September 8, 2014

Socorro Shiels, Superintendent
Santa Rosa City Schools
211 Ridgeway Avenue
Santa Rosa, CA 95401

Dear Superintendent Shiels:

The Santa Rosa City Schools and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement on December 11, 2013 to conduct a review of the district’s budget development and financial projection processes, internal control structure between business services and personnel departments and an evaluation of policy and procedures for the purchasing and warehouse departments. Specifically, the agreement stated that FCMAT would perform the following:

1. Review the district’s budget development process, assumptions, and site allocation methods used to develop the 2013-14 adoption budget, and make recommendations.

2. The analysis of the district’s budget assumptions shall include but not be limited to enrollment and average daily attendance projections, Local Control Funding Formula calculations, forecasted revenues, projected expenditures including step and column, position control and collective bargaining agreements, interfund transfers, long term debt, and the recommended reserves for economic uncertainties.

3. The analysis will also include a review of the district’s process and procedures for developing its multiyear financial projection and cash flow.

4. Review the internal control structure between the business and personnel departments to provide the district with reasonable assurances, based on a review of governance and business practices, that adequate management controls are in place regarding the reporting and monitoring of transactions. Management controls include the processes for planning, organizing, directing and controlling program operations, including systems for measuring, reporting, and monitoring performance. Specific review objectives will include evaluating board policies and administrative regulations, procedures, internal controls and transactions performed by the district.

5. Evaluate the purchasing and warehouse department’s policies, procedures, including compliance with bidding requirements and other purchasing data. The objective of this component will be to provide findings regarding the efficiency and accuracy of the purchasing department and make recommendations for the following:
a. Provide reasonable assurance that purchasing transactions are entered by properly authorized personnel and that the transactions are accurately summarized for procurement purposes. The team will obtain data and information necessary to perform testing of various purchase orders and warehouse requisition records. This component will be to evaluate the effectiveness and efficiency of departmental purchasing and warehouse processing and operations which include new vendors, contracts, bid requirements, and system operations.

b. Provide reasonable assurance that access to the purchasing and warehouse system is properly secured from unauthorized changes and that the proper internal control systems are in place for data transfers between the purchasing and accounts payable departments.

6. Evaluate the division of labor and segregation of duties between classified and management employees in the purchasing and warehouse department.

   a. Review the purchasing and warehouse department work flow and staffing;
   b. Review the records processing procedures and file management protocol;
   c. Evaluate desk manuals and procedures for each departmental employee.
   d. Verify that the district is in compliance with the Education Code and Public Contract Code regarding bid limits.
   e. Review procedures related to deductions and payments to vendors, including but not limited to purchase orders and sample contracts for professional services, construction and other purchases for services.

7. Evaluate the efficiency of the district’s facilities and maintenance operations in accordance with the following:

   a. Review job descriptions for all department positions, evaluate capacity, scheduling, efficiency and functions and make recommendations for staffing and operational improvements. All recommendations will include estimated calculated values for any proposed position reductions or enhancements to the organizational structure.
   b. Evaluate the current operational work flow of each departmental function for the facilities and maintenance areas and provide recommendations for improved efficiency and standard industry practices, if any.

This final report contains the study team’s findings and recommendations in the above areas of review. FCMAT appreciates the opportunity to serve the Santa Rosa City Schools, and extends thanks to all the staff for their assistance during fieldwork.

Sincerely,

Joel D. Montero
Chief Executive Officer
# Table of Contents

Foreword ................................................................................................................................. iii  

Introduction  
  Background ....................................................................................................................... 1  
  Study Guidelines ............................................................................................................. 3  
  Study Team ....................................................................................................................... 3  

Executive Summary ........................................................................................................... 5  

Findings and Recommendations  
  Budget Development and State Reporting Cycle ............................................................. 7  
  Multiyear Financial Projections ....................................................................................... 19  
  Financial Reporting and Communications ..................................................................... 23  
  Long Term Debt ............................................................................................................. 25  
  Combined Budget/Single District Resolution ................................................................. 29  
  Internal Controls ............................................................................................................. 31  
  Purchasing, Warehouse and Duplicating Services .......................................................... 39  
  Maintenance and Facilities ............................................................................................. 51  

Appendices ........................................................................................................................... 55
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

The Santa Rosa City School District provides educational services to 16,430 students at 20 schools in the Santa Rosa High School District and the Santa Rosa Elementary School District. Services are provided to each district through a common administration where both districts are operated by a single school board and superintendent. The districts have elected to use the combined budget format authorized under Education Code Section 35110.

The district is located north of the San Francisco Bay and is near the geographical center of Sonoma County. Santa Rosa is both the county seat and largest city in the county, with a population of approximately 170,000.

In December 2013, Santa Rosa City Schools requested that FCMAT assist the district by reviewing the district’s business operations. The study agreement specifies that FCMAT will perform the following:

1. Review the district’s budget development process, assumptions, and site allocation methods used to develop the 2013-14 adopted budget and make recommendations.

2. The analysis of the district’s budget assumptions shall include but not be limited to enrollment and average daily attendance projections, Local Control Funding Formula calculations, forecasted revenues, projected expenditures including step and column, position control and collective bargaining agreements, interfund transfers, long term debt, and the recommended reserves for economic uncertainties.

3. The analysis will also include a review of the district’s process and procedures for developing its multiyear financial projection and cash flow.

4. Review the internal control structure between the business and personnel departments to provide the district with reasonable assurances, based on a review of governance and business practices, that adequate management controls are in place regarding the reporting and monitoring of transactions. Management controls include the processes for planning, organizing, directing and controlling program operations, including systems for measuring, reporting, and monitoring performance. Specific review objectives will include evaluating board policies and administrative regulations, procedures, internal controls and transactions performed by the district.

5. Evaluate the purchasing and warehouse department’s policies, procedures, including compliance with bidding requirements and other purchasing data. The objective of this component will be to provide findings regarding the efficiency and accuracy of the purchasing department and make recommendations for the following:
   a. Provide reasonable assurance that purchasing transactions are entered by properly authorized personnel and that the transactions are accurately
summarized for procurement purposes. The team will obtain data and information necessary to perform testing of various purchase orders and warehouse requisition records. This component will be to evaluate the effectiveness and efficiency of departmental purchasing and warehouse processing and operations which include new vendors, contracts, bid requirements, and system operations.

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6. Evaluate the division of labor and segregation of duties between classified and management employees in the purchasing and warehouse department.

   a. Review the purchasing and warehouse department work flow and staffing;
   b. Review the records processing procedures and file management protocol;
   c. Evaluate desk manuals and procedures for each departmental employee;
   d. Verify that the district is in compliance with the Education Code and Public Contract Code regarding bid limits.
   e. Review procedures related to deductions and payments to vendors, including but not limited to purchase orders and sample contracts for professional services, construction and other purchases for services.

7. Evaluate the efficiency of the district's facilities and maintenance operations in accordance with the following: (The scope of work excludes grounds and custodial operations).

   a. Review job descriptions for all department positions, evaluate capacity, scheduling, efficiency and functions and make recommendations for staffing and operational improvements. All recommendations will include estimated calculated values for any proposed position reductions or enhancements to the organizational structure.
   b. Evaluate the current operational work flow of each departmental function for the facilities and maintenance areas and provide recommendations for improved efficiency and standard industry practices, if any.
Study Guidelines

FCMAT visited the district on January 28-30, 2014 to conduct interviews, collect data and review documents. This report is the result of those activities and is divided into the following sections:

- Executive Summary
- Budget Development and State Reporting Cycle
- Multiyear Financial Projections
- Financial Reporting and Communications
- Long Term Debt
- Combined Budget/Single District Resolution
- Internal Controls
- Purchasing, Warehouse and Duplicating Services
- Maintenance and Facilities
- 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:

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FCMAT Fiscal Intervention Specialist
Bakersfield, CA

Pam Viar*
FCMAT Fiscal Intervention Specialist
Supervisor of Accounting*
Bakersfield, CA

Clovis Unified School District

Marisa A. Ploog, CPA, CFE, CICA, CGMA
FCMAT Fiscal Intervention Specialist
Merced, CA

Laurie Crowe
FCMAT Consultant
Merced, CA

Laura Haywood
FCMAT Technical Writer
Bakersfield, CA

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

FCMAT conducted an organizational and staffing review to provide the Santa Rosa City Schools governing board and district administration with an independent and external review of its accounting, budget, purchasing and warehouse, duplicating, and facilities and maintenance functions. This review was completed to identify areas of redundancy and/or inefficiency, improper segregation of duties between departments, and inadequacy of staffing levels based on industry standards. Based on industry standards, document review, and interviews with staff, Santa Rosa City Schools should consider the following recommendations:

- Collaborate with the governing board to annually develop and establish written budget priorities based on identified district needs and goals and on realistic projections of available funds.
- Review school site allocation formulas to determine if sufficient discretionary funding is being allocated to school sites to meet basic campus needs.
- Evaluate the practice of requiring site discretionary funding to be utilized to pay for campus maintenance costs.
- Ensure that annual discretionary fund allocations are used in the fiscal year allocated.
- Discontinue allowing sites to exceed discretionary funding allocations.
- Provide routine training on the Escape financial system for all department and school site administrators and office staff to ensure users have the knowledge and capability to navigate the financial system and run budget/actuals reports.
- Frequently reconcile all accounts receivable and payable balances and sufficiently document receipts and payments to ensure a proper documentation trail exists so each component of the balance can be identified at any time.
- Conduct budget study sessions with the governing board and other district stakeholders during the budget development process.
- Seek options to simplify and condense budget information or alternative formats that meet the needs of the administration and governing board.
- Establish and implement a plan to improve communications between the business office and superintendent’s office.
- Review budget documentation with the superintendent prior to finalization so that questions may be addressed.
- Annually publish a statement of general fund income and expense per Education Code Section 35111 (d).
  - Restrict the ability to add vendors to someone outside the accounts payable function.
  - Create a purchasing handbook containing the required procedures.
  - Establish guidelines for district quotes.
  - Have all contracts signed by the associate superintendent of business, except those for professional services.
• Ensure that only Purchasing Services completes and sends out contracts and purchasing agreements.

• Adopt the California Uniform Public Construction Cost Accounting Act (PCC Section 22000) for public works construction projects.

• Develop a uniform purchasing process for the maintenance and operations team, and reduce the number of confirming requisitions.

• Standardize the inventory of maintenance equipment and supplies.

• Segregate duties in the competitive bid process for public works projects.

• Reassign the responsibility for evaluating the leads in the maintenance and grounds department to the director of maintenance and operations.

• Develop a preventive maintenance schedule.

• Develop a multiyear plan and provide funding for maintaining and replacing vehicles.

• Require the maintenance crew to carry on their trucks the equipment needed to perform routine maintenance and repairs.

• Require the maintenance crew to check in with school office staff prior to beginning repairs and to communicate with them regarding repair status.
Findings and Recommendations

Budget Development and State Reporting Cycle

The budget process is a fluid cycle whereby districts plan, prepare, adopt, implement and evaluate and update the financial needs for each fiscal year. Revenue and expenditures are estimated for the future based on information available at the time of preparation. These estimates are based on a combination of known future economic commitments and obligations and educated best guesses based on proposals, tentative commitments, historical experience and other financial trends.

The traditional budget cycle generally begins each year with the governor’s budget proposal in January for the next fiscal year. Districts generally focus on enrollment projections and associated staffing levels from January through May based on historical enrollment and average daily attendance trends as a preliminary step. Districts that utilize current staffing data and an integrated position control system to maintain positions approved by the governing board will commonly roll this information into a budget development model and then update it based on additional data for the new fiscal year as it becomes known. Revenue projections are typically based on a combination of factors released in the governor’s proposal, estimated enrollment and ADA projections and funding levels for the current fiscal year. One-time revenue including prior year carryover and expenditures are removed from the budget model.

In March districts focus on the second interim budget revision cycle for the current fiscal year budget, which also is often utilized to develop estimated actuals for the proposed budget for the new fiscal year, although it is best practice to update the current year projections in an actuals model to estimate beginning balances for the new year in the proposed budget. The table below shows the district’s estimated and actual beginning fund balances for the 2013-14 fiscal year:

<table>
<thead>
<tr>
<th>2012-13</th>
<th>Unrestricted</th>
<th>Restricted</th>
<th>Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Actuals</td>
<td>$8,321,066</td>
<td>$168,000</td>
<td>$8,489,066</td>
</tr>
<tr>
<td>Unaudited Actuals</td>
<td>$8,467,227</td>
<td>$2,040,097</td>
<td>$10,507,324</td>
</tr>
<tr>
<td>$ Increase/(Decrease)</td>
<td>$146,161</td>
<td>$1,872,097</td>
<td>$2,018,258</td>
</tr>
<tr>
<td>% Increase/(Decrease)</td>
<td>1.76%</td>
<td>1114.34%</td>
<td>1116.10%</td>
</tr>
</tbody>
</table>
The district experienced an increase in combined beginning fund balance of 1116.10% for 2013-14 over that projected in its adopted budget. Of this difference the increase in unrestricted fund balance was less than 2% of the total unrestricted and less than 1.5% of the total unrestricted and restricted combined, leaving the greater difference attributable to restricted resources. This indicates that the district’s focus on estimated actuals is primarily directed to the unrestricted resources, and of greater importance from the viewpoint of fiscal solvency. However, the variance in estimated versus actuals for restricted resources on the surface would indicate that little effort was made to estimate balances for restricted resources and categorical program funding.

Below is a summary of the differences between estimated actuals and actuals:

<table>
<thead>
<tr>
<th>Name</th>
<th>Resource Code</th>
<th>2013-14 Adopted Budget</th>
<th>2013-14 1st Interim Budget</th>
<th>$ Difference</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>0000</td>
<td>$8,321,066</td>
<td>$8,467,227</td>
<td>$146,161</td>
<td>1.76%</td>
</tr>
<tr>
<td>Restricted Resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical Billing Option</td>
<td>5640</td>
<td>$ -</td>
<td>$381,386</td>
<td>100.00%</td>
<td></td>
</tr>
<tr>
<td>Lottery Instructional</td>
<td>6300</td>
<td>$ -</td>
<td>$102,704</td>
<td>100.00%</td>
<td></td>
</tr>
<tr>
<td>Materials</td>
<td>6500</td>
<td>$168,000</td>
<td>-</td>
<td>-100.00%</td>
<td></td>
</tr>
<tr>
<td>Special Education-Mental Health</td>
<td>6512</td>
<td>$ -</td>
<td>$490,277</td>
<td>100.00%</td>
<td></td>
</tr>
<tr>
<td>Economic Impact Aid</td>
<td>7091</td>
<td>$ -</td>
<td>$346,998</td>
<td>100.00%</td>
<td></td>
</tr>
<tr>
<td>Other Local</td>
<td>9010</td>
<td>$ -</td>
<td>$718,731</td>
<td>100.00%</td>
<td></td>
</tr>
<tr>
<td>Total Restricted</td>
<td></td>
<td>$168,000</td>
<td>$2,040,097</td>
<td>$1,872,097</td>
<td>1114.34%</td>
</tr>
<tr>
<td>Total Combined</td>
<td></td>
<td>$8,489,066</td>
<td>$10,507,324</td>
<td>$2,018,258</td>
<td>1116.10%</td>
</tr>
</tbody>
</table>

Although the state does not require detail for local revenues reported in the 9XXX resource code series, districts commonly account for these funds in individual resources to isolate revenue and related expenditures activity for each funding source and ensure compliance with the restricted nature of the funding. Review of the district’s general ledger provided the detail for resource 9010 Other Local, which is detailed below:

<table>
<thead>
<tr>
<th>Name</th>
<th>Resource Code</th>
<th>2013-14 1st Interim Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>MCHS Scholarship</td>
<td>9030</td>
<td>$11,436.84</td>
</tr>
<tr>
<td>Resig</td>
<td>9090</td>
<td>$47,332.33</td>
</tr>
<tr>
<td>On the job training</td>
<td>9355</td>
<td>$26,702.16</td>
</tr>
<tr>
<td>Vinyard</td>
<td>9850</td>
<td>$9,278.75</td>
</tr>
<tr>
<td>Arts/Sports</td>
<td>9860</td>
<td>$1074.00</td>
</tr>
<tr>
<td>Agilent Science</td>
<td>9870</td>
<td>$336.42</td>
</tr>
<tr>
<td>Other Private Grants</td>
<td>9900</td>
<td>$40,427.21</td>
</tr>
<tr>
<td>Donations</td>
<td>9999</td>
<td>$582,143.77</td>
</tr>
<tr>
<td>Total Local Restricted</td>
<td></td>
<td>$718,731.48</td>
</tr>
</tbody>
</table>

The California School Accounting Manual (CSAM) Procedure 310 – Resource (Project/Reporting) Classification states the following:

“The LEA may not create its own locally defined resource codes except within the following specified ranges:

0001–0999 Unrestricted: Locally Defined

4230–4250 Bilingual Education, Discretionary Grants
4410–4430 Educational Technology
4710–4730 Gifted and Talented Education (federal)
5210–5240 Head Start
5800–5999 Other Restricted Federal: Locally Defined
7701–7799 State School Facilities Funds
7800–7999 Other Restricted State: Locally Defined
9000–9999 Other Restricted Local: Locally Defined

“Note: The range 9000–9999, Other Restricted Local: Locally Defined, including Resource 9010, Other Restricted Local, is used only for local revenue that is restricted by the donor or by law for specific purposes. Unrestricted local revenue, including those amounts ‘restricted’ to or earmarked for a particular purpose by the LEA governing board, should be reported using the range 0001–0999, Unrestricted: Locally Defined.”

Although some of the sources of funding identified in the district’s detailed general ledger indicates the potential for donor restrictions, much of this balance appears to be attributable to locally earmarked funding rather than legally restricted.

In May the governor releases the May Revision, an update to the state budget proposal presented in January. This update typically provides greater clarity to what LEAs may expect relative to funding levels for the new fiscal year under Proposition 98, cost of living adjustment (COLA), Consumer Price Index (CPI) and other general factors related to K-12 state funding and is used by LEAs to update the budget development model. The budget development model and the actuals model are then utilized to prepare the Standardized Account Code Structure (SACS) budget reports to finalize the district’s proposed budget for approval by the governing board prior to July 1 of the new fiscal year. This cycle requires districts to finalize their budget prior to the actual enactment of the state budget.

Once the proposed budget is approved, district staff shift their focus back to the current fiscal year and work to close the books and complete the state reporting process for unaudited actuals, which is then followed by preparing for the independent audit process.

The budget cycle then continues into the new fiscal year with the first and second interim budget reporting cycles. The first budget revision period in the new fiscal year, first interim, recognizes updated budget assumptions and actual financial activity for the period July 1 through October 31. Although the entire adopted budget is commonly reviewed and updated during this cycle, updates to salary and benefit projections are commonly the largest focus because staffing for the new fiscal year is now known. Additionally, the beginning balances are updated to reflect those reported in unaudited actuals, and some revenues are adjusted based on updated student enrollment and revenue deferrals from prior year grants.

The second interim budget revision period recognizes updated budget assumptions and actual financial activity for the period July 1 through January 31. Generally revenue updates are the primary focus of this revision cycle, with greater focus on categorical program funding.
The Standardized Account Code Structure

The Standardized Account Code Structure (SACS) is used statewide by all LEAs to develop budgets and record transactions. It was developed to establish a uniform, comprehensive chart of accounts necessary to provide accurate, comparable financial information when used by all LEAs throughout the state to record and classify revenue, expenditures, assets, liabilities, and fund balance.

The budget is developed in several stages, first isolating each fund managed by a district and further isolating all financial activity by resource and operational component. Resource codes are used to record and classify revenue and expenditures that are restricted in nature and have special reporting requirements. Accounting by resource allows an LEA to isolate and account for the revenue and expenditure of the restricted funds. Funding sources that are not restricted by the source are accounted for in unrestricted resources, even when local restrictions have been identified and assigned.

Because the Santa Rosa City Schools (SRCS) is organized to operate two school districts under a shared governance and administrative structure, some of its accounting practices and budget development differ from a single-district agency. Each LEA is assigned a separate County-District-School (CDS) code, which is used to track information pertaining specifically to each district. SRCS has three CDS codes, one for the elementary district and one for the high school district, and a third used for consolidating and reporting financial information.

It is industry standard for districts to develop general operations department budgets based on the type of services provided. Each district commonly has separate budgets for the office of the superintendent, business services, human resources, educational services, and support services. Support services generally include maintenance and operations, transportation, food services, and technology. Although the approach varies throughout the state, mostly due to school district size, generally individual school site budgets are also developed for site-level discretionary spending. Department budgets are often based on historical spending trends for fixed costs and adjusted annually for inflation based on the consumer price index or other reasonable measures. Budgets for nonrecurring expenditure items are typically modified based on the expectations of the new fiscal year.

The district maintains a single general fund, but receives and tracks much of its funding, including categorical program funding, by district. Transactions are tracked separately using the first digit of the SACS school code to designate elementary (1XX) or high school district (2XX). This enables the district to easily isolate financial data in preparing individual reports. The district allocates salary and benefits costs for general administration and support services based on a ratio of 27% elementary and 73% high school. When revenue and expenditures benefit both the elementary and high school districts and the funds must be accounted for separately, a 3XX SACS school code is used and the allocation or use of those funds is then based on the same 27%/73% split. This distribution is reasonable based on FCMAT’s review of the district’s 2013-14 enrollment reports as of December 27, 2013.

Budget Assumptions - General Fund

Board Policy 3100 states, “In order to provide guidance in the development of the budget, the governing board shall annually establish budget priorities based on identified district needs and goals and on realistic projections of available funds.” The district was unable to demonstrate that the specific language in this policy is actively practiced. Although the district has held discussions directly related to budget reduction measures, FCMAT’s review of board agendas and minutes
found no discussion among governing board members and the district pertaining to specific priorities and goals.

Interviews with district staff confirm that much formal collaboration has ceased to occur over the last several years because of time limitations and increased focus on budget reduction measures. Staffing changes resulting from retirements and other position vacancies have required additional time and attention to properly train new staff members. Additionally, changes in funding models under the Local Control Funding Formula (LCFF) and migration to a new financial system in 2009-10 have also placed demands on business office staff time. Staff state they strive to be transparent in their practices and communicate the details of change to the best of their abilities given these time constraints.

Because budgets are developed and managed through a cyclical process, it is necessary for districts to estimate revenue and expenditure amounts that are not otherwise known early in the budget cycle. Budget assumptions are developed to express the concepts and methods used to develop revenue and expenditure projections. Because they use certain economic assumptions, projections of financial data have inherent limitations.

In addition to the budget priorities established by the district’s governing board, it is industry standard and best practice for districts to develop their budget in conjunction with guidance provided by their county offices of education. Each year as the governor releases his proposal, May revision and subsequent enactment of the state budget, many agencies quickly review and analyze the content of each to assess and communicate the details in more simplified forms. LEAs commonly follow this guidance to develop and subsequently revise school district budgets, multiyear financial projections and cash-flow projections.

The district business staff report that for each budget development process, revenue history for prior year and actuals is reviewed, historical trends are assessed, and current year activity is routinely reviewed and assessed to determine if budget projections are on target for the remainder of the fiscal year or require adjustment. In addition to analysis of historical financial trends, the district follows guidance provided by its county office of education and School Services of California (SSC) for the developing and updating the budget. Standard assumptions including COLA and CPI are commonly incorporated into assumptions applied to revenue and expenditure budget estimates and multiyear financial projections. These practices are consistent with industry standard.

**Enrollment and Average Daily Attendance**

Enrollment and average daily attendance (ADA) projections play a fundamental role in a school district’s budget planning. Accurate enrollment tracking and analysis of ADA are essential to providing a solid foundation for budget planning.

Because the district’s primary funding is based on the total number of student attendance days, monitoring and projecting student enrollment and attendance is a crucial function. When enrollment and related ADA decline, the district must consider the budgetary effects of the decline on teacher-to-student ratios and adjust accordingly. Conditions of this nature must be identified timely to ensure necessary expenditure adjustments can be made in correlation with related reductions in revenue. The district must also exercise extreme caution regarding issues such as negotiations, staffing and deficit spending to ensure fiscal solvency. Accurate tracking and analysis of enrollment and ADA can help the district better project future revenues and control staffing expenditures to help maintain fiscal solvency.
Any enrollment forecast has inherent limitations because it is based on certain criteria and assumptions rather than exact calculations. Limitations include issues such as the unpredictable timing of housing trends, unanticipated changes in enrollment, and changing local, state and federal economic conditions. Therefore, forecasting models should be viewed as a trend rather than as a prediction of exact numbers.

The district prepares enrollment projections for each new fiscal year once enrollment has settled in for the current school year, usually September and October. The district’s enrollment projections are very comprehensive based on school site and grade level, but are focused primarily on regular education students, as special education shifts are less predictable. The district maintains an attendance area map identifying boundaries using residential addresses. Current student population data is analyzed along with student transitions from primary to secondary schools based on geographic demographics.

Once finalized, enrollment projections are presented to the governing board for review and discussion, generally in November of each year. No additional adjustments are made to this analysis once finalized. Follow-up review of actual enrollment is done as of the second week of the new school year and an update presented to the governing board for discussion generally in September of the new school year, approximately nine months after the original estimate of enrollment is prepared. To maintain the most accurate and meaningful data, enrollment projections need to be updated at least at each interim financial reporting period.

Enrollment projections are used in developing revenue and expenditure budgets along with the calculation of state funding under the LCFF and allocation of discretionary funding to school sites. When projections indicate a trend of declining enrollment, the district relies on the Period 2 guarantee for revenue projections; if growth is projected revenue calculations utilize the increased ADA projected. Although districts should analyze the potential effect of projected enrollment growth on revenue and expenditure budgets, it is best practice to prepare budgets and related multiyear financial projections using a conservative approach to ensure overspending does not occur. Increases in revenue should not be incorporated into district budgets until actually experienced. Once certain, adjustments to revenue should be made to reflect the known increase. Because state funding for public education under the LCFF provides for a minimum funding guarantee, otherwise referred to the P-2 guarantee, districts are essentially provided sufficient time to make adequate adjustments to expenditures that correlate with the decline in enrollment.

**Revenue**

The primary source of school district revenue comes from Proposition 98, which requires a minimum percentage of the state’s budget to be spent on K-12 education. Beginning in 2013-14, funds are disseminated based on the Local Control Funding Formula (LCFF), which replaces the former funding revenue limits mechanism. The LCFF is being phased in, with full implementation estimated to take eight years, providing state revenues are sufficient to support increased levels of funding each year to meet each school district’s target funding level.

The transition to the LCFF is based on a series of complex calculations. A target funding level is calculated annually for each district based on factors including average daily attendance, K-3 class sizes and unduplicated pupil counts for English Language Learner and low socioeconomic student populations.

Funding for numerous state categorical programs was folded into the LCFF based on undenficted 2012-13 funding levels, thus eliminating the process of isolated financial management and compliance requirements of these programs. Home-to-school transportation and Targeted
Instructional Improvement Block Grant funding continue in the form of add-ons to the LCFF based on the amount received in 2012-13 and remain unadjusted into the future for cost of living increases, cuts or changes in district ADA.

The district prepares separate LCFF revenue calculations for the elementary and high school districts and for each district-sponsored charter school. The separate calculations are then consolidated for state reporting. Although consolidated and reported as one district for SACS reporting, staff report that the results of each separate calculation and revenue projection are presented to the governing board.

As mentioned earlier, where final award notifications are not yet available, the district relies on guidance from the county office and the SSC dartboard for most other revenue assumptions. Where appropriate, these assumptions are combined with enrollment and ADA projection data to formulate revenue budgets until final award notifications are received or calculation components are known.

Funding determinations for many other federal and state revenue sources are also based on a district’s enrollment or average daily attendance. For many ongoing categorical funding sources, prior year revenue budgets are rolled over into the budget model and updated during the interim budget revision process once final award confirmation is available. For federal categorical programs the district applies an 8% reduction to its normal estimates because of sequestration.

The district participates in the Medi-Cal Administrative Activities (MAA) reimbursement program. The district contracts with an outside provider to administer the program, although staff expressed that participation is not aggressive. The district elects the per-ADA block grant for revenue related to mandated cost reimbursements and utilizes the revenue assumptions provided in the SSC dartboard. The district reported it did apply for and anticipates receiving funding related to the Proposition 39 energy audits. The district budgets local revenue based on historical trends and includes funds collected for facility use, rentals and leases of district property, donations and other small cash collections.

Although most facility use agreements, rentals and leases are accounted for in the district’s general fund, net proceeds for use of facilities with synthetic fields are maintained in the district’s special reserve fund other than capital outlay (fund 17) and held for future field replacement.

**Expenditures**

**Salaries and Benefits**

The district’s Human Resources and business office utilize a single position control system that is an integrated module of the Escape financial system. Human resources is responsible for establishing and maintaining all positions that are approved by the governing board and managing all staffing assignments in the position control system. The Business Services department then utilizes this data in the budget development and payroll processes.

Position control data including positions, staff assignments, salary and benefit detail, account coding and distributions is loaded into the budget development model. Salary and benefit budgets for staffing allocations are solely managed by the business office and are not incorporated into site allocations, which is consistent with industry standard. When positions are vacated and frozen, related salary and benefit costs are removed from the budget.

The Escape financial system encumbers payroll after each payroll run, which allows efficient review of payroll budgets throughout the year to ensure budget and actuals are in alignment.
Business office staff review salary and benefit budgets quarterly, typically in conjunction with the first and second interim budget revision cycle.

The district budgets for Other Post-Employment Benefits (OPEB) consistent with Governmental Accounting Standards Board (GASB) 45. The district does not set aside amounts to pre-fund any portion of the projected liability. The annual pay-as-you go amount identified in the district’s actuarial study is included in the budget.

FCMAT’s review was focused on the district’s processes and procedures and assumptions applied in developing the district’s budget and multiyear financial projections. This focus includes a review of the tools and/or systems established for projecting salaries and benefits and the workflow between the Business Services and Human Resources departments. A full review of human resources was outside the scope of this study. A review focused on the practical application of established procedures of the Human Resources department would be beneficial to the district, including an assessment of whether staff consistently follow established operational policy, procedures and internal controls, as well as an evaluation of operational efficiency and effectiveness of departmental duties. A review of Human Resources would also include a review of the procedures used to ensure that staffing issues that require additional funds, such as overtime and teacher pay for student overages, are incorporated into the budget planning cycle by annually re-evaluating staffing allocations.

Similarly, interviews with some Cabinet members revealed a concern over the staffing calculation of teaching FTE and use of federal categorical dollars. However, FCMAT was unable to substantiate improper use of these funds. Further examination of this issue would require an in-depth review of the master scheduling process, which fell outside the scope of this report.

**Books, Supplies and Services**

Budgets for materials, supplies and services are generally rolled from the current fiscal year and adjusted to reflect current conditions and historical trends and CPI. This practice is consistent with industry standard. District staff reported that current year department budgets and site discretionary formulas remain static for the 2013-14 fiscal year.

Department budgets from the prior fiscal year established the base for the new fiscal year. Adjustments to the 2013-14 operational budgets for utilities are made based on historical trends and other known factors including CPI. Generally utility costs are increased by 5% each year in the budget. However, the district reports it has actively pursued energy reduction savings and met a goal of reducing energy costs by 10% in the last fiscal year.

Services related to special education pose the biggest challenge for the district in budget estimates. The district is a member of a countywide Special Education Local Plan Area (SELPA), but finds that costs related to nonpublic schools (NPS) fees are very unpredictable. District staff noted that in the past a requisition and contract were prepared for every student in NPS and the budget was encumbered. However, students would stop attending for various reasons and the encumbrance would not be cleared, creating considerable swings in projected ending fund balances. The district has since moved to a practice of preparing one requisition per vendor/provider and tracks the students more closely. A similar practice has also been implemented for mental health services.

Due to the economic circumstances that the district has experienced over the past five years, capital outlay expenditures have been budgeted sporadically and only when the need arises.
Each school site is provided with a discretionary budget each year based on a standardized formula. Sites receive an amount per projected grade level enrollment for the fiscal year, which is updated once enrollment is reported in the second month of the school year. Reductions to allocations are not made if the enrollment falls short of projections; however, if enrollment is greater, adjustments are made to increase allocations.

The district reduced its annual per student rates in 2001, 2002 and 2003 because of strained fiscal conditions. Although sites are permitted to carry over unused discretionary funding from one year to the next, increasing carryover balances each year contributed to the determination that funding reductions in this area were feasible. In interviews, business office staff stated that at one point school site discretionary balances were cleared as a way to address budgetary shortfalls. The reductions made to the rates have not since been restored. The table below summarizes the amounts allocated to sites for discretionary funding.

<table>
<thead>
<tr>
<th>School Type</th>
<th>Regular Funding per Enrollment</th>
<th>10% Reduction 6/20/01</th>
<th>20% Reduction 4/24/02</th>
<th>10% Reduction 3/5/03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elementary</td>
<td>$33.18</td>
<td>$29.86</td>
<td>$26.54</td>
<td>$19.91</td>
</tr>
<tr>
<td>Middle School</td>
<td>$45.71</td>
<td>$41.14</td>
<td>$36.57</td>
<td>$27.43</td>
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<td>$65.26</td>
<td>$58.73</td>
<td>$52.21</td>
<td>$39.16</td>
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<tr>
<td>Continuation</td>
<td>$54.12</td>
<td>$48.73</td>
<td>$43.30</td>
<td>$32.47</td>
</tr>
</tbody>
</table>

School sites are also provided an annual allocation of funding equivalent to 10% of the school site formula allocation in the Lottery Instructional Materials Resource 6300.

District budget technicians prepare allocation formula worksheets and initially allocate amounts into budget lines used in the current year budget. The worksheets are provided to each department and/or site administrator with instructions for budget allocation revisions. The budget technician then works with each department/school site to reallocate their funds based on their local decisions. As the year progresses, the budget technician prepares budget transfers as needed at the principal’s request.

In addition to general office and classroom supplies, school site discretionary funds must also cover the costs associated with basic maintenance and campus upkeep. Costs for copy machine purchases, which are made by each individual school site based on their self-determined needs, also come from site discretionary budgets. Although most costs of facility use agreements are covered through district funds, the maintenance of gym floors is also born by the school sites. Site administrators report that large expenditures of this nature place an extraordinary burden on the site discretionary budget, making it difficult to afford other material and supply needs for the remainder of the year.

During interviews, business office staff stated that although they don’t recommend it, school sites are allowed to overspend their discretionary funds and carry over a negative balance into the next fiscal year if necessary. Annual discretionary funding allocations are intended to provide for the needs of school sites and students in the year of allocation. It is best practice to determine a sufficient funding level for school sites to provide for operational materials costs of the school site and classroom materials necessary to support base instructional programs. Further, the expectation should be established that annual school site allocations are to be used to serve students in the year of allocation, and subsequent years’ allocations should not be spent in advance of the new fiscal year.
Interviews with school principals identify inconsistent levels of understanding budgetary practices and the ability to manage and review their budgets utilizing the district’s financial system. There was inconsistent acknowledgement from principals and school site office staff that the district has extended training opportunities on the Escape financial system. Training is essential to ensure users can access and navigate the financial system and run budget/actual reports. School site employees should be proficient in accessing site budgets in the financial system and should routinely monitor and manage the funding for which they are responsible.

The purpose and process for allocating agency-wide costs associated with general management and administration is defined in the California School Accounting Manual, procedure 915. It is best practice and proper program cost accounting to charge all federal and state program budgets for indirect costs, when allowable, to ensure that the program supports the costs related to its share of general administrative funding. District business staff report that while indirect costs are included in the budget for restricted programs as allowable, the actual application of the charge at year end is at times inconsistent. If funds in a resource are insufficient to adequately cover the allowable charge, the charge is not made. Program budgets should be routinely monitored to ensure that expenditures do not exceed amounts budgeted to ensure sufficient funds are available to recover administrative overhead. Allowable indirect cost recovery should be applied to all programs and resources as allowable at the end of each fiscal year.

**Reserve for Economic Uncertainties**

To help protect LEAs against economic uncertainties, the state requires school districts to maintain reserves for economic uncertainties, the level of which is determined by the size of each district. Districts with average daily attendance between 1,001 and 30,000 are required to maintain reserves of unrestricted balances of not less than 3% of total general fund expenditures. In its first interim budget report, the Santa Rosa City Schools projected a reserve balance of 4.62%. The district projects an unrestricted reserve for economic uncertainty of 4.62% at the end of the 2013-14 fiscal year in its first interim budget revision that is projected to increase to 5.07% by the second subsequent year in the multiyear financial projection. Although deficit spending is indicated in the budget year, it is projected to cease in the 2014-15 fiscal year.

**Other Funds**

The district has multiple charter schools within its boundaries, four of which are dependent charters operated by the district. Financial activity of dependent charters is accounted for separately in funds 6-9, which are then rolled into the general fund for reporting purposes. The district’s charter schools are managed by the Curriculum & Instruction department and the director of state and federal programs. All budgets are managed by this department.

Separate funds are also utilized to account for transactions related to bond proceeds for each district (Fund 21 and 22), which are consolidated into a single fund (Fund 21) for state reporting, while all other funds are managed as single funds for both the elementary secondary districts.

The district reports that for all other funds, the budget development process is consistent with that described for the general fund, beginning with the current year budget in a budget development model and revising for known factors affecting the new fiscal year. Once established, these funds are generally not revised until year end, although they are presented to the governing board at each interim reporting period.
Recommendations

The district should:

1. Review sources of revenue accounted for in the 9XXX restricted resource series and determine if the proceeds in each resource meet the definition as provided in procedure 301 of the California School Accounting Manual. Relocate those sources that are not restricted by law or by the donor for a particular purpose in writing at the time of donation to the unrestricted locally defined resource series 0001-0999.

2. Collaborate with the governing board to annually develop and establish written budget priorities based on identified district needs and goals and on realistic projections of available funds.

3. Updated enrollment projections at least at each interim financial reporting period.

4. Incorporate increases to revenue projections based on enrollment growth only after increases in average daily attendance are actually experienced.

5. Review school site allocation formulas to determine if sufficient discretionary funding is being allocated to school sites to meet basic campus needs.

6. Evaluate the practice of requiring site discretionary funding to be utilized to pay for campus maintenance costs.

7. Ensure that annual discretionary fund allocations are used in the fiscal year allocated.

8. Discontinue allowing sites to exceed discretionary funding allocations.

9. Provide routine training on the Escape financial system for all department and school site administrators and office staff to ensure users have the knowledge and capability to navigate the financial system and run budget/actuals reports.

10. Require school site administrators and support personnel to access site budgets directly from the Escape financial system and routinely monitor and manage funding for which they are responsible.

11. Ensure program budgets are closely monitored to prevent overexpenditures, leaving sufficient funds available to cover budgeted indirect costs at the end of each fiscal year.
Multiyear Financial Projections

Multiyear financial projections (MYFPs) are required by Assembly Bill (AB) 1200 and AB 2756 and are a part of the adoption budget and interim reporting process. AB 2756 was signed into law in June 2004 and made substantive changes to the financial accountability and oversight used to monitor the fiscal position of school districts and county offices. Among other things, AB 2756 strengthened the roles of the superintendent of public instruction (SPI) and county offices of education and their ability to intervene during fiscal crises, including requesting assistance from FCMAT.

MYFPs help local educational agencies (LEAs) make more informed decisions and project the future effect of current decisions. Projections are a required part of the annual budget development process and must be evaluated and updated during each interim financial reporting period. They should also be updated before any significant decisions are made that affect the budget, such as salary increases. When developing and implementing its MYFPs, a district’s main objectives are to achieve and sustain a balanced budget, improve academic achievement and maintain local governance. The MYFP helps identify specific planning milestones that will help the district make decisions.

Any projection of financial data has inherent limitations because calculations are based on certain economic assumptions and criteria, including changes in enrollment trends; cost-of-living adjustments; estimates for utilities, supplies and equipment; and changing economic conditions at the state, federal and local levels. Therefore, the budget projection model should be evaluated as a trend based on certain criteria and assumptions instead of a prediction of exact numbers.

LEAs use many different software products to prepare MYFPs. The district’s business office staff maintain a detailed multiyear financial projection workbook in Excel that is utilized to analyze and adjust revenue and expenditure at a detailed object code level. This detail is then rolled into the more summarized MYFP in the SACS software.

The district makes adjustments to MYFPs that consider projected growth and recognize the P-2 guarantee and the effect of decline in subsequent years when an enrollment decline is projected. Monthly trends for average daily attendance are also reviewed and considered in developing MYFPs. Staff also reported that although they tend to follow a conservative approach for projection assumptions, at times they have been directed to incorporate assumptions based on trend analysis that appear risky.

Similar to the budget, multiyear assumptions follow guidance provided by sources including the county office and SSC dartboard. The district provides a comprehensive list of multiyear assumption factors with the MYFP that is consistent with industry standard. Revenues are reviewed to remove one-time revenue and expenditures in the subsequent two fiscal years in the MYFP. The district utilizes a projection report in the Escape financial system that provides step/column projections. This data is then used to develop an average percentage for step/column costs for certificated and classified salaries, which is then incorporated in the MYFP. No additional increases in salary and benefit costs are incorporated in the two subsequent fiscal years.

Cash Flow Projections

The size and frequency of the state’s apportionment deferrals have made it challenging for school districts to maintain fiscal sustainability, and have placed renewed focus on efficient cash management and the methods used to project and monitor cash flow. Cash is critical for operations and, although the balance sheet may include other assets supporting a healthy projected fund balance,
the absence of sufficient cash will effectively bankrupt a district and may require intervention from the state.

The purpose of a cash flow statement is to project the timing of receipts and expenses so that an organization can understand its monthly or even daily cash needs. The cash flow statement shows the district’s liquidity and ability to meet its current payroll and other financial obligations. The cash flow analysis should not be confused with the district’s budget and fund balance; it is a different analytical tool.

Similar to the MYFP, any projection of financial data for cash flow purposes has inherent limitations as a result of issues such as unanticipated changes in enrollment trends and changing economic conditions at the state, federal and local levels. Therefore, the cash flow projection should be evaluated as a trend based on certain criteria and assumptions rather than a prediction of exact numbers. Multiyear cash flow projections help a district make more informed decisions and enable it to better project the fiscal impact of current decisions. The cash flow projections should be updated at least monthly to accurately account for all revenues, expenditures and other changes related to cash.

The district prepares a cash flow projection in conjunction with the budget development and revision cycle. Cash receipt projections are developed based on an analysis of revenue receipts and expenditure disbursements for the prior fiscal year. Although validation and accuracy of the district’s budget and supporting documentation fall outside the scope of work for this study, FCMAT did review the overall structure and components of the cash flow projection. The district’s cash flow projection neglects to account for activity related to balance sheet accounts other than accounts receivable and accounts payable.

The district recognizes beginning balances for assets and liability accounts including accounts receivable/payable, due from/to other funds, stores, current loans and deferred revenue. Other than accounts receivable and payable, the cash flow projection reviewed by FCMAT does not account for the activity related to all other asset and liability accounts. Although deferred revenue is a non-cash liability account, balances should be reversed in the first month of the new fiscal year. Additionally, all balance sheet accounts should be routinely reconciled, as unreconciled balances could impact the general fund ending fund balance and cash flow projections. The district should thoroughly evaluate these outstanding balances and determine if receivable amounts are uncollectable or the payable amounts are legitimate outstanding obligations.

Districts often exercise options for internal borrowing between funds as authorized by Education Code Section 42603 to meet cash demands. This section allows LEAs to borrow temporarily between funds to address cash flow shortages. This is the most common method used by school districts, but is effective only if cash is available in other funds. Temporary borrowing is accounted for using the Due To and Due From object codes in each fund. This type of borrowing has specific limitations regarding amounts and the timing of repayment. CSAM procedure 730 provides detailed guidance related to short-term internal borrowing, stating:

“Amounts transferred shall be repaid either in the same fiscal year, or in the following fiscal year if the transfer takes place within the final 120 calendar days of a fiscal year.

“Borrowing shall occur only when the fund receiving the money will earn sufficient income during the current fiscal year to repay the amount transferred.

“No more than 75 percent of the maximum of moneys held in any fund during a current fiscal year may be transferred.
“Concerns regarding the legality of borrowing from certain funds or restricted programs should be discussed with legal counsel. Amounts borrowed from restricted funds should be repaid with interest, if there are interest requirements relating to those programs or funds.”

The lack of entries in the balance sheet account section of the cash flow projection suggests that the district is not complying with the requirements defined in the Education Code for internal borrowing.

The state’s 2013-14 budget reduced cash deferrals, and Governor Brown has proposed a plan to eliminate the deferrals in his 2014-15 budget proposal. The district’s cash flow projection incorporates the effect of anticipated cash.

Proposition 30, The Schools and Local Public Safety Protection Act of 2012, temporarily increases the state’s sales tax rate for all taxpayers and the personal income tax rates for upper-income taxpayers. The revenues generated from Proposition 30 are deposited into a new state account called the Education Protection Account (EPA). LEAs will receive funds from the EPA based on their proportionate share of the statewide revenue limit amount. A corresponding reduction is made to an LEA’s state aid equal to its EPA entitlement. The district incorporates the projected EPA payments quarterly in the cash flow projection.

District staff reported that the district relied on temporary cash borrowing options, including a mid-year tax revenue anticipation note (TRAN) through the California School Boards Association to navigate cash shortfalls resulting from revenue deferrals and delayed EPA payments. The county treasurer also permits cash flexibility, allowing districts to maintain a negative balance. However, district staff reported that with the reduction in cash deferrals the district does not anticipate the need to exercise borrowing options during the 2013-14 fiscal year.

**Recommendations**

*The district should:*

1. Review all balance sheet account activity and ensure transactions are properly recognized monthly in the cash flow projection.

2. Frequently reconcile all accounts receivable and payable balances and sufficiently document receipts and payments to ensure a proper documentation trail exists so each component of the balance can be identified at any time.

3. Review district internal borrowing practices between funds and ensure compliance with EC Section 42603.
Financial Reporting and Communications

No statewide standardized financial system requirement exists for developing school district budgets and recording financial transactions. The state’s LEAs utilize a wide array of systems. However, Education Code Sections 42120-42126 define the structural components required of school district budgets; more specifically, EC Section 42126 charges the superintendent of public instruction with the duty to prescribe the forms and format in which each school district budget shall be made. All LEAs are required to record their budgets and financial transactions utilizing the Standardized Account Code Structure (SACS). The purpose of this standardization is to ensure financial data is comparable for all LEAs statewide.

LEAs are also required under EC Section 41010 to follow the California School Accounting Manual (CSAM), which provides accounting policies and procedures related to school financial accounting and reporting as well as implementation guidance.

The California Department of Education (CDE) provides access to the required SACS software used by LEAs in preparing and submitting budgets, interim reports and year-end financial reports. Districts download budget and financial information into an electronic “dat file,” which is then uploaded into the SACS software.

Budget narratives and other communications are essential components of fiscal management and reporting. These types of communications ensure that the administration and governing board are well informed and participate in the decision making process. Districts develop budget communications tools in many different formats. Budget narratives should sufficiently identify the core elements and assumptions included in the budget, multiyear financial projection and cash flow projections. Changes from one reporting period to the next should also be sufficiently described in budget communications.

FCMAT reviewed the content of the district’s first interim budget report and found the accompanying narrative to be quite comprehensive and detailed. The district reported it is working to improve the attention to reporting details related specifically to charter schools. Staff reported they are developing a presentation to report financial activity by major object for each charter independently.

Presentations prepared to communicate the district’s budget are in summarized formats, consistent with that required under the SACS reporting model by the CDE. Greater detail is reported on budgets for supplies and materials that are accounted for in the 4XXX object code series. Staff reported that on occasion data presentations have been requested in formats utilized by other districts that provide a different structure for budget analysis. However, time constraints often prohibit staff from developing new presentation tools.

FCMAT also reviewed presentation materials prepared by the business office that communicated the effects associated with the change to the LCFF state funding model and summarized the state’s proposed budget and May revision. These presentations provided a high-level overview of the change in state funding. The presentations are consistent with those utilized throughout the K-12 educational community, many of which are templates developed by external vendors and are intended to be tailored to each district’s specific structure and conditions for communications with school district administration, staff, governing board members, parents and community members.
Staff expressed frustration during FCMAT’s interviews regarding a lack of clarity in the district’s budget communications. Because the budget process is fluid, financial information often changes, and changes can occur immediately after a revision period is complete.

Clear communication of expectations from the administration and governing board is essential. Clearly communicated budget assumptions and related revisions build a foundation of trust and credibility. Based on FCMAT’s review of supplemental documentation, the details behind the numbers are present. However, the content is extensive, which may make it a bit overwhelming to follow. Simplification of the details may help recipients in the review process.

Increased levels of communication between the business office staff, administration and the governing board may also improve the level of understanding. Budget study sessions conducted during the budget development phase may provide greater clarity at a more simplified, fundamental level and offer opportunity to discuss and educate the foundational components of the budget. Additionally, the budget should be reviewed with the superintendent prior to finalization so questions may be addressed.

**Recommendations**

*The district should:*

1. Conduct budget study sessions with the governing board and other district stakeholders during the budget development process.

2. Seek options to simplify and condense budget information or alternative formats that meet the needs of the administration and governing board.

3. Establish and implement a plan to improve communications between the business office and superintendent’s office.

4. Review budget documentation with the superintendent prior to finalization so that questions may be addressed.
Long-Term Debt

Certificates of Participation

Certificates of participation (COPs) are a type of lease financing in which a school district leases the property from a third party, usually a nonprofit corporation created by or on behalf of the school district. The district’s payments are made to the third party and assigned to a commercial bank trustee, who executes the COPs, which are sold to investors. Each investor who owns a COP is entitled to a proportionate share of the lease payments made by the district. Under this arrangement a portion of each lease payment is designated as interest, and as a result the investors may receive tax-exempt interest payments. COPs have no independent legal standing with taxpayers and are ultimately an obligation of the district’s unrestricted general fund.

The district has $6,816,044.12 in outstanding COPs obligations. The district’s annual debt service payments on the COPs range from $207,975 in fiscal year 2013-14 to $1,267,575 in fiscal year 2037-38.

Capital Leases

Lease financing is a mechanism by which a school district leases property and makes payments for its use of the property over the term of the lease. Lease financing enables school districts to fund capital facilities projects and equipment purchases over a specified number of years without requiring voter approval. Under a direct lease, a school district leases property from a lender, which may be a vendor, leasing company or financial institution. When the lease expires, the title to the property is transferred to the school district. A portion of each lease payment is designated as interest and may qualify as tax-exempt income to the vendor, leasing company or financial institution.

The district has a few capital leases for copiers. The total outstanding obligation for these leases is $251,512. Annual debt service payments range from $2,318 to $10,181, depending on the type and use of the copier, with the higher cost and volume copiers used in the duplicating department. The debt service payments are budgeted in the unrestricted general fund.

Non-Voter-Approved Debt and Compensated Absences

Issuing long-term debt allows school districts to obtain funds to acquire or construct buildings and equipment and to spread the repayment over a number of years. It also allows districts to obtain buildings or equipment that might be impossible to purchase with existing resources.

Complications can develop if a school district issues too much debt without a dedicated revenue source such as tax levies to repay it. In such cases, annual debt service payments must be made from the district’s unrestricted general fund at the expense of current operations.

Any long-term debt that the district must repay from the unrestricted general fund is considered unfunded because it requires the use of resources typically dedicated to the current costs of education, such as employees’ salaries, administration, and supplies. Although most districts are able to fund some long-term debt (e.g., accrued vacation) from their general fund, districts should exercise caution in dedicating general fund revenues for debt service payments because this depletes funds available for current operations. Moreover, debt service payments represent expenditures that are not easily eliminated from the general fund budget and therefore place an additional burden on the unrestricted general fund.
Debt Management Policy

It is standard practice in many state and local governments for the governing board to adopt a comprehensive debt management policy that creates guidelines for issuing and managing debt. The Government Finance Officers Association also recommends that all forms of government adopt a comprehensive debt policy. This helps ensure that underwriters and financial advisers provide the district with adequate information to analyze future debt, enabling it to make sound business decisions.

The district lacks a debt management policy to provide guidelines for all forms of indebtedness. Although issuing debt is an appropriate method for financing capital projects and improvements, careful evaluation is required to preserve the district’s credit strength and financial flexibility.

FCMAT has developed a list of conditions most commonly experienced by districts needing intervention, one of which is substantial long-term debt commitments, such as excessive reliance on COPs. Although there is no officially established acceptable level of non-voter-approved debt for a school district, it is best practice to have a debt management policy that provides guidelines for debt burden ratios and factors as well as debt affordability criteria. FCMAT has found that a debt burden that does not exceed 1% to 2% of the district’s unrestricted general fund revenues is manageable. A sample debt management policy is provided in Appendix A of this report.

Debt Affordability

To determine whether a school district has too much unfunded long-term debt, the amount of the annual long-term unfunded debt payments is compared to the district’s total unrestricted general fund revenues. The following table shows the district’s unfunded long-term debt payments budgeted for fiscal year 2013-14 compared with the unrestricted general fund revenues in its 2013-14 adopted budget.

<table>
<thead>
<tr>
<th>Revenue Limit Sources</th>
<th>$ 85,228,235</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Revenue</td>
<td>$ 70,000</td>
</tr>
<tr>
<td>Other State Revenue</td>
<td>$ 13,560,873</td>
</tr>
<tr>
<td>Other Local Revenue</td>
<td>$ 3,497,704</td>
</tr>
<tr>
<td>Other Transfers In</td>
<td>$ 20,000</td>
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<tr>
<td>Contributions</td>
<td>$ 17,754,406</td>
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<tr>
<td>Total Unrestricted (after contributions)</td>
<td>$84,662,406</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Type of Debt</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>COPs</td>
<td>$207,975</td>
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<tr>
<td>Capital Lease Obligations</td>
<td>$56,614</td>
</tr>
<tr>
<td>OPEB</td>
<td>$1,286,995</td>
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<tr>
<td>Total</td>
<td>$1,551,584</td>
</tr>
<tr>
<td>Debt Burden %</td>
<td>1.83</td>
</tr>
</tbody>
</table>

As indicated in the table above, the district’s annual debt service payments equal 1.83% of its annual unrestricted general fund revenues, which is within the recommended level of 1% to
2%. However, it should be noted that capitalized interest on the COPs will result in annual debt service payments growing from $207,795 to $1,372,975 before the COPs reaches maturity in fiscal year 2037-38.

Issuing COPs or other long-term obligations to be repaid from the district’s general fund requires balancing the debt issued against unrestricted resources and the ability to support the debt over a long period of time. Any time debt to be repaid from the general fund is issued, the district risks encountering unknown variables that can affect the ability to repay the debt and maintain budget flexibility, especially in times of fiscal uncertainty.

Based on the board-adopted budget, as of June 30, 2013 the district had a total of $28,096,216 in long-term unfunded debt, as shown in the following table.

<table>
<thead>
<tr>
<th>Type of Debt</th>
<th>Debt Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Post-Employment Benefits</td>
<td>$21,028,660</td>
</tr>
<tr>
<td>Capital Lease Obligations</td>
<td>$251,512</td>
</tr>
<tr>
<td>COPs</td>
<td>$6,816,044</td>
</tr>
<tr>
<td>Total Unrestricted General Fund Debt</td>
<td>$28,096,216</td>
</tr>
</tbody>
</table>

**Debt Potentially Funded from the Unrestricted General Fund**

The district may have access to other funding sources that can be used to make some or all of the debt payments, such as remaining redevelopment revenues, future general obligation bond proceeds, or developer fees in the capital facilities fund. However, most of these revenue streams are not consistent from year to year and may not be sufficient to meet the debt service obligations in future years.

**Recommendation**

*The district should:*

1. Adopt a debt management policy substantially similar to the policy provided in Appendix A of this report to guide the governing board in making decisions regarding all forms of indebtedness.
Combined Budget/Single District Resolution

Education Code Sections 35510 and 35111 enable an elementary district and a high school district with a common governing board and a single certificated bargaining unit to be deemed a single school district for purposes including but not limited to budget and personnel matters, though the adoption of a board resolution. In practice, this means that both districts’ general operating funds are collapsed into a single budget. Special revenue funds, enterprise funds and fiduciary funds remain separate. This is often referred to as the combined budget format or single district resolution (referring to the board resolution that enables the district two districts to operate as one).

Santa Rosa City Schools uses the combined budget format pursuant to Education Code Sections 35110 and 35111. Although the districts combined their unrestricted general fund revenues and expenditures for reporting purposes, they track revenues and expenditures for each district in their financial system. The district also accounts for the revenues and expense of each district’s other funds separately and annually adopts a resolution authorizing the specific transfers between districts pursuant to Education Code Section 35112.

During this review, FCMAT could not substantiate that the district has annually published the statement of general fund income and expense or that the board has adopted a resolution authorizing specific transfers between districts at the time of budget adoption.

Education Code Section 35111 (d) states in pertinent part that:

(d) When a governing board has adopted a resolution pursuant to Section 35110, the school districts under its jurisdiction shall publish annually, in a newspaper of local circulation, the general fund income and expenses of both districts. The publication documents shall indicate the amount transferred to each district pursuant to Section 35112 from the combined special reserve of both districts.

Recommendations

The district should:

1. Annually publish a statement of general fund income and expense per Education Code Section 35111 (d).
Internal Controls

The term “internal control” is defined by the accounting industry as it applies to organizations, including school agencies. An organization establishes control over its operations by setting budgets, goals, objectives and performance expectations. An effective internal control structure provides the means to direct, monitor, and measure an organization’s assets and resources, and plays an important and key role in protecting the organization from fraud, abuse or misappropriation.

Several factors influence the effectiveness of internal controls, including the social environment and how it affects employees’ behavior; the availability and quality of information used to monitor the organization’s operations; and the procedures and policies that guide the organization. Internal controls help an organization obtain timely feedback on its progress in meeting operational goals and guiding principles, producing reliable financial reports and ensuring compliance with applicable regulations and laws.

Educational agencies should establish internal control procedures to accomplish the following:

1. Prevent internal controls from being overridden by administration or management.
2. Ensure ongoing federal and state compliance.
3. Assure the governing board the internal control system is sound.
5. Ensure employees know they are expected to use proper internal controls.

The five components of internal controls:

- **Control Environment** is the tone of the organization and influences the behavior of employees. This is the foundation for all other components of internal control.
- **Risk Assessment** identifies and analyzes the risks that the organization will not attain its objectives. This component forms the basis for how these risks should be managed.
- **Information and Communication** require systems that identify, gather and exchange information in a format and time frame that enable people in the organization to successfully perform their duties.
- **Control Activities** help ensure that management directives are carried out. Control activities are also designed to discourage irregularities or errors or to find them after they have occurred.
- **Monitoring** is used to assess the quality of internal control performance over a period of time.

Each person in a school district is responsible for internal control in some capacity because nearly everyone produces information used by the internal control system or takes action to implement organizational control. For example, each school site or department initiates requisitions for supplies. Internal controls are in place to process requisitions through budget approvals and/or program approval by someone other than the initiator of the requisition. Additional controls require only purchasing staff to create and release the purchase order to the vendor once the requisition has been approved. The accounting staff has sole authorization of processing payment.
to the vendor once items are received. Segregation of duties prevents an employee from having authority over transactions from the start to the end, reducing the opportunity for fraud or misuse of funds. Each individual has responsibility to appropriately communicate problems in operations, noncompliance with policies and procedures, or illegal actions.

The superintendent, as the organization’s leader and chief executive, sets the organizational tone that influences all decisions and activities and the control awareness of employees. Factors that contribute to a positive control environment include ethical values, integrity, management philosophy and operating style, organizational structure or configuration, assignment of authority and responsibility, and employee expertise and proficiency.

The chief business official is responsible for overseeing the integration of all five internal control components into one cohesive structure. The administrative team provides leadership and direction to managers and reviews and gives feedback on their internal control decisions. In turn, the managers establish specific internal control policies and procedures, control activities and monitor the personnel responsible for unit functions.

The governing board works as a group to provide governance, oversight and guidance. Individual board members enhance the control environment when they are informed, free of bias, inquisitive, conduct themselves in an ethical and principled manner and expect the same standard of conduct from everyone in the organization. Independent auditors assess whether the controls are properly designed, implemented, and work effectively. They may also make recommendations for improving internal controls.

Leadership changes can be stressful, although change in leadership brings new ideas and approaches about how processes should be performed. The SRCS has experienced considerable changes in staffing due to retirements, budget reduction measures, relocation of staff and attrition. FCMAT identified weaknesses in the district’s internal control structure specifically related to the purchasing and accounts payable practices, which may be attributed to the reduction of staff in Purchasing Services, the warehouse, and the accounting department. Purchasing selects vendors to do business with SRCS and is responsible for assigning vendors information into the financial system and ensuring the appropriate tax information is on file. The accounts payable staff has the ability to create vendors in the financial system. This is not acceptable accounting practice because an individual could create a false vendor and issue payment to himself or someone he knows, thus committing fraud. The authority to create vendors should be given solely to Purchasing. It was unclear to FCMAT whether the SRCS accounting staff had received adequate training to understand the need for segregating these duties.

Although the district has adopted board policies concerning code of ethics, professional standards, and internal controls, adequate training for new and existing staff is necessary to identify and correct potential weaknesses in these controls. The district has established Board Policy 3314 to address segregation of duties.

These policies should set the tone and provide the foundation for internal controls.

The director of purchasing stated there is no purchasing manual, only a technical training manual of how to enter requisitions and process purchase orders in Escape software. The district’s purchasing process requires coordination between the Purchasing and accounting departments as well oversight from supervisory positions. Only the purchasing staff should create new vendors to ensure appropriate W9 (request for taxpayer identification number and certification) is on file and reduce the opportunity for fraud.
Staff duties and activities observed and communicated to FCMAT are not consistent with board policy and accounting standards. Duties are not sufficiently segregated in that one person can create new vendors in the district’s financial system, indicate that goods or services have been received and that payment is warranted, and can issue the vendor payment and distribute the warrants. Interviews with staff and review of district transactions revealed it is frequently district practice to have the requisition initiator select “with receiving” or “without receiving” at the time the requisition is created. An item delivered to the warehouse from the vendor requires receiving. An item delivered directly to the school site or purchased on an open purchase order does not require receiving. If the initiating party makes an error, the accounts payable staff can change the receiving requirement. Giving the accounts payable staff this authority may speed up the payment process, but it also creates the opportunity for fraud. If an error is discovered, the accounts payable staff should contact Purchasing to make the correction.

FCMAT noted that the accounts payable staff has the ability and authority to close purchase orders. It is district practice to identify outstanding purchase orders, which may include items ordered but not received. The accounting staff contacts the initiator of the requisition to determine if the item is still needed. If so, accounting contacts Purchasing, which then contacts the vendor to determine if they received the purchase order. If the initiator determines the item is no longer needed, accounting closes the purchase order and notifies Purchasing. Because the warehouse and purchasing staff is shorthanded, the accounting staff attempt to assist by opening and closing purchase orders. This should be a function of the Purchasing department.

The accounts payable department maintains a desk manual that includes the steps and processes to enter invoices for payment using the Escape financial system. There is no purchasing manual containing guidelines for making purchases. In a random sampling of paid invoices, FCMAT selected a variety of payments for review and found inconsistencies in the purchasing process.

In an ideal purchasing process, a requisition is entered into the financial system, which then encumbers the funds, is routed for approval and forwarded electronically to the purchasing department. The purchasing department then creates the purchase order once a vendor is selected. The buyer in purchasing will contact a vendor or order the item online. When the order is delivered to the warehouse, the purchasing staff receives the item in the system and forwards the packing slip to accounts payable. Accounting receives the invoice, verifies receipt, and processes the order for payment. If the item is delivered directly to the school site, the person receiving the item assigns the PO number to the packing slip, signs and forwards it to purchasing for receiving in the system. The packing slip is then forwarded to accounting for payment. Similarly, if an open purchase order is required, a requisition is entered into the financial system, routed for approval and electronically forwarded to purchasing, which generates the purchase order. Contracts and agreements need to be renewed each fiscal year. Purchases should not be made without a purchase order.

The random sampling of payments reviewed by FCMAT determined no purchasing process is in place. The payments issued to the E-Rate consultant are generated from a service agreement signed July 29, 2008. Requisitions and purchase orders have been created after the date of purchase on more than one occasion, even crossing fiscal years. Without a requisition or purchase order funds are not encumbered, which may result in overspending of the budget.

Reimbursing employees for items purchased for the classroom seems to be an allowable practice. Receipts were accumulated over a period of time and submitted for reimbursement for three payments issued to an employee. A requisition was generated and approved; no purchase order was issued since it was paid to an employee rather than a vendor. Reimbursement to the
employee was as high as $684.02 for several receipts. This practice is not industry standard since the funds were not approved and encumbered, the items are not received and assets are not tagged if required.

During interviews, district staff repeated many times their frustration and concern regarding deliveries from the warehouse to the school sites, which sometimes are delayed for months. The delay in receiving items in the system and delivering to school sites can delay payment to vendors, which can jeopardize relationships between vendors and SRCS and result in missed opportunities for discounts or in finance charges being applied. For large items, Purchasing may instruct delivery directly to the school. When this occurs the accounting staff sends the original vendor’s invoice to the school for signature to verify receipt of the item. Sending the invoice to the school delays payment and can result in a duplicate invoice being issued by the vendor. At no time should an original invoice leave the accounting office. A delivery to a school site should be treated the same as a delivery to the warehouse. The packing slip is signed and forwarded to Purchasing, which receives the item in the system and forwards the slip to accounting. Accounting can match the packing slip to items received and then generate payment.

One invoice selected for review by FCMAT included payment to the vendor for a soda. Accounts payable staff stated the employee should have paid the district for this purchase, but no notation was made that the district received the funds. Although this was a small amount in value, at no time should employees purchase personal items utilizing the district’s purchase orders. Allowing this practice presents employees with the opportunity to commit fraud.

The district lacks desk manuals that include step-by-step procedures for business-related job duties, and some employees rely on notes from previous employees. Desk manuals ensure consistent application of internal controls and assign the responsibilities that each position(s) holds relative to internal controls.

Similarly, a business department policies and procedures manual provides an opportunity to plan and diagram internal controls and written standards for the business office and other employees to follow. Desk manuals and business department policy and procedure manuals are especially helpful for new staff and staff with newly assigned duties. Manuals can provide training, help preserve institutional knowledge, and effectively document and monitor segregation of duties districtwide. These manuals should be made available to all district employees to assist with processes and standards regarding business best practices and transactions.

Although some staff members reported having been provided with a procedural manual at the start of a new position, most reported that no desk reference manuals had ever been provided or even existed. Several staff members reported having some written documentation for departmental tasks, primarily self-prepared or developed by their predecessor. It is a best practice to have a separate manual specific to the business, human resources and purchasing offices.

FCMAT determined a weakness when payments received at the school are delivered through interdistrict mail or sent with the warehouse driver in an envelope. These payments include checks and cash. If it is the practice for the driver to transport deposits, they need to be in a sealed bank bag. Staff should count and verify the amount, and place it in a second sealed bank bag for delivery to the bank. The additional step of placing in a sealed bank bag decreased the opportunity for fraud.

Board Policy 3314.2 authorizes school sites to utilize revolving cash fund accounts to purchase goods and services for the benefit of the classroom. The accounts are reconciled and reviewed
by the district accountant, and the campus grade levels determine the allowable budget for the accounts. The breakdown is:

- High Schools $2,500
- Middle Schools $1,200
- Elementary Schools $500
- Continuation School $500

The purpose of the revolving fund accounts is to pay for goods and services if an urgent need arises that cannot reasonably be filled through traditional purchasing procedures. Revolving funds should not be utilized for convenience or to bypass the traditional purchasing process or advance approvals. Although the district has routine reconciliation and replenishment procedures, sound purchasing practices should reduce the need for use of revolving funds. A single revolving fund maintained by district office could ensure that it is used less frequently and only in high-need and time-sensitive situations.

The district’s internal controls would be further strengthened by communicating to employees they are expected to comply with all policies and procedures, code of ethics and standards of conduct. These include:

- Professional and personal leadership is based on the highest levels of integrity.
- The leadership philosophy and operating style promotes internal control throughout the entire district.
- Accountability is enhanced by assignment of responsibility and authority at the highest possible level.
- The district’s procedures and policies reflect its internal control objectives and are strictly followed.
- All employees know and understand district procedures and policies as well as those specifically related to the area in which they operate.
- Employees are aware of their internal control responsibilities.
- Fraud (stealing, embezzlement, misuse of equipment, technology or supplies, etc.) is not tolerated.
- Employees are responsible to continually self-monitor operations and job performance.

Occupational fraud is a global problem in business, including government and public administration. A recent study by the Association of Certified Fraud Examiners found that organizations lost up to 5% of their annual revenue to fraud. Given the high costs of occupational fraud, organizations should have a strong fraud prevention and detection program. Santa Rosa City Schools BP3400 states the expectations of employees to act with integrity and due diligence in dealings involving the district’s assets and fiscal resources and for all employees to be alert for any indication of fraud, financial impropriety, or irregularity in their area of responsibility. It instructs employees who have any such suspicions to report them to their immediate supervisor and/or the superintendent or designee. The superintendent or designee also shall establish a method for employees and outside persons to anonymously report suspected instances of fraud, impropriety or irregularity. A successful fraud prevention and detection program requires training and educating staff.
Fraud and misuse of physical or cash assets occur when three factors converge: pressure or motive, opportunity, and rationalization or lack of integrity. This is known as the “fraud triangle.” When two of the three factors are present, the probability that fraud will occur rises. When all three factors are present, it is almost certain fraud will transpire.

The opportunity for fraud varies throughout the district depending on the duties assigned to employees. Rationalization and lack of integrity are more likely to be present in organizations that don’t implement and/or promote anti-fraud policies.

Employees should receive ongoing training in what constitutes fraud, how it hurts everyone in the organization, widely found fraud schemes, and common behavior signs. Employees should be encouraged not to ignore warning signs and should have several avenues for reporting improprieties.

Independent auditors should not be the district’s only method for monitoring internal controls. The district should also implement common fraud detection methods such as surprise audits for fraud risk assessment, and an anonymous employee hot line. The knowledge that someone is monitoring or could anonymously report suspicious behavior can deter fraudulent activity.

The following basic concepts and procedures help to ensure a solid internal control structure:

- **System of checks and balances** – Procedures should be implemented to initiate, approve, execute, record and reconcile transactions. The procedures should identify the employees responsible for each step and the time frame for completion. Key areas requiring checks and balances include payroll, purchasing, accounts payable and accounts receivable/cash receipts.

- **Segregation of duties** – Adequate internal accounting procedures must be implemented and necessary changes made to segregate job assignments 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, and maintain the records of its transactions and activity.

- **Staff cross-training** – More than one employee should be able to perform each duty. Each employee should be required to use accrued vacation time during which another staff member is assigned to perform those duties. Inadequate cross-training is frequently a problem regardless of the size of an organization.

- **Use of pre-numbered documents** – Checks, cash receipts, purchase orders, receiving reports and tickets should all be printed by an entity independent of the district or automatically assigned in the financial software system. Physical controls should be maintained over the check stock, cash receipt books and deposit tickets. It is not adequate to simply use pre-numbered documents without an independently reconciled log.

- **Asset security** – Cash should be deposited daily, and district property such as computers and other equipment should be secured and protected. Access to supplies, including but not limited to stores, food, tools, equipment and gasoline should be restricted to designated employees.

- **Timely reconciliations** – A staff member independent from the individual who assigned the original transaction and recording process should reconcile bank statements and account balances monthly. For example, the office employee reconciling the checking account statement should not be the same person processing vendor payments.
• **Comprehensive annual budget** – The annual budget should include sufficient detail for revenue and expenditures by school site, department and resource to identify variances and determine whether financial goals have been achieved. Material variances in revenues and expenditures should be investigated promptly and comprehensively.

• **Inventory records** – Inventory records should be maintained that identify the items and quantities purchased, sold or identified as surplus. Physical inventory should be taken periodically and reconciled with inventory records. Items particularly susceptible to misappropriation include: computer equipment, warehouse supplies, child nutrition commodities, maintenance and transportation parts and student store goods.

**Recommendations**

*The district should:*

1. Restrict the ability to add vendors to someone outside the accounts payable function.

2. Restrict access to the receiving module to someone other than an accounts payable employee.

3. Develop purchasing processes and train staff to ensure procedures are followed and consistent throughout the district.

4. Prohibit personal purchases on district purchase orders.

5. Train and require employees to utilize the purchasing process and eliminate the practice of employee reimbursements.

6. Discontinue allowing original invoices to leave the accounting department.

7. Require contracts and agreements to be renewed annually.

8. Develop desk manuals of employee duties; ensure that each employee includes step-by-step procedures for all assigned duties in their desk manual.


10. Require deposits to be delivered in sealed bank bags to the district office.

11. Eliminate revolving fund cash accounts at school sites.

12. Train and educate staff on the fraud prevention and detection program.
Purchasing, Warehouse and Duplicating Services

Purchasing Services

Purchasing, warehouse and Duplicating Services reside at the district office facility on Ridgway Avenue in Santa Rosa. The Purchasing department fulfills the district’s procurement needs for equipment, supplies, materials, and services.

The district’s purchasing function has been established by board policies. These policies are based on statute and the priorities of the governing board. The district’s policies are consistent with current law and identify the board’s priorities to make prudent expenditures and maintain strong internal controls.

Purchasing methods range from standard purchase orders to competitive bidding. Comprehensive procedures, communication and cohesiveness are essential to successful procurement and requisitioned service. Purchasing procedures should ensure that the requisitioner obtains proper approvals and the funding source, while the purchasing staff should provide timely feedback as to the order status and any modifications necessary to fill the order.

Interviewees shared the following issues related to the Purchasing department:

- Lack of communication regarding the purchasing process and order status.
- Time from requisition to delivery is too long.
- Comparison shopping is not done and best price is not obtained because the buyers return to known/previous vendors and products.
- Purchasing department is not proactive in contacting customers with updates and issues.

Lack of cohesive and comprehensive procurement causes additional delays in product arrival and is not cost effective. For example, several purchase orders may be submitted for the same product at the same time. The process of purchasing supplies, equipment and services in LEAs is dictated by statute, local board policy, and district procedures and practices. Sections of the Education Code, Public Contract Code, Government Code, and California Code of Regulations provide the legal basis and parameters within which a school district must conduct its purchasing functions. Board policies, administrative regulations, procedures and guidelines add controls that are designed to protect districts by meeting purchasing and contract needs efficiently while considering lowest cost and highest value.

The SRCS board recognizes its fiduciary responsibility to oversee prudent expenditure of district funds. Board Policy 3000 delegates spending authority to the superintendent or designee in accordance with the Public Contract Code and other statutes. District policy further states, “The superintendent or designee shall develop and maintain effective purchasing procedures that are consistent with sound financial controls and that ensure the district receives maximum value for items purchased. He/she shall ensure that records of expenditures and purchases are maintained in accordance with law.”

The governing board only receives and approves purchases on a warrant register. The warrant register only identifies the total amount of expenditures by fund for that purchasing cycle. Industry standard is that the governing board approve or ratify all purchase orders, including vendor name, dollar amount, description of the goods or services rendered, and the funding
source on a monthly basis. The Escape financial system is capable of generating a purchase order listing that contains this information.

Purchasing staff receive little training and professional development. These employees need to receive mandated, ongoing training to keep their skills up to date. Technology advancements have created new and more efficient ways for public purchasing officials to do business, and Purchasing Services needs to implement these up-to-date technologies and systems to benefit the district as a whole.

General guidelines and best practices for LEA purchasing include:

1. Board policies and administrative regulations to provide the foundation and expectation that purchasing follows legal requirements, provides strong internal controls and meets procurement objectives.

2. Designation of staff member(s) responsibilities and authority throughout the purchasing process.

3. Standardized procedures for vendor selection, requisition generation, and purchase order issuance, along with a competitive bidding process to ensure prudent and optimal use of funds and appropriate minimum standards and compatibility requirements for supplies and services.

All school sites maintain revolving fund accounts as authorized by Education Code Section 42800, ranging from $500 at elementary schools to $2,500 at high schools. These accounts are established for immediate needs, such as when a purchase must be made in less time than it takes to use the purchase order/accounts payable system. Transactions processed through the revolving fund accounts are not immediately recorded in the district’s financial system; they are recorded when the revolving fund account is replenished.

The district lacks a purchasing handbook.

The district has no guidelines established for informal and formal quotes. FCMAT’s vendor review found the same vendors have been used continuously over the years. LEAs typically set dollar limits for formal and informal quotes. Usually verbal quotes from three separate sources are required for informal quotes. Formal quotes (Public Contract Code Section 20111a) for services, equipment and materials require three formal written quotes. Quotes are then attached to the purchase requisition.

The board annually authorizes several employees to sign documents on behalf of the district. The associate superintendent for business is authorized to sign contracts for materials and leases. FCMAT found that some contracts have been signed by the director of purchasing.

The purchasing senior secretary is responsible for the cellular telephones throughout the district. In most districts this responsibility resides with the technology department.

Outstanding purchase orders are reviewed by the director of purchasing only at year end. This should be done continuously throughout the year to ensure that staff receive the items ordered. If the items are not available or no longer needed, the purchase order needs to be voided so encumbered funds can be unencumbered and used elsewhere.

The consulting firm of Aarrestad Gjervik helps the district to manage its E-Rate filing requirements and application strategies. The district has successfully claimed the available Priority 1 discounts but has not taken advantage of Priority 2 discounts. The consultant contract
with Aarrestad Gjervik was established in 2008. The firm works closely with Technology and Purchasing. FCMAT performed a technology review in October 2013 and recommended that the district should: Evaluate the effectiveness of the current E-Rate consultant and determine if a change should be made to optimize funding.

**Recommendations**

*The district should:*

1. Regularly review and update board policies and administrative regulations to ensure they remain relevant and reflect the latest statutory requirements and district objectives.

2. Ensure employees are aware of board policies and that policies remain accessible for public and staff reference.

3. Have the governing board approve or ratify a monthly purchase order listing, involving vendor name, dollar amount, description of goods or services rendered, and funding source.

4. Encourage and financially support opportunities for training and networking purchasing staff with other public purchasing professionals.

5. Eliminate the revolving fund accounts at all school sites. Meet sites’ immediate needs using the revolving fund account at the district office or existing purchasing cards.

6. Create a purchasing handbook containing the required procedures.

7. Establish guidelines for district quotes.

8. Have all contracts signed by the associate superintendent of business, except those for professional services.

9. Transfer the responsibility for cellular telephones to the technology department.

10. Review outstanding purchase orders regularly throughout the year.

11. Evaluate the effectiveness of the E-Rate consultant and determine if a change should be made to optimize funding.

**Competitive Bidding**

Purchasing Services is responsible for ensuring that all district goods and services are obtained through a uniform standard and unbiased process under the applicable laws and appropriate business practices. The Maintenance and Operations department issues its own contracts, increasing the likelihood that the appropriate documents with the correct Education Code and government code sections may not be used.

Public Contract Code Section 20111 requires school districts to publicly bid certain purchases for equipment, materials, supplies or services that are subject to a variety of bid thresholds and criteria. For non-public works projects, the Section 20111 public bid threshold is $84,100 as of the time of this study and is subject to an annual adjustment for inflation. Public Contract
Code Section 22002 require school districts to put out to bid and award to the lowest responsible bidder any contract for $15,000 or more for the construction, reconstruction, erection, renovation, alteration, improvement, demolition, or repair of publicly owned, leased or operated facilities. Public Contract Section 20116 prohibits splitting or separating into smaller work orders or projects any work, project, service or purchase for the purpose of evading the law that requires competitive bidding.

District BP 3311 relates to bids and states, “In order to ensure transparency and the prudent expenditure of public funds, the Board of Education shall award contracts in an objective manner and in accordance with law. District equipment, supplies, and services shall be purchased using competitive bidding when required by law or if the Board determines that it is in the best interest of the District to do so. When the Board has determined that it is in the best interest of the District, the District may piggyback onto the contract of another public agency or corporation to lease or purchase equipment or supplies to the extent authorized by law. (Public Contract Section 20118) Bid specifications shall be carefully designed and shall describe in detail the quality, delivery, and service required.” AR 3311 reinforces BP 3311 with further detail and direction on the requirements and process for competitive bidding.

The district’s design/bid/build construction projects are bid at or above the BP 3311 and AR 3311 requirements, which require competitive bid for contracts involving an expenditure of $15,000 or more for public projects. However, districts that have frequent public projects can use an alternative process authorized in Public Contract Code Sections 22000-22045, titled the California Uniform Public Construction Cost Accounting Act (CUPCCAA). CUPCCAA facilitates the execution of public works projects by speeding up the process for awarding contracts and simplifying the paperwork involved.

CUPCCAA rules allow the following:

1. Public projects of $45,000 or less may be performed by the employees of a public agency by force account, by negotiated contract, or by purchase order (PCC 22032(a)).

2. Public projects of $175,000 or less may be awarded by informal procedures as set forth in this legislation. If all bids received exceed $175,000, the governing body of the public agency may, by adoption of a resolution by a four-fifths vote, award the contract at $187,500 or less to the lowest responsible bidder, if it determines the cost estimate of the public agency was reasonable (PCC 22032(b) and 22034(f)). Public projects of more than $175,000 shall, except as otherwise provided in this legislation, be allowed to contract by formal bidding procedures (PCC 22032(c)).

3. Agencies may disqualify contractors from the Qualified Contractors List required pursuant to PCC 22034(a).

4. Agencies may use these increased purchase amounts to purchase materials as long as they are consumed on a public contract subject to and defined by the policies and procedures manual established by the California Uniform Construction Cost Accounting Commission.

5. An agency may elect to withdraw from the act at any time by filing a resolution of this election with the State Controller’s Office.
The California Uniform Construction Cost Accounting Commission reviews the informal bid limits for inflation and other factors to determine whether adjustments should be made. If an adjustment is made, the State Controller notifies the affected public agencies. The adjustment may become effective before it appears as a formal change in the Public Contract Code. Any local agency, including cities, counties, redevelopment agencies, special districts, school districts, and community college districts, can voluntarily elect to participate. Further detailed information on CUPCCAA can be found at the State Controller’s website at http://www.sco.ca.gov/ard_cuccac.html

FCMAT reviewed documentation indicating that contracts in the Maintenance and Operations department are frequently bid without any input from Purchasing Services. No single person or department should be able to place orders or secure contracts for goods and services, prepare receiving or completion documents, and verify payments. These functions need to be separated to prevent an employee from creating a fictitious contract obligating the district. The separation of these duties is considered essential for proper internal controls and is a primary deterrent to fraud and abuse.

District departments are not always notified of scheduled bid dates and times. Purchasing Services does not consistently have on file or receive from the Maintenance and Operations department documents regarding the development of specifications, vendor listings, date and time of any bids or submissions in response to requests for proposals. Regularly scheduled meetings of the Maintenance and Operations, Fiscal Services and Purchasing departments are not held. Regular meetings would help ensure that proper bidding, budget and payment processes are set up and followed, that progress is evaluated, and that processes are improved if necessary. These meetings could help departments address specific issues such as upcoming bids or requests for proposals, contract questions, funding issues for specific projects, proper segregation of duties, internal controls, and fiscal oversight.

**Recommendations**

*The district should:*

1. Ensure that only Purchasing Services completes and sends out contracts and purchasing agreements.

2. Continue to update the equipment, materials, supplies, and public works project bid thresholds found in AR3311 to match the thresholds required of all other local K-12 educational agencies in California.

3. Adopt the California Uniform Public Construction Cost Accounting Act (PCC Section 22000) for public works construction projects.

4. Hold monthly meetings of the Purchasing, Business Services, and Maintenance and Operations departments, and have Purchasing Services assist with preparing bid documents, contract awards and purchase orders.
Purchase Orders

The purchase order process begins with an electronic requisition generated at any district school site or department into the Escape financial system. A requisition created in Escape follows a predetermined work flow approval hierarchy that routes the request to Purchasing Services, where it is converted into a purchase order that will be transmitted to the vendor via fax or mail.

Delays can occur for a variety of reasons including incorrect account coding, vendor not current in system, vendor not available, product not within district standards, product not available or on back order, etc. These delays interrupt and slow the purchasing process and prompt additional staff follow-up and potential breakdown in communication between the Purchasing department and the customer.

In reviewing board agendas, FCMAT found that the board does not review issued purchase orders. Board Policy 3300 states “the Board shall review all transactions entered into by the Superintendent or designee on behalf of the Board every 60 days.” (Education Code Section 17605)

The cost to process a purchase order is estimated to be at least $75. FCMAT’s review of purchase orders for one month found 82 purchase orders processed for under $100, with 54 of those being less than $75. BP 3300 states that to eliminate the processing of numerous small purchase orders, the superintendent or designee may create a blanket or open purchase order system to purchase minor items as needed from a vendor.

Recommendations

The district should:

1. Provide training and resource tools to site and department staff on purchasing processes, including proper account coding and product standards. Include information on why account codes and standards are needed (fund restrictions, district compatibility, district software configurations, extended warranties, service after purchase, etc.).

2. Develop purchase order follow-up procedures to facilitate reliable and timely tracking and communication of order status.

3. Include a report of purchase orders issued for the period in regular board agendas to satisfy Board Policy 3300.

4. Eliminate processing small purchase orders whenever possible. Consider using a purchase card or revolving checks for small purchases.

Purchase Cards

Purchase cards are issued only to a few employees. FCMAT reviewed and identified very little activity on these cards. The district seems not to favor the use of purchase cards; however, LEAs have found them to be beneficial if properly managed.

A purchase card is a form of credit card issued to individual district employees. Purchase card controls have evolved and improved over the past decade to provide strict and specific restrictions on how, when, where, and what the authorized user can purchase. Use of purchase cards has seen a dramatic rise in recent years, with many government organizations now using them to eliminate cumbersome procedures, reduce costs and lessen workload on staff. Organizations typically
use purchase cards for low-value merchandise to acquire these items more efficiently and at a significantly lower transaction cost than traditional methods.

Organizations are replacing revolving fund cash and checks with purchase cards and have also started to use the cards in accounts payable to automate payments for routine expenses. This is one of the fastest-growing uses of purchase cards, which can also generate a small revenue stream back to the district.

Employees who are issued purchase cards are expected to follow the organization’s policies and procedures related to their use, which includes review and approval of transactions according to a set schedule. The organization can implement a variety of controls for each purchase card, such as a single-purchase dollar limit, a monthly limit, and merchant category code restrictions. Some of the benefits of decentralizing small and urgent purchase transactions include:

- Faster purchase and receipt of goods.
- Fewer reimbursement claims.
- Allows Internet purchases and orders from vendors that do not accept purchase orders.
- Reduces the use of blanket purchase orders.
- Better utilizes technology to analyze spending and vendor activity, and improves compliance with school district policies and regulations.

As a precaution, accounting department staff should regularly review cardholders’ purchase card activity. Accounts payable staff should conduct audit review when processing monthly statements for payment.

FCMAT discussed the potential use of purchase cards during interviews with school district staff. Several staff members concur that more extensive issuance of purchase cards would enhance the purchasing tools currently offered.

**Recommendations**

*The district should:*

1. Consider expanding its purchase card implementation to department and site managers to decentralize certain purchases, reduce cash and revolving fund transactions, and improve controls and activity information.
   a. Adopt and enforce a policy of purchase card use that is fair and consistently applied and provides benefit both to the district and user.
   b. Hold training sessions to educate all users in the proper use of purchase cards, and require cardholders to sign a contract stating that they understand and agree with the use policy.
Fixed Assets
The Santa Rosa City Schools recognizes assets with a useful life of more than one year and an initial acquisition cost of $5,000 or more as capital assets. Board Policy 3400 delegates the superintendent or designee to determine the estimated useful life of each capital asset and to calculate and report the estimated loss of value or depreciation during each accounting period for all capital assets.

Administrative Regulation 3440 states that to provide for the proper control and conservation of district property, the superintendent or designee shall maintain an inventory of equipment in accordance with law for the following:

1. All items currently valued in excess of $500 (Education Code 35168).

2. All items purchased with federal funds that have a useful life of more than one year with an acquisition cost per unit of $5,000 or more.

The warehouse manager enters all fixed assets into the Escape inventory program, except for technology assets that come through the warehouse with a value of $250 or greater or have the possibility of being easily stolen.

The technology senior secretary manually tracks all technology fixed assets with a value of $200 or greater or that could be easily stolen. Her paperwork is then forwarded to the purchasing senior secretary who enters them into Escape. The technology senior secretary has manual inventory records prior to items being entered into the Escape inventory program. She stated concerns that the inventory program is not up to date and does not reflect warranty information on IT equipment.

Some sites purchase equipment without going through Purchasing, and those items are not tagged or added to the inventory list.

Assets have never been reconciled in the Escape inventory program and reflected in the general ledger. No lost, stolen, traded or surplus items have been deleted.

No physical inventory of equipment is taken at the sites, and there is no current accounting of existing equipment.

Recommendations
The district should:

1. Follow Administrative Regulation 3440 and only enter assets with a value of $500 or greater into Escape. Identify assets with a value less than $500 by engraving or tagging with a district name tag only.

2. Assign one person to be responsible for entering all assets into the inventory program. Consider adding this duty to the warehouse manager’s responsibilities as is standard in other districts.

3. Ensure that in addition to an inventory tag, the Technology department has its own labeling system for IT fixed assets that provides the warranty and site location information.

4. Annually reconcile the assets added to the Escape inventory program with the general ledger assets purchased.
5. Regularly delete items from the Escape inventory program once they have been approved by the Board as lost, stolen, traded or surplus.

6. Annually take a physical inventory of assets at all sites. Consider purchasing a scanner and software for bar-code scanning items to simplify the procedure.

**Office Depot Orders**

The district uses Office Depot to fill just-in-time purchase orders. There are two ways to place orders with Office Depot:

1. If an open purchase order has been issued an employee can enter an order online against that open purchase order, their administrator approves the order, and it is delivered to the site the next business day.

2. If there is not an open purchase order, the employee enters the order online and puts it on hold, then enters a requisition in Escape for the amount of the order. A copy of the order is sent through interoffice mail to Purchasing. Purchasing issues a purchase order, forwards it to the site, the site adds the purchase order number to the order on hold, their administrator approves the order, and it is delivered to the site the next business day.

The latter procedure takes up to a week longer for receipt. In both cases, the orders are not approved by Purchasing Services until after the order has been received by the site. FCMAT’s review of Office Depot invoices showed the purchase of some IT items that should not have been purchased without approval of the IT Department.

**Recommendations**

_The district should:_

1. Adjust its Office Depot ordering procedure so that Purchasing Services has the final approval before an order is released and can delete any items that are not allowed.

2. Encourage sites to have open purchase orders to Office Depot to shorten the delivery time. If the order is not to be charged to account code on the open purchase order, set up a procedure where a different account code can be entered on the order. Fiscal Services can then charge the correct account when it processes the invoice.

**Warehouse**

The warehouse acts as a central receiving location for the entire district. Additionally, this facility is used as the Child Nutrition Services warehouse. Department staffing consists of a warehouse manager, a warehouse keeper/driver and two full time Child Nutrition Services employees.

The district warehouse stocks copy paper, forms, minimal custodial supplies and small equipment repair parts. A stores catalog lists available items. Sites place orders directly online through Escape. Sixty percent of the stores catalog items listed do not list a cost to the purchaser. The remaining 40% reflect the cost of the item only. Purchasing in bulk could yield significant cost savings. This would standardize the supplies used districtwide, eliminate the possibility of toxic
products being purchased and alleviate the number of purchase orders to vendors for custodial supplies.

Communication regarding orders appears labor intensive because the warehouse does not take direct inquiries. If an order is late the requisitioner must call Purchasing, which then contacts the warehouse for the order status and then must call or email the requisitioner.

Warehouse workers using the forklift are mandated by OSHA to have regular safety training. This training should be ongoing to avoid accidents.

Deliveries of interoffice mail and duplicating are made three times a week, on Monday, Wednesday and Friday mornings, within four hours. There are no scheduled calendar days for delivery to the sites of warehouse stock and vendor orders, and no single district calendar for ordering and delivering goods from the warehouse. Deliveries to sites are currently two months behind. Deliveries are rarely made after 1:30-2 pm. Accordingly, only one or two sites receive deliveries each afternoon.

Santa Rosa City Schools regular board meetings are held at Santa Rosa City Hall twice a month. A warehouse driver delivers materials for all regular board meetings to City Hall on the day of the scheduled meetings. In addition, the driver delivers board packets to board members’ personal residences the Friday before all board meetings.

Fiscal, Human Relations, school site and Special Services records are stored in the warehouse. The records are not in a separate locked area. The warehouse manager, drivers and director of purchasing have access to these sensitive records.

The district’s manual document management and storage requires significant storage space. Digital storage could reduce this need, allow documents to be preserved longer, and reduce the time it takes to access stored documents for employees and customers.

Districtwide digital document management and archiving is needed. Document management software would allow the district to ensure proper procedures with approval and routing systems, audit trails, and the ability to secure documents with passwords.

**Recommendations**

The district should:

1. Revise the stores catalog to include actual cost plus surcharge on all items.
2. Discontinue stocking forms that can be put online and easily accessed districtwide.
3. Have warehouse staff handle all order status inquiries.
4. Provide all workers with mandated safety training.
5. Consider additional staffing or overtime to bring deliveries current.
6. Establish weekly deliveries to every site, and deliver interoffice mail and supply orders at the same time for greater efficiency.
7. Post a delivery/calendar schedule online to improve communication.
8. Consider sending board member packets out electronically to eliminate warehouse delivery of the packets to board members’ residences.
9. Consider having superintendent’s office staff transport board meeting materials to City Hall instead of utilizing warehouse staff.

10. Maintain a locked area in the warehouse for all sensitive records to be stored.

11. Maintain all standard custodial supplies in the warehouse stock.

12. Implement a complete districtwide digital document management and archiving system.

**Duplicating Services**

Duplicating Services prints materials and forms for the entire district. Two full-time technicians work in the department. The machines in Duplicating Services can receive jobs electronically; however, all printing requests are received through the interoffice mail. An order form with instructions accompanies each job. Account codes are omitted on the current form. A minimum size order for print is 20 pages, except those for special service classes. The turnaround time for most jobs is within one week.

A report is generated annually showing the number of copies printed per student at each site.

All employees are given a deadline in May for printing requests that are to be completed during the summer. Office and site staff complained that with year-end scheduled events the May deadline is inconvenient and at times has been impossible to meet.

Employees that use Duplicating Services are not charged for printing or paper costs.

All facilities and sites also have numerous copiers and printers.

**Recommendations**

*The district should:*

1. Charge print orders to a specific code for proper accounting requirements.

2. Perform a document technology assessment to assist in setting standards for the types and number of copiers and printers needed at each site.

3. Analyze options to allow sites to send printing jobs electronically to Duplicating Services.

4. Amend the office staff deadline for summertime printing jobs.

5. Establish a cost per copy to be charged by Duplicating Services.

6. Set a per-site limit for copies (e.g., 1,200 per elementary student).

7. Require printing request (i.e. special service classes) under copy minimum be printed using the on-site copiers.
Job Descriptions and Desk Manuals

Department job descriptions have not been updated for over 30 years. The descriptions are not comparable to LEAs of similar size and today’s industry standards. They do not list the essential functions, working conditions and physical demands of each job, which is a crucial requirement of the Americans with Disabilities Act (ADA).

There are no desk manuals for any Purchasing, Duplicating Services or warehouse positions.

Recommendations

The district should:

1. Regularly review and update job descriptions to ensure they accurately reflect position qualifications, ADA requirements, duties and responsibilities.

2. Regularly review and adjust the duties of purchasing staff to fit workload fluctuations and to adapt to new trends and procurement demands.

3. Prepare desk manuals for all purchasing positions. Review and update the manuals annually.
Maintenance and Facilities

The district maintenance department maintains 20 schools and various ancillary facilities. Department staffing consists of a maintenance and operations director, a building and maintenance supervisor, a compliance and coordinator supervisor (position vacant during FCMAT’s field work), a senior secretary and 12 maintenance workers, including two leads.

The director of maintenance and operations has been with the district since 2003 and has held the current position since 2006. She possesses institutional knowledge that benefits the district. However, because of her lack of exposure to practices outside the district, many procedures are continued based on past practice rather than industry standard. Among these are the need to standardize items carried in the department’s inventory and to require advance approval of purchases since many purchases (estimated at 1,200 last year) are made using confirming requisitions.

Participation in professional organizations such as the Coalition for Adequate School Housing (CASH) and the California Association of School Business Officials (CASBO), would allow for networking and collaboration regarding industry best practices.

The director is entirely responsible for the entire competitive bid process for public works projects. This includes advertising for bids, receiving and opening bids, recommending board award of bids, issuing notices to proceed, and administering the contract through the notice of completion and project close out. No single person or department should be able to place orders or secure contracts for goods and services, prepare receiving or completion documents, and verify payments. Segregating these functions can prevent collusion, ensure that adequate proper internal controls are in place, and deter fraud.

Purchasing Services should be responsible for advertising bids as well as receipt and opening of sealed bids. Purchasing Services should also be responsible for ensuring that all bids received are responsive and for recommending that the board approve the apparent low bidder or reject all bids, per the bid specifications. After the board has approved the bid, the bid file should go to the Maintenance and Operations department, which should verify that certificates of insurance, payment and performance bonds, etc. have been received before issuing the contractor a notice to proceed.

In organizational theory, 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 than the higher levels of an organization because subordinates at the lower levels typically perform more routine duties and therefore can be more effectively supervised. However, as its name implies, there are limits to an effective span of control, and those limits affect the ability of a supervisor to hold subordinates accountable.

The maintenance and operations supervisor directly supervises the maintenance and grounds staff, including 10 maintenance workers, two maintenance leads and nine grounds employees, and is the first point of contact with custodians on issues that cannot be handled with school site personnel. Reassigning the responsibility for evaluating the leads in the maintenance and grounds department from the supervisor of maintenance and operations to the director of maintenance and operations would reduce the supervisor’s span of control and increase employee accountability.

The maintenance department lacks procedure manuals that clearly define and communicate district procedures, standards and expectations. As a result, maintenance staff and the depart-
ment’s customers will have varying expectations, making it difficult to hold maintenance staff accountable for their performance.

Effective written policies, procedures, standards, and expectations clearly define employee authorizations and expectations and the standards of care for all facilities, including frequency of services and expected response times for maintenance service. They also align with the employees’ rights and accountability standards; the personnel department is the best resource to help ensure this alignment. It is best practice to develop and maintain a manual of these documents for staff to reference; effective manuals of this type include at least the following topics.

- Use of district vehicles
- Use of district tools and equipment
- Key control and reporting
- New employee and substitute orientation
- Acceptable employee conduct
- Employee discipline
- Employee evaluations
- Dress code/uniforms (if applicable)
- Work order assignment
- Inventory management and control
- Maintenance response time
- Work order communication processes
- Communication protocols between staff members
- Preventive maintenance items and schedules
- Purchasing authority

Once such a manual is established, it is best practice to review and revise it regularly to ensure it meets district needs and aligns with the collective bargaining agreement and legal requirements. It can also serve as a basis for staff accountability and for evaluations.

The maintenance department is staffed with less than the standard of one maintenance worker per school site and less than districts of similar size. However, because of the manner in which employees are supervised, it is difficult to ascertain their level of productivity. During FCMAT’s fieldwork, staff commented that the crew lacks initiative and is ineffective at communicating with school offices regarding the status of their work. In addition, staff stated that the crew drives back and forth from school sites to the maintenance and operations facility to take breaks and arrives at school sites lacking the proper tools or equipment to complete their work.

The maintenance department has both general maintenance and trade-specific personnel. Job descriptions for several positions have not been updated since 1995. It is best practice to update job descriptions every two to three years to reflect current duties and legal requirements.

The district does not have a formal preventive maintenance plan and lacks a written schedule of preventive maintenance for items such as HVAC and refrigeration equipment, electrical panels, fire alarms, rain gutters, roofs, and exhaust fans. A schedule and established priorities would more effectively use maintenance funding and materials.
FCMAT observed that the maintenance staff possessed the tools and equipment needed to perform their daily duties. However, the maintenance vehicles are old and frequently need repair. An inventory of these vehicles shows they are one to 45 years old, with 13 vehicles having more than 100,000 miles on their odometers, and one vehicle exceeding 222,000 miles. Because the district does not maintain or fund a vehicle replacement program, the life cycles of some of its vehicles have been overextended. The United States General Services Administration recommends that medium-sized trucks be replaced at 10 years or 100,000 miles for non-diesel trucks and at 10 years or 150,000 miles for diesel trucks. Increased vehicle maintenance adversely affects service levels.

**Recommendations**

*The district should:*

1. Develop a uniform purchasing process for the maintenance and operations team, and reduce the number of confirming requisitions.
2. Standardize the inventory of maintenance equipment and supplies.
3. Provide professional development opportunities for the director of maintenance and operations, and encourage participation in professional organizations such as CASBO and CASH.
4. Segregate duties in the competitive bid process for public works projects as described above.
5. Develop and implement written procedures, standards and expectations for the maintenance department staff.
6. Reassign the responsibility for evaluating the leads in the maintenance and grounds department to the director of maintenance and operations.
7. Develop a preventive maintenance schedule.
8. Develop a multiyear plan and provide funding for maintaining and replacing vehicles.
9. Update all maintenance department job descriptions.
10. Require the maintenance crew to carry on their trucks the equipment needed to perform routine maintenance and repairs.
11. Require the maintenance crew to check in with school office staff prior to beginning repairs and to communicate with them regarding repair status.
Appendices

Appendix A - Sample Debt Management Policy
Appendix B - Study Agreement
Appendix A

BP 3461 Business and Noninstructional Operations

Debt Management Policy

Purpose

The district recognizes that the foundation of a well-managed debt program is a comprehensive debt policy.

This debt policy sets forth a set of comprehensive guidelines for the financing of capital expenditures, as well as addressing short term cash flow needs. It is the objective of this policy that:

1. The district obtain financing only when necessary.

2. The district will use a process for identifying the timing and amount of debt or other financing that is efficient.

3. The district will obtain the most favorable interest and other costs in issuing the debt.

This policy will be reviewed by the Governing Board at least annually and updated as necessary.

Responsibilities

1. Assistant Superintendent for Business

The Assistant Superintendent for Business Services will have the primary responsibility for developing financing recommendations and ensuring the implementation of the debt policy. In developing the recommendations, the Assistant Superintendent will be assisted by the Director of Fiscal Services and an impartial member from the local banking community. These individuals will comprise the Debt Management Committee. The responsibilities of the committee will be to:

a. Meet at least quarterly to review the district's capital improvement program and consider the need for financing to maintain the progress on the capital improvement program.

b. Develop a Request for Proposal (RFP), that will be used in the selection of bond counsel, financial advisor and/or underwriter.

c. Recommend the financing participants for each debt issue, ensure the debt issue is integrated with the district's overall financing program, approve the structure of each debt issue, and review and approve all documentation for each issue.

d. Assist in the preparation of the information for the official statement for debt issues.

e. Meet as necessary in preparation for a financing or to review changes in state or federal laws or regulations.
f. Disclose all information for the bond rating agencies and make presentations as necessary.

g. Meet annually to review the district's compliance with the existing debt agreements.

h. Provide quarterly statements to the Board of Trustees following meetings of the debt-management committee.

i. Meet annually to review the services provided by the financial advisor, bond counsel, paying agents and other service providers to evaluate the extent and the effectiveness of the services provided.

j. Administer the investment and expenditure of the debt proceeds and ensure that the debt payments are made on time.

k. Ensure that the arbitrage requirements are monitored and that the appropriate reports are filed with the federal government.

2. Bond Counsel

The bond counsel will issue an opinion as to the legality and tax exempt status of any obligations. The district will also seek the advice of the bond counsel on questions involving the state or federal law or arbitrage. The bond counsel is also responsible for the preparation of the bond documents (including the authorizing resolutions that the Governing Board will adopt and official statement) and most of the closing documents. The bond counsel will ensure that all legal requirements for the debt issue are met. The bond counsel will perform other services as defined by the contract approved by the district.

3. Financial Advisor/Underwriter

The district staff will seek the advice of the financial advisor and/or underwriter. The financial advisor will advise on the structuring of the debt obligations that will be issued, inform the district of the options available for each issue, advise the district as to how choices will impact the marketability of the district's obligations, and will provide other services as defined by the contract approved by the district. In the event the district considers refunding a prior year debt the underwriter or financial advisor will prepare a computation of the economic gain or loss on the issue.

4. District Auditors

The district will include a review of any official statements issued in connection with a debt issue in its contract for services with the district's auditors. In the event the district has refunded a prior debt issuance the auditor will include the amount of the economic gain or loss in the footnote on the new debt in the audit report.

Short-Term Operating Debt Policy
The expenditures associated with the day-to-day operations of the district will be covered by current revenues. However, because the district does not receive its revenues in equal installments each month and the largest expenditures occur in equal amounts, the district may experience temporary cash shortfalls. To finance these temporary cash shortfalls, the district may incur short-term operating debt, typically, tax and revenue anticipation notes (TRANS). The district will base the amount of the short-term operating debt on cash flow projections for the fiscal year and will comply with applicable federal and state regulations. The district will pledge operating revenues to repay the debt, which will be repaid in one year or less. The district will minimize the cost of the short-term borrowings to the greatest extent possible.

Long-Term Capital Debt Policy

The following will apply to the issuance of long-term debt:

1. The district will not use long-term obligations for operating purposes.

2. The life of the long-term obligations will not exceed the useful life of the projects financed.

3. The district will strive to maintain level debt service payments.

4. The district will not issue unfunded long-term debt in any fiscal year in excess of 2% of annual general fund revenues and in any subsequent fiscal year the long term debt shall not cumulatively be in excess of 2% of annual general fund revenues, unless there is an authorized tax levy or redevelopment revenue stream committed to service debt.

Bonds

1. The district may issue general obligation bonds to finance significant capital improvements for the purposes set forth by the voters in the bond election. The district may also issue revenue bonds to finance significant capital improvements without voter authorization, through Certificates of Participation (COP’s) or through Qualified Zone Academy Bonds (QZAB’s).

2. The district staff will prepare a resolution authorizing the issuance of Certificates Participation or Qualified Zone Academy Bonds for presentation to the Governing Board at least 30 days prior to the issuance.

Negotiated Versus Competitive Sale Versus Private Placement

When feasible and economical, the district may issue bonds either by competitive or negotiated sale. The district will issue by negotiated sale when the issue is predominantly a refunding issue or in situations that require more flexibility than a competitive sale allows. Whenever the option exists to offer an issue either for competition or negotiation, the Debt Management Committee will prepare an analysis of the options to aid in the decision making process.

Refunding
The district will consider refunding debt whenever an analysis indicates the potential for present value savings of approximately 5% of the principal being refunded or at least $200,000. The financial advisor will compute the economic gain or loss on the refunding and the members of the Debt Management Committee will verify the computation. The district will not refund less than 5% of its outstanding debt at one time except in unusual circumstances such as when it intends to change bond covenants.

Capital Leases

Capital leasing is an option for the acquisition of equipment or other assets with a cost of less than $500,000. The district will not consider leasing when there are available funds on hand for the acquisition unless the interest expense associated with the lease is less than the interest that can be earned by investing the funds on hand or when other factors such as budget constraints override the economic consideration.

When a lease is arranged with a private sector entity, the district will seek a tax-exempt rate. When a lease is arranged with a government or other tax-exempt entity, the district will try to obtain an explicitly defined taxable rate so that the lease will not be counted in the district's total annual borrowings subject to arbitrage rebate.

The lease agreement will permit the district to refinance the lease at no more than reasonable cost. A lease that can be called at will is preferable to one that can merely be accelerated.

The district staff will obtain at least three competitive proposals for any major lease financing. In evaluating the proposals, the net present value of the competitive bids will be compared, taking into account how and when the payments are made. If required by statute, the purchase price of equipment will be competitively bid.

Bond Rating

The district's goal is to maintain or improve its bond ratings. The district staff will make a full disclosure to the bond rating agencies when necessary.

Arbitrage Liability Management

The district will make every effort to minimize the cost of the arbitrage rebate and yield restriction while strictly complying with the law. The federal arbitrage law is intended to discourage entities from issuing tax exempt obligations unnecessarily. In the complying with the spirit of the law, the district will not issue obligations except for identifiable projects with very good prospects of timely initiation. Obligations will be issued as closely in time as feasible to the time contracts are awarded so as to minimize the time the debt proceeds are unspent.

The district's bond counsel and financial advisor will review, in advance, all arbitrage rebate payments and forms sent to the IRS.

Internal Interim Financing
In order to defer the issuance of debt obligations, when sufficient non-restricted funds are on hand, consideration will be given to appropriating them to provide interim financing for large construction projects. When the debt obligation is subsequently issued, the non-restricted funds will be repaid.
Appendix B

FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
December 6, 2013

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the Santa Rosa City Schools, 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 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**

      1. Review the district's budget development process, assumptions, and site allocation methods used to develop the 2013-14 adoption budget, and make recommendations.

      2. The analysis of the district's budget assumptions shall include but not be limited to enrollment and average daily attendance projections, Local Control Funding Formula calculations, forecasted revenues, projected expenditures including step and column, position control and collective bargaining agreements, interfund transfers, long term debt, and the recommended reserves for economic uncertainties.

      3. The analysis will also include a review of the district's process and procedures for developing its multiyear financial projection and cash flow.
4. Review the internal control structure between the business and personnel departments to provide the district with reasonable assurances, based on a review of governance and business practices, that adequate management controls are in place regarding the reporting and monitoring of transactions. Management controls include the processes for planning, organizing, directing and controlling program operations, including systems for measuring, reporting, and monitoring performance. Specific review objectives will include evaluating board policies and administrative regulations, procedures, internal controls and transactions performed by the district.

5. Evaluate the purchasing and warehouse department’s policies, procedures, including compliance with bidding requirements and other purchasing data. The objective of this component will be to provide findings regarding the efficiency and accuracy of the purchasing department and make recommendations for the following:

a. Provide reasonable assurance that purchasing transactions are entered by properly authorized personnel and that the transactions are accurately summarized for procurement purposes. The team will obtain data and information necessary to perform testing of various purchase orders and warehouse requisition records. This component will be to evaluate the effectiveness and efficiency of departmental purchasing and warehouse processing and operations which include new vendors, contracts, bid requirements, and system operations.

b. Provide reasonable assurance that access to the purchasing and warehouse system is properly secured from unauthorized changes and that the proper internal control systems are in place for data transfers between the purchasing and accounts payable departments.

6. Evaluate the division of labor and segregation of duties between classified and management employees in the purchasing and warehouse department

   a. Review the purchasing and warehouse department work flow and staffing;

   b. Review the records processing procedures and file management protocol;

   c. Evaluate desk manuals and procedures for each departmental employee.
d. Verify that the district is in compliance with the Education Code and Public Contract code regarding bid limits.

e. Review procedures related to deductions and payments to vendors, including but not limited to purchase orders and sample contracts for professional services, construction and other purchases for services.

7. Evaluate the efficiency of the district's facilities and maintenance operations in accordance with the following: (The scope of work excludes grounds and custodial operations).

a. Review job descriptions for all department positions, evaluate capacity, scheduling, efficiency and functions and make recommendations for staffing and operational improvements. All recommendations will include estimated calculated values for any proposed position reductions or enhancements to the organizational structure.

b. Evaluate the current operational work flow of each departmental function for the facilities and maintenance areas and provide recommendations for improved efficiency and standard industry practices, if any.

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. Marisa Ploog, CPA, CFE, CICA, CGMA    FCMAT Fiscal Intervention Specialist, 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 $25,000

   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. Existing policies, regulations and prior reports that address the study scope.
2. Current or proposed organizational charts.
3. Current and two prior years’ audit reports.
4. 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.
5. 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: February 2014
- 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: Socorro Shiels  
Telephone: (707) 528-5396  
E-mail: sshiels@srs.k12.ca.us  

__Signature__  
Socorro Shiels, Superintendent  
Santa Rosa City Schools  
12/11/13  

__Signature__  
Anthony L. Bridges, CFE, CICA  
Deputy Executive Officer  
Fiscal Crisis and Management Assistance Team  
December 6, 2013