper charge only if an amount sufficient to cover the purchase is available in the budget for transfer by the Board.
- All purchases shall be made by formal contract or purchase order and shall be accompanied by a receipt.
- In order to eliminate the processing of numerous small purchase orders, the Superintendent or designee may create a “blanket” or “open” purchase order system for the purchase of minor items as needed from a vendor. He/she shall ensure that the “open” purchase order system detail a maximum purchase amount, the types of items that can be purchased under this order, the individuals authorized to approve purchases, and the expiration date of the “open” order.
- The Board shall review all transactions entered into by the Superintendent or designee on behalf of the Board every 30 days or monthly at a regularly scheduled Board meeting.
- Goods and services purchased shall meet the needs of the District at the lowest price consistent with standard purchasing practices.

BP 3311 - Bids - Revised: 12/09/14

- The District shall purchase equipment, supplies and services using competitive bidding when required by law...

- Care shall be taken to observe all statutory requirements for bidding and the bidding procedures...the District shall solicit formal bids whenever it appears to be in the best interest of the District to do so.
- No work, project, service, or purchase shall be split or separated into smaller work orders or projects for the purpose of evading the legal requirements of Public Contract Code 20111-20118.4.
- The District may solicit informal bids under CUPCCAA guidelines and as required by law and as adopted by the Board of Education.
- The procedures shall identify a uniform system for rating bidders and shall address the issues covered by the standardized questionnaire and model guidelines developed by the Department of Industrial Relations pursuant to Public Contract Code 20101.
- Except as authorized by law and specified in the Administrative Regulation, contracts shall be let to the lowest responsible bidder who shall give such security as the Board requires, or else all bids shall be rejected. (Public Contract Code 20111)

BP 3312 - Contracts – Adopted 12/09/2014

- To be valid or to constitute an enforceable obligation against the District, all contracts must be approved and/or ratified by the Board.
- All contracts between the District and outside agencies shall conform to standards required by law and shall be prepared under the direction of the Superintendent or designee.
- When required by law, contracts and subcontracts made by the District for public works or for goods or services shall contain a nondiscrimination clause prohibiting discrimination by contractors or subcontractors.
- The District shall not enter into a contract that prohibits a school employee from disparaging the goods or services of the contracting party.
- The Superintendent or designee shall develop the District's internal control procedures to protect the integrity of public funds.
- Such internal controls may include but not be limited to the following:
 1. Control procedures that produce accurate and reliable financial statements and, at the same time, safeguard the assets, financial resources, and integrity of every employee responsible for handling money or property. Control systems shall be systematically evaluated and revised to keep pace with the changing responsibilities of management.
 2. Procedures to ensure that District personnel do not handle cash or product at the school site. The contract shall specify that the vendor stock the machines and shall provide cash accounting, along with a check, for District proceeds directly to the control office.

BP 3314 - Payment for Goods and Services – Revised 4/22/2014

- The Governing Board recognizes the importance of developing a system of internal control procedures in order to help fulfill its obligation to monitor and safeguard District resources.

- To facilitate warrant processing, the Superintendent or designee shall ensure that purchasing, receiving, and payment functions are kept separate...shall also ensure that invoices are paid expeditiously so that the District may, to the extent possible, take advantage of available discounts and avoid finance charges.
- The Superintendent or designee shall sign all warrants and shall ensure (sic) that warrants have appropriate documentary support verifying that all goods and services to be paid for have been delivered or rendered in accordance with the purchase agreement.
- The Board shall approve all warrants at a regularly scheduled Board meeting.
- The District shall not be responsible for unauthorized purchases.

BP 3460 – Financial Reports and Accountability – Adopted 12/08/2015

- The Governing Board is committed to ensuring public accountability and the fiscal health of the District.
- The Board shall adopt sound fiscal policies, oversee the District’s financial condition, and continually evaluate whether the District’s budget and financial operations support the District’s goals for student achievement.
- The Superintendent or designee shall ensure that all financial reports are prepared in accordance with law and in conformity with generally accepted accounting principles and financial reporting standards...shall establish a system of ongoing internal controls to ensure the reliability of financial reporting.
- The Board shall regularly communicate the District’s financial position to the public and shall use financial reports to determine what actions and budget amendments, if any, are needed to ensure the District’s financial stability.

These policies set the tone and provide the foundation for purchasing controls and reflect current legal statute and best practices for purchasing and internal controls, however, the district should routinely update board policies to reflect any changes in laws or regulations.

The Procurement Process

The best practice for accounting, purchasing and procurement is to ensure that transactions are recorded timely and accurately to allow for the preparation of meaningful financial reporting; that orders for materials, supplies and contracts are processed timely and efficiently; and that vendors are paid timely. The accounting system should have appropriate levels of internal controls to prevent and detect errors that include controls for purchasing thresholds in accordance with board policy and compliance with the California Public Contract Code.

The purchasing practice of local education agencies (LEAs) is governed by sections of the Education Code, Public Contract Code, Government Code and California Code of Regulations. These codes provide the legal basis for LEAs to conduct purchasing functions. Board policies, administrative regulations, purchasing manuals and handbooks complement statutes and regulations by providing guidance to staff and defining the purchasing process.

The district meets procurement standards and best practices with the following:

1. Board policies to ensure the staffs responsible for purchasing follow legal requirements, understand the purchasing objectives as stated by the governing board and define internal controls to protect district assets.
2. Delegation of authority and responsibility to identified staff members involved with the procurement and payment process.
3. Developed procedures for vendor selection, compliance with the Department of Industrial Relations, and adherence with Public Contract Code.

The PeopleSoft system allows the district to configure the purchasing module as a hard or soft stop depending on the availability of funds within a budget code. A hard stop will not allow a user to proceed unless the budget code has sufficient funds. Alternatively, a soft stop allows sites to proceed with entering a purchase requisition if the account code exists. The district allows a soft stop, which enables the user to override system warnings when the budget category has insufficient funds. The district should consider implementing a hard stop and train site personnel with the use of appropriate account codes and the ability to access system reports for availability of funds within an account code. Additional procedures will be necessary for sites to request budget transfers when insufficient funds exist.

The district's purchase requisition process starts at the school or department (site) level. In most cases, the staff member will research the vendor and pricing information for the item he or she wants to purchase. The site secretary or administrative assistant creates a requisition in the PeopleSoft system, prints the requisition, then submits to the school principal or department manager for signature and approval.

The site retains a copy of the requisition and places the original in the school interoffice mail to the purchasing office. Rush orders can be emailed, but the original requisition is required to be mailed to the purchasing office.

The district's requisition and purchase order process steps are summarized as follows:

Purchasing Department

- Each day, the purchasing assistant travels to each site to pick up the mail and deliver the requisitions back to the Purchasing Department.
- Once the Purchasing Department receives these documents, staff make a photocopy of the requisition and forward the original to accounting.
- While the Accounting Department reviews the requisition for available funding and review the account string for available funding, the Purchasing Department researches pricing (to seek better pricing with alternative quotes) and checks to see if the vendor is established in the PeopleSoft system.
- If the requisition references a new vendor, purchasing will start the vendor setup process.

Accounting Department

- The budget analyst enters the requisition in a log, reviews the account code (makes changes if necessary), determines if a service contract is required (see section below), and checks the budget for availability of funds. Afterward, the requisition goes to the director of accounting.
- The director of accounting performs a second review of the same information.

- ◆ An additional approval is required for requisitions that exceed certain dollar thresholds as follows:
- ◆ The director of accounting approves requisitions of more than \$25,000.
- ◆ The assistant superintendent of business services approves those of more than \$50,000.
- ◆ The superintendent approves those of more than \$100,000.

Additional Steps

- The purchasing manager reviews the requisition from the Accounting Department and notes any changes to the account code.
- If the account code changes, the Purchasing Department edits the original purchase requisition in the system.
- The purchasing manager will determine if any of the items in the requisition meet the requirements for additional approval. The additional approvals are required for purchases of technological equipment and/or items that require installation or large bulky items that require the assistance of Maintenance and Operations.
 - ◆ If so, a copy of the requisition is emailed to the appropriate department for approval depending on the type of purchase.
 - ◆ These two departments communicate their approval or suggest an alternative item.
- Following all approvals, the purchasing manager processes the requisition into a purchase order and emails it to the vendor, accounts payable, and the requisitioner. In addition to the purchase order, accounts payable receives a complete package of all supporting documents and communications as a hard copy and portable document format (PDF) from the Purchasing Department.

Receiving

With limited exceptions for large bulky items, orders are shipped to the central warehouse for receiving and delivered to the site. The receiving process is as follows:

- The Purchasing Department prints the purchase order on green paper to create the receiving copy (receiver) and reconciles items delivered with the receiver.
- Items are reconciled to the receiver.
- The Purchasing Department delivers the order to the site.
- Site signs the receiver upon delivery.
- The signed receiver is sent to accounts payable.

The accounts payable technician matches the receiver, invoice, and purchase order to confirm that the item, quantity, and price match before issuing a commercial warrant to the vendor.

District staff have expressed the following issues with the process described above:

- It is difficult to identify where a requisition is in the purchasing workflow process at a given point in time.
- Requisitions transfer back and forth between departments because of account code changes, recognition of additional authorizations, or when the Purchasing Department identifies better pricing or a different vendor.

- The PeopleSoft system is cumbersome and does not have the capability for users to track requisition progress.
- The Purchasing Department does not communicate order status to the sites and departments.
- The length of time from requisition to delivery takes weeks and occasionally months.
- The Purchasing Department's hours start at 8 a.m., after schools are open. On occasion, a school site will accept deliveries on behalf of the Purchasing Department.
- The purchasing manager's hours are from 9 a.m. to 5:30 p.m. This schedule does not coincide with school site hours; therefore, the manager's availability to address questions and concerns from sites is limited.
- Orders placed after spring purchasing cutoff are entered into the new fiscal year causing delays in receiving school supplies primarily because of the length of time necessary to process requisitions and purchase orders, and the rush orders for the new school year.

FCMAT was provided with several samples and confirmed that the process from processing a purchase requisition to a purchase order is extremely long and could be enhanced.

The district's purchasing handbook indicates that the district will not reimburse employees for supplies purchased without a purchase order. The handbook states the following:

The Purchasing Manager is responsible for securing low pricing, ensuring quality products are purchased, acquiring the products in an expeditious manner, following-up on orders that have not been received, negotiating returns when applicable, and following all local, state and federal laws related to school procurement. The Purchasing Manager is available to all sites to assist with product suggestions and decisions.

However, this is not the district practice. In most cases, sites choose to obtain quotes and best pricing, and the purchasing manager reconfirms and extends the search for best pricing, causing long delays. The sites should submit purchase requisitions that identify the item to be purchased and forward them to the Purchasing Department for price quotes and sourcing.

Because of the long lag times between ordering and delivery, requisitioners spend an excessive amount of time tracking the progress of a purchase requisition. As a result, the Accounting Department and sites maintain separate logs to track requisitions, resulting in duplication of effort.

The Purchasing Department should not alter the original purchase requisition so that the district has a full audit trail. Instead, any adjustments can be made when the purchase requisition is sourced to the vendor with notations on the original documentation.

Following is a recommended workflow that aligns with the district's purchasing handbook and eliminates redundancies within and between departments.

- Originating site/department identifies the item to be purchased, enters a purchase requisition into the PeopleSoft system.
 - ◆ Orders for technology equipment or maintenance items are sent to these department managers for approval prior to sending to accounting for budget review.
 - ◆ All other orders are sent to accounting for budget review and approval.
- Orders that exceed \$50,000 are directed to the assistant superintendent for approval, and orders that exceed \$100,000 are directed to the superintendent for approval.

- Approved purchase requisitions are sent to the Purchasing Department for vendor sourcing and best pricing.
- The Purchasing Department prepares a purchase order and sends it to the vendor and accounts payable. Vendors are instructed to send all orders to the central warehouse and vendor invoices to accounts payable.
- Central warehouse receives orders and delivers to sites/departments.
- Receiving documents are sent to accounts payable to match with vendor invoices and original purchase orders. Payments are sent to the vendor.

As previously mentioned, the district is implementing an electronic procurement process called KissFlow as a secondary procurement routing system until the district is able to come online with the new LACOE system. Implementing this process in addition to KissFlow will eliminate duplication of effort by the sites and purchasing, allowing for a smooth procurement process. KissFlow had not been implemented at the time of FCMAT’s fieldwork although implementation is confirmed to have occurred in December 2017.

The purchasing manager works from 9 a.m. to 5:30 p.m. each day, which is uncommon and not a best practice. All Purchasing Department personnel hours should coincide to school site hours with minimal overlap for better customer service, support and delivery schedules.

The purchasing handbook and board policy 3314 states that “The District shall not be responsible for unauthorized purchases” yet this is a common practice. The district should develop an administrative regulation to provide exceptions for authorized emergency or situational purchases for employee reimbursement. Employees interviewed state that this is a common purchasing method because it takes so long to process requisitions and purchase orders. When an employee purchases goods for the site, the site secretary writes a memo requesting reimbursement and attaches the receipt(s). The memo and receipt(s) are mailed to accounts payable for processing. For employee purchases, the district authorizes open purchase orders with a “not to exceed” amount where the employee is listed as the vendor. This process follows the same workflow described above for the purchase of goods except that the reimbursement request is sent directly to accounts payable. The district should establish a defined practice for employee purchases and account for periodic exceptions.

When school sites miss the purchasing cutoff in the spring of each year, orders are held until after the new fiscal year starts on July 1, which leads to long wait times. The Purchasing Department should ensure that school site orders are processed in advance of the purchasing cutoff to guarantee materials and supplies arrive in time for school opening in August.

Use of Field Service Agreements and Service Contracts

There are two main differences between the workflow for the purchase of materials and supplies as described in the previous section and the workflow for field service agreements and service contracts. They are as follows:

1. When the site or Associated Student Body (ASB) identifies a need for a service it submits a contract signed by the vendor with the requisition. Sites and ASBs can use contract templates provided by the district or the vendor’s contract; principals have the authority to sign contracts of up to \$5,000. When the accounting specialist reviews the requisition and contract, it is placed on the board agenda for approval at the next available board meeting.

2. The vendor invoice for services rendered, instead of a receiver, is signed by the site to signify that the service was fully performed. The Accounts Payable Department checks the service provider's certificate of insurance, which is often after the service is performed.

The district has three contract templates for the sites to use:

1. Independent contractors
2. Field service agreements of less than \$15,000
3. Field service agreements of more than \$15,000

Field Service Agreement: The district uses field service agreements for public works projects that are overseen by the Maintenance and Operations Department. When sites or departments identify a need for a public works project, the maintenance and operations director processes the contractor through the Department of Industrial Relations (DIR) and prepares a contract. The department secretary uses the PeopleSoft system to prepare a requisition, which is sent and reviewed by the Accounting Department. Once approved by the Accounting Department, the contract is entered into a log, placed on the next board packet for approval and forwarded to purchasing to prepare a purchase order.

In June 2014, SB 854 was signed into law, making substantial changes to laws for compliance, monitoring and enforcement of prevailing wage requirements by the DIR. The DIR interactive website allows contractors to register and awarding bodies to verify that contractors are registered to perform public works contracts in accordance with Labor Code section 1720. The district is required to obtain proof of public works contractor registration before accepting a bid or awarding a contract in accordance with SB 854.

Board policy 3312 states that "When required by law, contracts and subcontracts made by the District for public works or for goods or services shall contain a nondiscrimination clause prohibiting discrimination by contractors or subcontractors."

The district should ensure all provisions of the DIR comply with current regulations and that the provisions of board policy 3312 are reflected in all public works contracts.

Service Contracts: Board policy 3312 governs contracts issued on behalf of the district. It states that "all contracts between the District and outside agencies shall conform to standards required by law." Guidance in Education Code Section 17604 provides that the governing board can designate authority to contract on its behalf. This authority may be limited as to time, money or subject matter; however, "the school district official invested by the governing board with the power of contract shall be personally liable to the school district employing him or her for any and all moneys of the district paid out as a result of the malfeasance." It is imperative that the district provide training and adequate safeguards to all employees that have authority to contract to reduce the liability to these employees.

The Purchasing Department handbook provides that:

All contracts or agreements must be approved by the Board of Education. Please submit a contract or agreement along with a requisition for District processing. (Do not sign any vendor's written contract or agreement.) Contracts totaling \$5,000 or less may be approved by the site principles (sic). Contracts in excess of \$5,000 can only be signed by the Assistant Superintendent of Business Services, the Assistant Superintendent of Human Resources, the Assistant Superintendent of Instructional Services or the Superintendent.

The district should update board policies to reflect these provisions if it intends to continue authorizing managers and principals contract authority up to \$5,000. In this case, managers and principals given purchasing authority should have guidelines and a checklist; be familiar with current laws and regulations for procurement; and be knowledgeable about insurance requirements; bid splitting; public works; W9 forms; fingerprinting requirements and DIR regulations. Employees interviewed, including the purchasing manager, acknowledged there are no existing guidelines or checklists.

At a minimum, all district contracts should be supported with proof of insurance to indemnify the school district for general and aggregate liability, and workers' compensation coverage. The district should consider additional coverages for contractor's employee liability, professional liability, and excess liability and sexual abuse/misconduct/molestation coverages for contractors when working around children.

The Purchase Department's webpage has a link to the purchasing handbook, which was recently updated. Many school districts incorporate interactive links to online forms with instructions for routing. This would enhance the process for sites and provide faster online processing.

The district's website does not have information to assist vendors with frequently asked questions, terms and conditions, or insurance requirements. It would benefit the district to update its website to include information on how to do business with the district, including interactive forms, vendor registration process (including a link to the DIR registration process) and minimum vendor selection requirements.

All contracts should be approved by central administration to ensure all contract elements listed above are met. This would standardize the service agreements districtwide, provide transparency, and limit the districts liability.

Accounts Payable

Board policy 3314, Payment for Goods and Services, defines "the importance of developing a system of internal control procedures in order to help fulfill its obligation to monitor and safeguard District resources." This board policy explicitly states that the district shall maintain separation of duties between the functions of purchasing, receiving and paying for goods and services with adequate support documentation, and "ensure that invoices are paid expeditiously so that the District may, to the extent possible, take advantage of available discounts and avoid finance charges." Separation of duties is an essential internal control feature and one of the cornerstones of effective fiscal management designed to monitor and safeguard district assets.

Education Code Section 17605 authorizes the governing board to delegate authority to any officer or employee "to purchase supplies, materials, apparatus, equipment and services" taking into consideration Section 20111 of the Public Contract Code that provides threshold limits that require formal bidding procedures.

To initiate a purchase requisition for materials and supplies, school site and department secretaries process a purchase requisition in the PeopleSoft system. As previously described, the system has been set up to allow further processing if the account code exists without regard to sufficient funds available in that account code. The requisition is routed to the site/department manager for signature and forwarded to the Purchasing Department. Once the requisition has been processed through both the Purchasing and Accounting departments, a purchase order is generated.

The purchase order is sent to the vendor and a copy with all supporting documentation is sent to accounts payable. When materials and supplies have been received and delivered to the site by the Purchasing Department, the signed receiver is sent to accounts payable. Pending an invoice from the vendor, the accounts payable technician files the receiving documentation.

To issue a warrant, accounts payable requires hard copies of the receiver, invoice, and purchase order to match and confirm the item, quantity, and price.

The district staff provided examples of exceptions from the accounts payable process described above that lead to vendor payment delays.

- Vendor invoices are sent directly to sites; therefore, accounts payable has no document to justify payment.
- The vendor identifies a previously used purchase order number on the invoice that prevents the accounts payable staff from matching with the appropriate receiver and other support documentation.
- Invoices for service contracts generally do not contain a purchase order number.
- Invoices have a per-unit price that is different than the price listed on the purchase order.
- Invoices for transportation services do not align with the contract causing major delays in payment to the vendor as the accounting staff work to correct numerous discrepancies.
- Additional services added to an existing individualized education plan (IEP) for a student is not updated in the contract on file. The governing board must approve contract amendments, causing delays in payment to the vendor.

As previously mentioned, the district website could have a section for vendors on how to do business with the district. Included in this section should be instructions to vendors to use the correct purchase order number and to send all invoices directly to accounts payable. A meeting with the transportation service contractor to define how the contract terms should be aligned with the billing would alleviate any misunderstandings between the district and the provider. When contracts for changes to IEPs are agendaized on the next available board agenda, copies should be sent to accounts payable to prevent delays in vendor payments.

Recommendations

The district should:

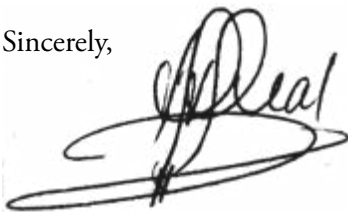
1. Implement a calendar that coincides with GAMUT releases to ensure board policies and administrative regulations are updated and reflect the latest regulatory changes in law.
2. Regularly update board policies and adopt an administrative regulation for employee reimbursements that define the procedure for exceptions to the standard procurement process.
3. Implement a hard stop within the purchasing module of PeopleSoft and train site personnel with the use of appropriate account codes and the ability to access system reports for availability of funds within an account code. Additional procedures will be necessary for sites to request budget transfers when insufficient funds exist.

4. Ensure the sites route purchase requisitions for technology and maintenance items to the appropriate department prior to submitting to the Purchasing Department. Sites should identify the item to be purchased and forward them to the Purchasing Department for price quotes and sourcing for all other items.
5. Ensure purchasing does not alter the purchase requisition to maintain a full audit trail.
6. Consider implementing the process recommended in this report. Eliminate duplication of effort by the sites and the Purchasing Department for sourcing vendors and best pricing.
7. Change Purchasing Department personnel hours to coincide with school site hours for better customer service, support and delivery schedules.
8. Develop and adopt an administrative regulation to provide exceptions for authorized emergency or situational purchases for employee reimbursement.
9. Ensure the Purchasing Department gives sites ample notice of the annual purchasing cutoff dates so site orders for the start of the school year can be delivered timely. Develop information to assist vendors with frequently asked questions, terms and conditions, and insurance requirements on its website including information on how to do business with the district. Information such as interactive forms, vendor registration process (including a link to the DIR registration process) and minimum vendor selection requirements would greatly assist vendors.
10. Update board policy to reflect the provision in the purchasing handbook if the district intends to continue authorizing managers and principals contract authority up to \$5,000.
11. Provide managers and principals given purchasing authority with guidelines and a checklist to be familiar with current laws and regulations for procurement, insurance requirements, bid splitting, public works, collection of W9 forms, fingerprinting requirements and DIR regulations.
12. Ensure all provisions of the DIR comply with current regulations, and the provisions of board policy 3312 are reflected in all public works contracts.
13. Ensure all district contracts at a minimum are supported with proof of insurance to indemnify the school district for general and aggregate liability, and workers' compensation coverage. The district should consider additional coverages for contractor's employee liability, professional liability, and excess liability and sexual abuse/misconduct/molestation coverages when working around children.
14. Ensure all contracts, including service agreements, are approved by central administration to ensure all contract elements have been met. This would provide transparency and limit liability to the district and staff.

15. Initiate a meeting with the transportation service contractor to define how the contract terms should be aligned with the billing to alleviate any misunderstandings between the district and the provider.
16. Send copies of contract changes to IEPs to accounts payable to prevent delays in vendor payments.

FCMAT extends thanks to the staff and administration of the San Marino Unified School District for their cooperation and assistance during this review. If you have questions or concerns regarding this management letter, please contact me at ddeal@fcmat.org.

Sincerely,

A handwritten signature in black ink, appearing to read "Deborah Deal". The signature is stylized with a large, sweeping loop at the bottom.

Deborah Deal, CFE
Intervention Specialist