

Accounting Controls Risk Analysis

Key Indicators for Fiscally Accountable and Fiscally Independent K-12 School Districts



The Fiscal Crisis & Management Assistance Team (FCMAT) has developed the Accounting Controls Risk Analysis as a management tool to evaluate key indicators that may assist a county office of education in determining whether a fiscally accountable or fiscally independent school district¹, as defined by Education Code Sections 42647 and 42650, has adequate accounting controls to maintain the status of fiscal accountability/independence. This analysis should be conducted at least annually to ensure ongoing compliance.

Each of the key indicators below contains a number of questions. An answer of “No” to any individual question is not necessarily an indication that the district lacks sufficient accounting controls. Rather, if the district lacks proficiency in multiple sections as defined by the final scoring rubric (indicating moderate or high risk), this may yield cause for concern and require additional review. The more indicators identified as deficient, the greater the potential risk that accounting controls are inadequate for the status to continue.

A fiscally accountable or fiscally independent district should continually monitor its accounting controls to ensure ongoing compliance with the requirements, as prescribed in E.C. 42647 and 42650. A lack of adequate controls may indicate the need for possible revocation of the fiscally accountable or fiscally independent status. A county office should consider using this assessment in tandem with FCMAT’s Fiscal Health Risk Analysis at <http://fcmat.org>.

District Name: _____

Fiscally Independent [E.C. 42647]

Processes all warrants, except debt service, independent of COE.

Date of approval by SPI: _____

Fiscally Accountable [E.C. 42650]

Processes vendor and/or payroll warrants as designated by the COE, except debt service, independent of the COE.

Date of approval by COE: _____

Date of approval by County Auditor: _____

Designated categories: _____

Vendor warrants

Payroll warrants

Identified exclusions: _____

Person designated as district auditor/district disbursing officer: _____

¹This tool is intended primarily to review K-12 districts, as COEs do not have fiscal oversight responsibilities for community colleges. However, a COE may still provide warrant authorizations for community colleges. E.C. Sections 85266 (Fiscally Accountable) and 85266.5 (Fiscally Independent) provide the legal basis for community colleges to approve warrants independent of a COE.

Is the district adhering to appropriate controls and maintaining compliance in the following areas?

Yes No N/A

1. Warrant Issuance Controls

- Does the governing board designate, either through a board policy or board resolution, a district auditor or district disbursing officer responsible for issuing warrants?
- Is the person responsible for issuing warrants bonded in an amount determined by the governing board?
- Does the district have audit procedures in place to ensure only legally authorized expenditures are approved for payment?
- Does the district secure payroll and commercial warrants at all times?
- Does the district maintain controls over the signing of warrants, including safeguarding any electronic or facsimile signatures?
- Does the district track the sequencing of warrant numbers and investigate any unidentified gaps?
- Does the district use banking safeguards, such as positive pay, to ensure all issued warrants are authorized?
- Do safeguards exist in the district’s financial system to prevent any unauthorized issuance of warrants?
- Do safeguards exist in the district’s financial system to prevent any unauthorized posting to the general ledger?
- Do safeguards exist to prevent those responsible for posting to the general ledger from also issuing warrants?
- Do safeguards exist to prevent those responsible for issuing warrants from also posting to the general ledger?
- Are issued warrants and the associated registers and documentation audited by someone other than the person responsible for issuing the warrants?
- Are warrant pre-lists and/or registers consistently forwarded to the county auditor on the same day warrants are issued?
- Are warrant pre-lists or registers consistently forwarded to the county office of education on the same day warrants are issued?
- Are procedures followed to verify that general ledger cash balances show sufficient cash in all issuing funds prior to generating warrants?
- Are safeguards in place to prevent the issuance of warrants from the debt service fund, where applicable?
- Is the oversight of all purchases and payments centralized in the district office, including the issuance of all warrants and the processing of all contracts?

Are there 12 or more “Yes” responses for Warrant Issuance Controls?

Is the district adhering to appropriate controls and maintaining compliance in the following areas?

Yes No N/A

2. Purchasing and Invoicing Controls

- Are procedures followed to require additional authorizations for purchases exceeding district-established thresholds?
 - Is the bidding process followed in accordance with the Public Contract Code?.
 - Are employees with the responsibility for modifying the vendor master file prohibited from adding or modifying vendor invoices?
 - Are employees with the responsibility for adding or modifying vendor invoices prohibited from authorizing and generating disbursements?
 - Are employees responsible for approving invoices and payments prohibited from processing and recording payments?
- Are there 4 or more “Yes” responses for Purchasing and Invoicing Controls?**

3. Internal Controls

- Does the district have adequate internal controls and separation of duties, where necessary, in the following areas?
 - Accounting
 - Budgeting
 - Information Technology
 - Personnel/Human Resources
 - Purchasing/Procurement
 - Warehousing/Receiving.
 - Internal Audit (where applicable)
 - Is the district adequately staffed in the following areas?
 - Accounting
 - Budgeting
 - Information Technology
 - Personnel/Human Resources
 - Purchasing/Procurement
 - Internal Audit (where applicable)
- Are there 10 or more “Yes” responses for Internal Controls?**

4. Audits and Compliance

- If there is an internal audit function, are the internal auditors independent of the individuals or departments subject to audit?
- Have material findings resulting from an external audit or review been addressed and resolved, and have procedures been implemented to prevent a recurrence of those findings? These include audits and reviews from the following:
 - A public accounting/auditing firm
 - CalPERS.
 - CalSTRS.
 - FCMAT

Is the district adhering to appropriate controls and maintaining compliance in the following areas?

Yes No N/A

- Franchise Tax Board
 - IRS
 - Other state and federal agencies
 - Various school finance consultants
 - Does the district submit accurate, timely and compliant reports for STRS, PERS, FICA, workers' compensation and unemployment insurance, as well as for federal and state tax withholdings?
 - Does the district make accurate and timely payments for STRS, PERS, FICA, workers' compensation and unemployment insurance, as well as for federal and state tax withholdings?
 - Are mandated financial and statistical reports, including attendance data, reviewed and approved by management before submission?
 - If the district has a current study, report, evaluation, or audit that contains evidence the district is showing *fiscal distress*, has the district provided the report to the county office, and is the district addressing the evidence?
 - If the district has a current study, report, evaluation or audit (including an AB 139 extraordinary audit) that contains evidence indicating potential *asset misappropriation or fraud*, has the district provided the report to the county office, and is the district addressing the evidence?
- Are there 10 or more "Yes" responses for Audits and Compliance?**

5. Governance

- Does the governing board review and approve all payments made by the district? . . .
 - Does the board maintain a conflict of interest policy that is reviewed and updated, if necessary, at least biannually?
 - Has a conflict of interest policy been widely distributed to all staff and contractors? . . .
 - Have the governing board and all appropriate staff and consultants filed Form 700 (Statement of Economic Interests) timely?
 - Does the board follow statutory regulations on the adoption of the district budget and interim reports, including timely submission to the county office?
 - Did the district receive a positive certification on its most recent interim report?
 - Was the district's most recent Adopted Budget approved by the county office of education?
- Are there 6 or more "Yes" responses for Governance?**

RISK ANALYSIS

1. Total the number of sections in which the district did not meet the minimum number of required "Yes" responses.
2. Use the key below to determine the level of risk associated with the district's current accounting controls.

0 – 1	2 – 3	4-5
Low	Moderate	High