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

Kern County Superintendent of Schools

Management Review

July 25, 2011

Joel D. Montero
Chief Executive Officer

July 25, 2011

Christine L. Frazier, Superintendent
Kern County Superintendent of Schools
1300 17th Street – City Centre
Bakersfield, CA 93301

Dear Superintendent Frazier:

In February 2011, the Kern County Superintendent of Schools and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for a management assistance review of the Southern Kern Unified School District. Specifically, the agreement states that FCMAT will perform the following:

1. Kern County Superintendent of Schools would like to retain FCMAT to conduct an external and independent review of the Southern Kern Unified School District's 2010-11 general fund budget and develop a multiyear financial projection (MYFP) for the current and two subsequent fiscal years utilizing the district's Second Interim Financial Report as the baseline for the projection. FCMAT's Budget Explorer software will be used to prepare the MYFP. The MYFP will include a cash flow component for 2010-11 and 2011-12 to project the district's cash balances at the end of each fiscal year to assist in estimating cash flow shortages. The MYFP and cash flow analysis will also include the impact of other funds including alternative strategies for cash management from both internal and external sources.
2. The FCMAT Team will validate the district's budget assumptions and provide recommendations for expenditure reductions or revenue enhancements to assist the district in maintaining their financial solvency under AB 1200.
3. The FCMAT Team will review expenditures in the following funds for fiscal years 2008-2009 through 2010-2011 to ensure expenditures are appropriate and meet legal requirements. FCMAT review will be completed by examining a test sample of referenced documentation for district outside services contracts, invoices, bid documents, and any other necessary documentation required.
    - Building Fund
    - Capital Facilities Fund
    - Special Reserve Fund
    - Deferred Maintenance Fund
4. Conduct a review of the district's Business Department processes and procedures and provide recommendations for improvements if necessary, to improve the efficiency and productivity of the Department in the following areas;

- Budget Development and Monitoring
- Financial Reporting
- Internal Controls
- Payroll
- Position Control
- Purchasing including outside services contracts and bid award procedures
- Accounts Payable
- Accounts Receivable

The primary focus of scope points #3 and #4 is to provide KCSOS with reasonable assurance based on the testing performed that adequate management controls are in place. Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. Specific audit objectives will include evaluating the policies, procedures, and internal controls related to the Business Department.

The attached final report contains the study team's findings and recommendations.

We appreciate the opportunity to serve you and we extend our thanks to the staff of the Kern County Superintendent of Schools office and the Southern Kern Unified School District for their cooperation and assistance during this review.

Sincerely,

Joel D. Montero
Chief Executive Officer

C: Mark Fulmer, Assistant Superintendent of Fiscal Services, Kern County Superintendent of Schools
Gary Rice, Fiscal Advisor, Kern County Superintendent of Schools

Table of Contents

About FCMAT iii

Introduction 1

Executive Summary 5

Findings and Recommendations 9

- Multiyear Financial Projections 9
- Cash Flow Projections 27
- Revenue Increases and Expenditure Reductions 35
- Expenditure Review 39
- Processes and Procedures 53

Appendices 81

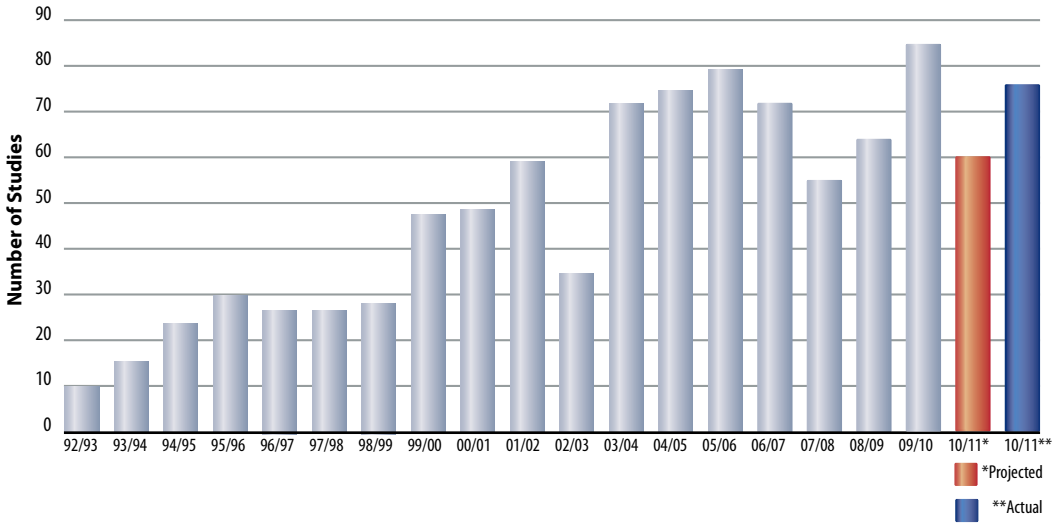
About FCMAT

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 office of education and school districts to work together locally to improve fiscal procedures and accountability standards. Assembly Bill 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

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

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

Introduction

Background

Located in Kern County, the Southern Kern Unified School District has a five-member elected governing board and serves approximately 3,259 students in kindergarten through twelfth grade. The district has two elementary schools, one middle school, one comprehensive high school and two alternative schools. Student enrollment reached a maximum of 3,594 students in 2007-08 but has declined each year since.

Approximately 11% of the district's students are English learners and 61% are eligible for free or reduced-price meals. According to the 2010 Adequate Yearly Progress (AYP) report, the district did not meet all of the criteria for AYP and was identified for year one of program improvement (PI) in 2010-11. Schools and local educational agencies that do not meet AYP criteria for two consecutive years are identified for PI under the federal Elementary and Secondary Education Act (ESEA). The ESEA requires all states to implement statewide accountability systems based on state standards in English-language arts and mathematics, annual testing for students, and annual statewide progress objectives with the goal that all students achieve proficiency by 2013-14. Schools and districts that fail to make AYP are subject to improvement and corrective action measures.

The district passed a $24 million general obligation bond measure in 2008 to help fund facilities acquisition, construction, and improvements.

In February 2011, the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement with the Kern County Superintendent of Schools for management assistance on behalf of the Southern Kern Unified School District. The study agreement specifies the following scope and objectives of FCMAT's work:

1. Kern County Superintendent of Schools would like to retain FCMAT to conduct an external and independent review of the Southern Kern Unified School District's 2010-11 general fund budget and develop a multiyear financial projection (MYFP) for the current and two subsequent fiscal years utilizing the district's Second Interim Financial Report as the baseline for the projection. FCMAT's Budget Explorer software will be used to prepare the MYFP. The MYFP will include a cash flow component for 2010-11 and 2011-12 to project the district's cash balances at the end of each fiscal year to assist in estimating cash flow shortages. The MYFP and cash flow analysis will also include the impact of other funds including alternative strategies for cash management from both internal and external sources.
2. The FCMAT Team will validate the district's budget assumptions and provide recommendations for expenditure reductions or revenue enhancements to assist the district in maintaining their financial solvency under AB 1200.
3. The FCMAT Team will review expenditures in the following funds for fiscal years 2008-2009 through 2010-2011 to ensure expenditures are appropriate and meet legal requirements. FCMAT review will be completed by examining a test sample of referenced documentation for district outside services contracts, invoices, bid documents, and any other necessary documentation required.

- Building Fund
- Capital Facilities Fund
- Special Reserve Fund
- Deferred Maintenance Fund

4. Conduct a review of the district's Business Department processes and procedures and provide recommendations for improvements if necessary, to improve the efficiency and productivity of the Department in the following areas;
    - Budget Development and Monitoring
    - Financial Reporting
    - Internal Controls
    - Payroll
    - Position Control
    - Purchasing including outside services contracts and bid award procedures
    - Accounts Payable
    - Accounts Receivable

The primary focus of scope points #3 and #4 is to provide KCSOS with reasonable assurance based on the testing performed that adequate management controls are in place. Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. Specific audit objectives will include evaluating the policies, procedures, and internal controls related to the Business Department.

Study Guidelines

FCMAT visited the district on February 24-25 and March 28-30, 2011 to conduct interviews, collect data and review documents. This report is the result of those activities and is divided into the following sections:

- Multiyear Financial Projections
- Cash Flow Projections
- Revenue Increases and Expenditure Reductions
- Expenditure Review
- Processes and Procedures
- Appendices

Study Team

The study team was composed of the following members:

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*As a member of this study team, this consultant was not representing her employer but was working solely as an independent contractor for FCMAT.

Executive Summary

Multiyear Financial Projections

Multiyear financial projections (MYFPs) help local education agencies make more informed decisions and forecast the effect of current decisions. Projections should be a part of annual budget development and should be evaluated and updated during each interim financial reporting period and before any significant budget adjustments, such as salary increases.

In developing and implementing the multiyear financial projection, the district's primary objectives are to achieve and sustain a balanced budget, improve academic achievement and maintain local governance. The financial crisis at the state and national levels makes it an especially challenging time financially for educational agencies statewide. The 2008-09, 2009-10 and 2010-11 state budget acts included significant cuts to the education budget. The governor's 2011 May Revision includes relatively flat funding for education in 2011-12; however, an ongoing structural budget deficit continues, and the governor assumes extension of the current tax levels to balance the 2011-12 state budget. If the state legislature and/or electorate do not pass an extension of the current tax levels, local educational agencies may incur an additional annual reduction in state funding. Therefore, it is highly recommended that amounts be set aside to absorb a potential cut of up to $349 per average daily attendance (ADA) beginning in 2011-12. A reduction of this magnitude would equate to approximately $1.1 million per fiscal year for the Southern Kern Unified School District. This situation requires local governing boards to make extremely difficult decisions to balance the budget and remain fiscally solvent.

FCMAT's multiyear financial projection indicates that the district *will not* be able to maintain a 3% reserve for economic uncertainties in the 2011-12 and 2012-13 fiscal years and will have a negative unrestricted ending fund balance in 2012-13 if actions are not taken to increase revenues and/or reduce expenditures immediately. Following is a summary of FCMAT's projections for the district's unrestricted resources, based on the district's second interim report.

Multiyear Financial Projection Summary
General Fund - Unrestricted Resources Only

	Base Year	Year 1	Year 2
Description	2010-11	2011-12	2012-13
Total Revenues	$19,888,627	$18,148,797	$18,716,355
Total Expenditures	16,744,455	18,312,253	18,874,681
Total Other Financing Sources/Uses	-2,190,707	-2,148,096	-2,235,839
Net Increase (Decrease) in Fund Balance	953,465	-2,311,552	-2,394,165
Fund Balance:			
Beginning Balance	1,156,926	3,013,435	701,883
Audit Adjustments	900,000	0	0
Other Restatements	3,044	0	0
Total Ending Balance	3,013,435	701,883	-1,692,282
Components of Ending Fund Balance:			
Revolving Cash	10,000	10,000	10,000
3% Reserve for Economic Uncertainties	749,440	753,199	774,572
Undesignated/Unappropriated	$2,253,995	$0	$0
Shortfall	$0	($61,316)	($2,476,854)

Subsequent Events

Following completion of FCMAT's fieldwork, the district settled negotiations with its certificated and classified employee associations. The agreements contained various concessions for each group for the 2011-12 and 2012-13 school years, including furlough days, increased class sizes, and modifications to the health and welfare benefit plans. The district also implemented furlough days and modifications to the benefit plans for its non-represented staff members and suspended the adult education program beginning with the 2011-12 school year. FCMAT's scope of work did not include a review of the costs associated with these agreements; however, the concessions made by employees and actions taken by the governing board should provide significant progress in balancing the district's budget and maintaining fiscal solvency.

On June 30, 2011 the governor signed the 2011-12 state budget act and some of the education-related trailer bills, including AB 114 and AB 121. Although the state budget provides flat funding for education, the associated trailer bills include automatic state spending reductions if revenues are less than projected, as determined by the state's director of finance in December 2011. In addition the governor's May revision proposal to reverse the $2.1 billion in additional cash deferrals to K-12 education, included in SB 70, was not adopted. These additional cash deferrals were not included in FCMAT's cash flow projections but will need to be recognized in the district's future cash flow projections.

Cash Flow Projections

The purpose of a cash flow statement is to project the timing of receipts and expenses so that an organization can understand its cash flow needs. The cash flow statement reflects the district's ability to meet its payroll and other financial obligations to sustain the district's financial solvency and avoid state intervention.

Continued and increased cash deferrals are included in the state's 2010-11 budget; over 28% of the current year funding is deferred into 2011-12 and deferrals are anticipated to continue in the projection years. Therefore it is imperative that the district monitor its current year and subsequent year cash flow at least monthly and carefully monitor its annual budget to ensure that expenditures do not exceed revenues.

The cash flow projections prepared by FCMAT for the remainder of 2010-11 and the 2011-12 fiscal years reflect a negative ending cash balance each month, with the exception of January 2012, beginning in October 2011. In addition to closely monitoring cash flow, the district should work with the county office to determine the borrowing options that are available if funds are needed for cash flow purposes.

Expenditure Review

A random sampling of expenditure documents was reviewed for the building, capital facilities, special reserve, and deferred maintenance funds. The review indicated that numerous purchases were made without using the purchase order (PO) process. Best business practices include the completion and approval of POs prior to each purchase to ensure that the necessary funds are encumbered and to protect against over expenditure. The use of purchase orders also helps to provide a tracking mechanism in the financial software system to help ensure that all district obligations have been properly accrued at year end.

The expenditure review also found that invoices for facilities projects were often signed by the chief business officer (CBO) rather than by the district staff member assigned to monitor the work and ensure it was completed.

The district's Board Policy 3312 and Education Code Section 17604 provides that the governing board may delegate power to the superintendent or designee to enter into contracts on behalf of the district. However, all contracts must be approved or ratified by the board. FCMAT's expenditure review found that all contracts, including purchase orders, were not submitted to the governing board for approval/ratification. Best practices would be to present all contracts and POs to the board for approval and to present a summary listing of warrants to the board for ratification.

The capital facilities fund, fund 25, is used primarily to account for monies received from developers or other agencies as a condition of approving a development. Expenditures are restricted to the purposes specified in Government Code or in agreements with developers, and are typically restricted to growth and growth-related projects. The expenditure review indicated that payments for some items paid from fund 25, including roof replacements and repairs made throughout the district in 2009, should be evaluated by staff to ensure that fund 25 was the proper funding source.

FCMAT's examination of the documents selected for review indicated that payment was made from building funds and from the general fund for some facility/construction items, including fees for architectural services. While it is legal to use general fund monies for capital outlay projects, it is typically a better business practice to have sufficient facilities funding secured before making commitments for large projects unless the governing board has determined that general fund resources are to be used for a specific project.

Because the district lacks sufficient internal expertise in the area of facility program management, consideration should be given to engaging a knowledgeable, outside program/project manager. However, if the district decides to continue these duties internally, applicable staff members should be provided with training in facility project management by organizations that have expertise in this area such as the Coalition for Adequate School Housing (CASH) and the California Association of School Business Officials (CASBO).

A citizens' oversight committee (COC) was established as required by law to review and report on the use of funds provided by Measure H. However, FCMAT found no COC agendas or minutes posted on the district website and no records were provided indicating that the required annual financial audit or annual performance audit were provided to the COC or the governing board. The district should ensure that these items are completed and conduct periodic COC meetings until all Measure H funds have been expended.

Processes and Procedures

The district office has experienced a great deal of change in the 2010-11 fiscal year, including the retirement of the CBO, a new CBO being hired, the county office assigning a fiscal advisor, and governing board elections that resulted in new members being seated on the board. These changes have emphasized the need for cross-training, desk procedure manuals and a department policies and procedures manual. It is also important to ensure that board policies and administrative regulations are updated and reflect current legislation.

The district's CBO has primary responsibility for budget development, including developing site and department budgets. However, best business practices include site administrators and department managers in the process. The business department should prepare budget development materials and provide a budget workshop to assist in the development of this process. The district should also consider providing online, read-only access to the financial system for sites/departments so that they can review account line budgets and run budget reports when needed.

The district recently implemented a new student information system for student attendance accounting. Staff expressed concerns about the accuracy of the information provided by the system, and the district's audited financial statements for fiscal year 2009-10 included audit finding 2010-4 regarding concerns about the student attendance system reports. The district should review the attendance reports prepared using information from the current system to ensure that accurate data has been included on the state-required reports.

To help control costs, it is important to review all staff positions and compare them to factors that are relevant to each position and develop staffing formula guidelines for all positions. While the district uses staffing projections for certificated teaching positions, staffing formulas and projections are not used for other district positions. It is also critical to accurately project employee salary and benefit costs. The district lacks a position control system that is integrated with the budget and payroll system and should resume its efforts to implement the QSS position control module.

Interviews, expenditure documentation, and the 2008-09 and 2009-10 annual independent audit reports indicated that the district has not accrued accounts payable items properly at year end, including payments for architectural and special education services. The district should immediately provide additional training for all employees entrusted with accounting duties to ensure that generally accepted accounting principles are followed and that financial statements are accurate.

Interviews indicated that some individuals have begun working for the district prior to the receipt of required fingerprint clearances. The district should stop this practice immediately as it poses a significant potential for liability. Training should be provided to all administrators and department managers to ensure they understand the hiring processes and procedures, and the district should hold staff accountable for following its procedures.

A sound internal control structure requires job duties to be segregated to properly protect the district's assets. Therefore, the payroll technician should not have access to the payroll warrants and the business office clerk should not have access to the vendor warrants after they are processed for payment. The district should also ensure that no employee has access to all the financial system screens that are required to create and pay either an employee or a vendor.

The district issued five credit cards to district office administrators. Interviews indicated that the card used by the business office has a limit of $500,000 and that the other four credit cards have limits of $10,000 each. The district should immediately contact the credit card provider and reduce the limits to a more acceptable amount, such as $2,000.

Cash collections are reportedly handled differently at each school site, and some school site processes lack the proper segregation of duties. In addition, the annual audit reports for 2008-09 and 2009-10 include several findings related to the associated student body (ASB) accounts. The district should develop policies and procedures for all sites to follow regarding accounts receivable transactions, provide in-depth training to applicable site staff regarding cash collections and deposits, and provide periodic internal audits of site ASB accounts to monitor compliance.

Findings and Recommendations

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 make more informed decisions and project the future effects of current decisions. Projections are a required part of annual budget development and must be evaluated and updated during each interim financial reporting period. They should also be updated before making any significant decisions that affect the budget, such as salary increases. When developing and implementing multiyear financial projections, 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 events that will help the district make financial decisions and maintain a balanced budget.

Financial planning is crucial for every local educational agency. Long-term financial planning helps a district strategically align its budget with its instructional goals and programs. In addition, recognizing financial trends is essential to maintaining a district's fiscal health. Monitoring and analyzing year-to-year trends in key budget areas can help evaluate the district's budget direction and highlight possible areas of concern.

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: estimated costs of utilities, supplies and equipment; and changing economic conditions at the state, federal and local levels. Therefore, the budget projection should be viewed as a trend based on certain criteria and assumptions rather than as a prediction of exact numbers.

Local educational agencies throughout California have had to update multiyear assumptions and projections several times during fiscal years 2008-09, 2009-10 and 2010-11 as the state's revenues declined severely. Multiyear projections in a time of fiscal instability can become somewhat less reliable, especially in the subsequent fiscal years, because projected revenue information from the state may change frequently. However, the MYFP still provides guidance for decisions that affect several fiscal years. Districts must continue to update and reassess the ramifications of state-imposed budget adjustments and cash deferrals.

To help protect local educational agencies from economic uncertainties, prior to the state's budget crisis, the state required school districts with an average daily attendance (ADA) of 1,001 to 30,000 to maintain reserves for economic uncertainties of not less than 3% of general fund expenditures. However, because of severe cuts to education funding, the state has reduced this requirement and allows districts to maintain a minimum reserve of one-third of the statutory requirement through fiscal year 2011-12 while making progress to restore the full reserve by fiscal year 2013-14. This flexibility allows the Southern Kern Unified School District to maintain a reserve of 1% as a temporary solution while making progress to restore the 3% reserve by 2013-

14. However, FCMAT strongly recommends that the district maintain a reserve sufficient to ensure that cash is available to meet payroll and other expenditure obligations and to avoid any adverse effects related to the requirements of AB 1200.

AB 1200 Oversight

If at any time during the fiscal year a district is unable to meet its financial obligations for the current or two subsequent fiscal years, or has a qualified or negative budget certification, the county superintendent of schools is required to notify the district's governing board and the state superintendent of public instruction (SPI). The county office is required to follow Education Code Section 42127.6 when assisting a school district in this situation. Assistance may include assigning a fiscal expert to advise the district on financial issues, conducting a study of the district's financial and budgetary conditions, and requiring the district to submit a proposal for addressing its fiscal condition. If a district does not meet its required reserve levels, the intent of the MYFP is to assist the county and the district in formulating a plan to regain fiscal solvency and restore the reserve.

Regular and frequent budget monitoring becomes critically important in times of fiscal uncertainty. The district will need to ensure that MYFPs and cash flow projections are kept up to date and that the information they contain is accurate and based on the most current assumptions. This is particularly important since economic indicators will change rapidly as California continues to struggle to balance its budget.

FCMAT has updated its MYFPs with the latest budget information included in the governor's 2011 May budget revision. *The MYFP developed for this report indicates that the district will not be able to maintain a 3% reserve for economic uncertainties in fiscal years 2011-12 and 2012-13 and will have a negative unrestricted ending fund balance in 2012-13.*

The following 15 conditions are the most common indicators of fiscal distress in local education agencies (LEAs) and are referenced in AB 2756 (Daucher) and included in Education Code Sections 42127 and 42127.6:

1. Governance crisis
2. Absence of communication to education community
3. Lack of interagency cooperation
4. Failure to recognize year-to-year trends
5. Flawed ADA projections
6. Failure to maintain reserves
7. Insufficient consideration of the effects of long-term bargaining agreements
8. Flawed multiyear projections
9. Inaccurate revenue and expenditure projections
10. Poor cash flow analysis and reconciliation
11. Bargaining agreements that exceed the state COLAs
12. Lack of integration of position control with payroll
13. Limited access to timely personnel, payroll, and budget control data and reports
14. Increasing general fund contributions to restricted programs
15. Lack of regular budget monitoring

The district has experienced some of these conditions, which will require immediate attention. The district faces substantial fiscal challenges, exacerbated by the state's budget crisis, that will require its governing board and administration to make and implement difficult decisions immediately.

State Budget Overview

Fiscal years 2008-09, 2009-10 and 2010-11 have been unprecedented budget years for California's local educational agencies. To address the state's ongoing budget deficit, state lawmakers have used numerous strategies to help balance the budget, including reducing expenditures, adding new taxes, borrowing money and using federal stimulus funds.

One of the budget cuts imposed on education funding is the revenue limit deficit, which is the percentage of the revenue limit that will not be funded by the state in a particular fiscal year. The following table indicates the deficit amounts for the Southern Kern Unified School District for the current and two subsequent fiscal years:

Fiscal Year	Deficit Percentage	Funding Reduction
2010-11	17.963%	($3,684,581)
2011-12	19.754%	($3,990,882)
2012-13	19.754%	($4,115,937)

The state has provided local educational agencies (LEAs) with some flexibility options, including allowing districts to use previously restricted categorical program dollars for any educational purpose, lower their contribution to the routine restricted maintenance account, and eliminate their matching of deferred maintenance funds. The flexibility options also allow state funding for the deferred maintenance and adult education programs to be used for any educational purpose. These flexibility provisions were originally effective through fiscal year 2012-13 but have been extended through 2014-15. The budget revisions also reduce penalties for the K-3 class size reduction program (CSR) through fiscal year 2013-14. Further information regarding the flexibility provisions is located on the California Department of Education (CDE) website at http://www.cde.ca.gov/fg/ac/co/.

On May 16, 2011, the governor presented his May revision of the 2011-12 state budget, which recognizes additional state revenue in 2010-11 and 2011-12. However, an ongoing structural budget deficit continues, and the governor's revision assumes the extension of current taxes to balance the state's 2011-12 budget. On June 15, 2011 the legislature passed a 2011-12 state budget, which was vetoed by the governor of June 16. Therefore, a 2011-12 state budget has not yet been adopted for California.

The 2011 May revision budget for education includes a cost of living adjustment (COLA) of 2.24% as well as an increased ongoing deficit factor of 19.754%. The May revision would also eliminate the recently enacted $2.1 billion cash deferral. Based on the May revision, state funding for education will remain relatively flat for 2011-12. However, if the state legislature and/or the electorate do not pass an extension of the current taxes the state's annual funding for LEAs may be further reduced. Therefore, FCMAT is strongly urging districts to set aside sufficient funds to absorb a possible reduction of up to $349 per ADA beginning in 2011-12. For the Southern Kern Unified School District, a reduction of this magnitude would equal approximately $1.1 million per fiscal year.

It is essential for local education agencies to monitor their spending and cash flow and make reductions as needed to maintain reserves and continue to weather the state's fiscal crisis.

Multiyear Financial Projection Method

Local educational agencies use many different software products to prepare MYFPs. For Southern Kern's MYFP, FCMAT used its Budget Explorer web-based MYFP software, which was designed for California school districts. This tool is available to LEAs free of charge.

Budget Explorer allows school districts to create and update financial projections by interfacing with the state's standardized account code structure (SACS) software or importing data directly from a district's financial system. With its comprehensive modeling capabilities, MYFPs can be produced efficiently, accurately and more rapidly than with conventional spreadsheets. Budget Explorer can be used to make more informed budget decisions and incorporate educational goals and objectives into several financial scenarios. The MYFP used in this document can be made available online to the superintendent of schools upon completion of this report.

Multiyear Financial Projection Assumptions

The MYFP prepared by FCMAT uses the district's 2010-11 second interim financial report and the corresponding SACS data file as a baseline. FCMAT also used budget assumptions based on the 2010-11 State Budget Act, the governor's 2011 May revision, and School Services of California's (SSC's) financial dartboard assumptions updated in May 2011. FCMAT's MYFP excludes any salary increase in the current or projection years beyond the cost of step and/or column movement. Included in the projection years are the following assumptions:

- An average cost increase of 1.70% for certificated staff and 1.40% for classified staff for step and/or column movement for all contracted salaries and the associated cost of employer-paid statutory benefits.
- An increase of 10% for health and welfare benefit costs in 2011-12 and 2012-13.
- Increases in general operating expenditures based on the California consumer price index and the most recent economic indicators.

To verify the base year (2010-11) for the MYFP, FCMAT did the following:

- Reviewed internal and third party support documents to verify the district's current year revenue.
- Reviewed the district's actual year-to-date and prior year revenue and expenditure detail to identify potential adjustments in each resource and major object code of the general fund.
- Compared certificated, classified and management salary and benefit amounts budgeted at second interim to actual year-to-date expenditures and projected costs for the remainder of the fiscal year.

In addition to staff interviews, FCMAT used a number of district documents to develop a baseline and future assumptions for the MYFP, including the following:

- Letters from the county office regarding disapproval of the district's 2010-11 adopted budget and concurrence with the district in its negative certification for the 2010-11 first interim financial report.
- Comparative budget reports from the financial system that correspond to the 2010-11 second interim report and include 2009-10 actuals and 2010-11 actuals-to-date information, dated March 22, 2011.

- Summary reports from the financial system showing general ledger balance sheet accounts by fund for 2009-10 and 2010-11 to help analyze accounts receivable and accounts payable.
- February 2011 end-of-month payroll report.
- Historical enrollment information, including California Basic Educational Data System (CBEDS) data, for the current and five prior fiscal years, and projections for the subsequent two years.
- Period one (P-1), period two (P-2), and annual attendance reports for 2005-06 through 2010-11.
- Identification of any one-time revenues, including Federal Education Jobs funds, and expenditures included in the 2010-11 second interim budget.
- Scattergrams and salary placement information for certificated and classified employee groups.
- Long-term debt schedules from the 2009-10 audited financial statements.
- Collective bargaining agreements for certificated and classified employee groups.
- Independent audit reports for 2008-09 and 2009-10.

Table 1 includes the economic factors used by FCMAT in completing the district's multiyear financial projection:

Table 1: Multiyear Financial Projection Rules

Projection Rules			
Description	**Base Year 2010-11**	**Year 1 2011-12**	**Year 2 2012-13**
Certificated COLA	0%	0%	0%
Classified COLA	0%	0%	0%
Certificated Step/Column Increase	0%	1.70%	1.70%
Classified Step Increase	0%	1.40%	1.40%
California CPI (SSC)	1.80%	3.10%	2.70%
California Lottery Restricted (SSC)	$17.50	$17.50	$17.20
California Lottery Unrestricted (SSC)	$112.50	$111.00	$110.00
Interest Rate Trend for 10-Year Treasuries (SSC)	3.20%	3.80%	4.10%
Net Funded Revenue Limit COLA (SSC)	5.17%	0.00%	3.20%
Revenue Limit Deficit K-12 (SSC)	17.963%	19.754%	19.754%
Special Education COLA (SSC)	0.00%	0.00%	3.20%
State Categorical COLA (SSC)	0.00%	0.00%	3.20%
Statutory COLA (SSC)	-0.39%	2.24%	3.20%
Health & Welfare Benefit Increase	0.00%	10.00%	10.00%
Year-to-Year Change in Enrollment	-4.32%	0.37%	-0.86%
Year-to-Year Change in RL ADA	0.00%	0.82%	-0.91%
P-2 ADA/Prior Year Annual Estimate	0.00	3,017.97	3,042.68
Indirect Cost Rate	1.61%	6.34%	6.34%

Enrollment and Average Daily Attendance (ADA)

Proper 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 and is essential for budget planning. When enrollment and related ADA decline, the district must consider the budgetary impacts of the decline on teacher-to-student ratios and plan accordingly. The district must also exercise extreme caution regarding issues such as negotiations, staffing and deficit spending to ensure fiscal solvency. Proper tracking and analysis of enrollment and ADA will allow the district to better project future revenues and control staffing expenditures to help maintain fiscal solvency.

Enrollment Projection

To project the district's future enrollment for grades one through 12, FCMAT used the cohort survival method, which groups students by grade level upon entry and tracks them through each year that they stay in school. This method evaluates the longitudinal relationship of the number of students passing from one grade to the next in a subsequent year. This method closely accounts for retention, dropouts and student transfers to and from the district grade by grade. Although other enrollment projection methods are available, the cohort survival method usually is the best choice for school districts because of its sensitivity to incremental changes in several key variables.

Percentages are calculated from historical enrollment data to determine a reliable weighted average percentage of increase or decrease in enrollment between any two grades over the projection period. Ratios are calculated between grade levels from year to year, usually using data from the last five years. Enrollment variables include the following:

- Birth rates and trends
- Historical ratio of enrollment progression between grade levels
- Changes in educational programs
- Interdistrict and intradistrict transfers
- Migration patterns
- Changes in local and regional demographics
- Industry changes such as a new industry coming to the area or an industry leaving
- Housing starts and the generation factor per household
- Attendance at charter schools

To project the district's future kindergarten enrollment, FCMAT used county birth rate statistics. Although other factors such as housing construction influence local population growth, in a stable and developed locale a strong correlation can be made between birth rates and kindergarten enrollment five years later. Birth rate data is available by county from the California Department of Public Health (CDPH) website at http://www.cdph.ca.gov/data/statistics/Pages/default.aspx.

The CDPH data shows an increase in birth rates in Kern County over the past several years. Comparing the district's kindergarten enrollment to birth rates five years prior allows FCMAT to develop a relationship between birth rates and future kindergarten populations. For example, birth rate data in the year 2001 indicates 11,723 births in Kern County. Five years later the

district's kindergarten enrollment was 220 students or 1.88% of births. Performing this calculation for several years shows that the district's kindergarten enrollment varies between 2.19% and 1.76% of countywide births.

Average Daily Attendance (ADA)

ADA is used to calculate the district's revenue limit and many other federal and state revenue sources. A district's revenue limit apportionments are based on the greater of current or prior year second period principal apportionment (P-2) ADA.

FCMAT reviewed the district's enrollment and ADA for 2005-06 through 2010-11. The review compared October California Basic Educational Data System (CBEDS) and California Longitudinal Pupil Achievement Data System (CALPADS) student enrollment counts to the P-2 ADA to determine the average enrollment-to-ADA ratios. Historical data indicates that the district's enrollment has declined since 2008-09. FCMAT projects this decline to level off in the next two years, partly because of increased births in the county. However, enrollment and ADA should be carefully monitored and projected at each reporting period to ensure the most recent data is included in its budget assumptions. The district should also explore options to attract and retain students and to increase its ratio of student attendance to enrollment. Each 1% increase in attendance will yield approximately $174,000 in additional revenue limit funding in the projection years.

Table 2 shows the district's historical and projected enrollment using the cohort survival method.

Table 2: Historical and Projected Enrollment

Enrollment	Historical 5 2005 - 06	Historical 4 2006 - 07	Historical 3 2007 - 08	Historical 2 2008 - 09	Historical 1 2009 - 10	Base Year 2010 - 11	Year 1 2011 - 12	Year 2 2012 - 13
K	240	220	268	250	282	247	295	299
1	260	265	264	273	278	294	265	315
2	242	262	250	242	253	249	269	242
3	269	253	266	229	234	243	239	257
4	262	276	261	264	303	241	270	267
5	257	278	305	242	186	232	196	213
Subtotal (K - 5)	1,530	1,554	1,614	1,500	1,536	1,506	1,534	1,593
6	292	281	304	300	267	266	279	241
7	274	298	283	307	338	260	274	288
8	253	286	300	276	233	259	217	222
Subtotal (6 - 8)	819	865	887	883	838	785	770	751
9	292	264	287	278	261	255	261	220
10	306	290	267	297	300	242	256	261
11	223	287	257	247	249	248	207	218
12	224	201	282	230	222	223	243	200
Subtotal (9 - 12)	1,045	1,042	1,093	1,052	1,032	968	967	899
Ungraded Elementary	0	0	0	0	0	0	0	0
Ungraded Secondary	0	0	0	0	0	0	0	0
Subtotal Excluding Charter Schools	3,394	3,461	3,594	3,435	3,406	3,259	3,271	3,243
Charter Schools (to calculate in-lieu property taxes)	0	0	0	0	0	0	0	0
Total	3,394	3,461	3,594	3,435	3,406	3,259	3,271	3,243
P2ADA	Historical 5 2005 - 06	Historical 4 2006 - 07	Historical 3 2007 - 08	Historical 2 2008 - 09	Historical 1 2009 - 10	Base Year 2010 - 11	Year 1 2011 - 12	Year 2 2012 - 13
Excluding Charter Schools	3,146.37	3,233.68	3,347.27	3,226.11	3,157.29	3,017.97	3,042.68	3,015.02
Charter Schools (to calculate in-lieu property taxes)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
COE CommSchs/SpEd	0.00	0.00	0.00	0.00	0.00	0.88	0.88	0.88
Total	3,146.37	3,233.68	3,347.27	3,226.11	3,157.29	3,018.85	3,043.56	3,015.90
Enrollment Factors	Historical 5 2005 - 06	Historical 4 2006 - 07	Historical 3 2007 - 08	Historical 2 2008 - 09	Historical 1 2009 - 10	Base Year 2010 - 11	Year 1 2011 - 12	Year 2 2012 - 13
Excluding Charter Schools	0.9270	0.9343	0.9313	0.9392	0.9270	0.9260	0.9302	0.9297
Charter Schools (to calculate in-lieu property taxes)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

Multiyear Financial Projection Analysis

The primary purpose of a MYFP is to project the district's budget over several fiscal years using assumptions that allow the district to achieve and sustain a balanced budget and meet the required minimum reserve for economic uncertainties. To evaluate the MYFP, attention is focused on the district's ability to meet its reserve requirement in each fiscal year and demonstrate a positive unappropriated fund balance. When the unappropriated fund balance is negative, the deficit balance is the amount by which the budget must be reduced under AB 1200 guidelines.

FCMAT has analyzed all funding sources and expenditure categories by resource. The unrestricted general fund summary below indicates that, without substantial expenditure reductions or revenue increases, the district will have a *negative ending fund balance* in fiscal year 2012-13. The MYFP also indicates that the district *will not* maintain its 3% reserve for economic uncertainties in 2011-12 or 2012-13 without a detailed plan to increase revenue and/or reduce expenditures and cease deficit spending.

To protect the district's financial solvency and eliminate the projected $2.4 million shortfall in 2012-13, the district will need to begin preparing immediately for a period of fiscal instability. To balance the budget, the district will need to make difficult choices about which expenditures and programs will continue to be funded and which will be scaled back, reconfigured or eliminated. The district will need to act immediately to address the projected budget shortfall.

Unrestricted General Fund

The district's general fund budget is a combination of unrestricted funds and restricted grants and categorical funding. However, when analyzing the district's budget, much attention is focused on the unrestricted budget, particularly the unappropriated ending fund balance. The district's unrestricted budget is projected to have a shortfall in each of the projection years, as shown in Table 3.

Table 3: MYFP Unrestricted General Fund Summary

Name	Object Code	Base Year 2010 - 11	Year 1 2011 - 12	Year 2 2012 - 13
Revenues				
Revenue Limit Sources	8010 - 8099	$16,159,137.89	$15,543,683.39	$16,051,689.11
Federal Revenues	8100 - 8299	$19,057.00	$19,057.00	$19,057.00
Other State Revenues	8300 - 8599	$2,505,432.00	$2,344,912.00	$2,402,208.50
Other Local Revenues	8600 - 8799	$1,205,000.00	$241,145.00	$243,400.57
Total Revenues		$19,888,626.89	$18,148,797.39	$18,716,355.18
Expenditures				
Certificated Salaries	1000 - 1999	$8,558,022.00	$9,547,661.08	$9,709,971.33
Classified Salaries	2000 - 2999	$2,073,950.00	$2,183,283.56	$2,214,090.43
Employee Benefits	3000 - 3999	$4,187,084.07	$4,691,002.72	$5,020,862.88
Books and Supplies	4000 - 4999	$267,122.00	$293,252.90	$298,430.08
Services and Other Operating	5000 - 5999	$1,604,559.00	$1,660,532.71	$1,694,805.98
Capital Outlay	6000 - 6900	$80,000.00	$0.00	$0.00
Other Outgo	7000 - 7299	$0.00	$0.00	$0.00
Direct Support/Indirect Cost	7300 - 7399	($26,282.00)	($63,480.00)	($63,480.00)
Debt Service	7430 - 7439	$0.00	$0.00	$0.00
Total Expenditures		$16,744,455.07	$18,312,252.97	$18,874,680.70
Excess (Deficiency) of Revenues Over Expenditures		$3,144,171.82	($163,455.58)	($158,325.52)
Other Financing Sources\Uses				
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$213,298.00	$213,298.00	$213,298.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	($1,977,408.92)	($1,934,797.68)	($2,022,541.31)
Total Other Financing Sources\Uses		($2,190,706.92)	($2,148,095.68)	($2,235,839.31)
Net Increase (Decrease) in Fund Balance		$953,464.90	($2,311,551.26)	($2,394,164.83)
Fund Balance				
Beginning Fund Balance	9791	$1,156,926.11	$3,013,434.60	$701,883.34
Audit Adjustments	9793	$900,000.00	$0.00	$0.00
Other Restatements	9795	$3,043.59	$0.00	$0.00
Adjusted Beginning Fund Balance		$2,059,969.70	$3,013,434.60	$701,883.34
Ending Fund Balance		$3,013,434.60	$701,883.34	($1,692,281.49)
Components of Ending Fund Balance				
Reserved Balances	9700	$0.00	$0.00	$0.00
Revolving Cash	9711	$10,000.00	$10,000.00	$10,000.00
Stores	9712	$0.00	$0.00	$0.00
Prepaid Expenditures	9713	$0.00	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$0.00	$0.00	$0.00
Economic Uncertainties Percentage		3%	3%	3%

Designated for Economic Uncertainties	9770	$749,439.79	$753,199.72	$774,572.89
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00
Other Designated	9780	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$2,253,994.81	$0.00	$0.00
Negative Shortfall	9790	$0.00	($61,316.38)	($2,476,854.38)

Restricted General Fund

The district has more than 20 restricted federal and state programs. In addition to the routine restricted maintenance account, seven programs require a contribution from the district's unrestricted general fund in the projection years. Table 4 shows the programs projected to require a contribution.

Table 4: Restricted programs projected to require a contribution

Name	Resource Code	Base Year 2010 - 11	Year 1 2011 - 12	Year 2 2012 - 13
Restricted Resources				
Special Ed: IDEA Basic Local Assistance Entitlement, Part B, Sec 611	3310	$170,800.00	$183,530.66	$196,741.87
Special Ed: IDEA Preschool Grants, Part B, Sec 619	3315	$8,482.05	$9,120.12	$9,799.58
NCLB: Title II, Part D, Enhancing Education Through Technology, Formula Grants	4045	$16,132.00	$0.00	$0.00
NCLB: Title III, Immigrant Education Program	4201	$0.00	$14,503.70	$18,051.26
Special Education	6500	$429,729.22	$299,859.61	$333,622.33
Agricultural Vocational Incentive Grants	7010	$397.00	$609.65	$460.68
Transportation: Home to School	7230	$380,966.00	$426,348.65	$438,389.99
Transportation: Special Education (Severely Disabled/Orthopedically Impaired)	7240	$179,816.65	$184,901.01	$190,014.10
Ongoing & Major Maintenance Account/Restricted Maintenance Account	8150	$791,086.00	$815,924.28	$835,461.50
Total Contributions to Restricted Programs		$1,977,408.92	$1,934,797.68	$2,022,541.31

Special education and transportation programs typically have insufficient state and federal funding, and state or federal funding is not specifically provided for routine restricted maintenance, so these programs will not usually be self-sustaining. It is best practice, however, to ensure that all other restricted programs are self-sustaining.

Table 5 shows the district's projected restricted general fund budget.

Table 5: MYFP Restricted General Fund Summary

Name	Object Code	Base Year 2010 - 11	Year 1 2011 - 12	Year 2 2012 - 13
Revenues				
Revenue Limit Sources	8010 - 8099	$769,628.00	$769,628.00	$769,628.00
Federal Revenues	8100 - 8299	$2,402,975.65	$1,265,440.00	$1,265,440.00
Other State Revenues	8300 - 8599	$2,602,857.00	$2,615,108.37	$2,681,918.99
Other Local Revenues	8600 - 8799	$177,497.00	$50,000.00	$50,000.00
Total Revenues		$5,952,957.65	$4,700,176.37	$4,766,986.99
Expenditures				
Certificated Salaries	1000 - 1999	$2,667,851.00	$1,868,988.01	$1,900,696.83
Classified Salaries	2000 - 2999	$1,982,607.00	$1,930,554.13	$1,957,833.90
Employee Benefits	3000 - 3999	$1,422,982.95	$1,297,631.34	$1,380,776.69
Books and Supplies	4000 - 4999	$1,008,598.88	$552,872.64	$563,430.81
Services and Other Operating	5000 - 5999	$539,361.46	$491,690.38	$489,009.53
Capital Outlay	6000 - 6900	$28,500.00	$28,500.00	$28,500.00
Other Outgo	7000 - 7299	$347,390.00	$347,390.00	$347,390.00
Direct Support/Indirect Cost	7300 - 7399	$26,282.00	$63,480.00	$63,480.00
Debt Service	7430 - 7439	$0.00	$0.00	$0.00
Total Expenditures		$8,023,573.29	$6,581,106.50	$6,731,117.76
Excess (Deficiency) of Revenues Over Expenditures		($2,070,615.64)	($1,880,930.13)	($1,964,130.77)
Other Financing Sources\Uses				
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$0.00	$0.00	$0.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$1,977,408.92	$1,934,797.68	$2,022,541.31
Total Other Financing Sources\Uses		$1,977,408.92	$1,934,797.68	$2,022,541.31
Net Increase (Decrease) in Fund Balance		($93,206.72)	$53,867.55	$58,410.54
Fund Balance				
Beginning Fund Balance	9791	$507,008.93	$97,705.62	$151,573.17
Audit Adjustments	9793	($313,053.00)	$0.00	$0.00
Other Restatements	9795	($3,043.59)	$0.00	$0.00
Adjusted Beginning Fund Balance		$190,912.34	$97,705.62	$151,573.17
Ending Fund Balance		$97,705.62	$151,573.17	$209,983.71
Components of Ending Fund Balance				
Reserved Balances	9700	$0.00	$0.00	$0.00
Revolving Cash	9711	$0.00	$0.00	$0.00
Stores	9712	$0.00	$0.00	$0.00
Prepaid Expenditures	9713	$0.00	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$97,705.62	$151,573.17	$209,983.71
Designated for Economic Uncertainties	9770	$0.00	$0.00	$0.00

Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00
Other Designated	9780	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$0.00	$0.00	$0.00
Negative Shortfall	9790	$0.00	$0.00	$0.00

Unrestricted and Restricted General Fund

The combined unrestricted and restricted general fund balance shows a shortfall in fiscal years 2011-12 and 2012-13. Contributing to this shortfall is a deficit of 19.754% to the base revenue limit in each fiscal year. The district has also experienced declining enrollment since 2008-09.

Table 6: MYFP Combined Unrestricted and Restricted General Fund Summary

Name	Object Code	Base Year 2010 - 11	Year 1 2011 - 12	Year 2 2012 - 13
Revenues				
Revenue Limit Sources	8010 - 8099	$16,928,765.89	$16,313,311.39	$16,821,317.11
Federal Revenues	8100 - 8299	$2,422,032.65	$1,284,497.00	$1,284,497.00
Other State Revenues	8300 - 8599	$5,108,289.00	$4,960,020.37	$5,084,127.49
Other Local Revenues	8600 - 8799	$1,382,497.00	$291,145.00	$293,400.57
Total Revenues		$25,841,584.54	$22,848,973.76	$23,483,342.17
Certificated Salaries	1000 - 1999	$11,225,873.00	$11,416,649.09	$11,610,668.16
Classified Salaries	2000 - 2999	$4,056,557.00	$4,113,837.69	$4,171,924.33
Employee Benefits	3000 - 3999	$5,610,067.02	$5,988,634.06	$6,401,639.57
Books and Supplies	4000 - 4999	$1,275,720.88	$846,125.54	$861,860.89
Services and Other Operating	5000 - 5999	$2,143,920.46	$2,152,223.09	$2,183,815.51
Capital Outlay	6000 - 6900	$108,500.00	$28,500.00	$28,500.00
Other Outgo	7000 - 7299	$347,390.00	$347,390.00	$347,390.00
Direct Support/Indirect Cost	7300 - 7399	$0.00	$0.00	$0.00
Debt Service	7430 - 7439	$0.00	$0.00	$0.00
Total Expenditures		$24,768,028.36	$24,893,359.47	$25,605,798.46
Excess (Deficiency) of Revenues Over Expenditures		$1,073,556.18	($2,044,385.71)	($2,122,456.29)
Other Financing Sources\Uses				
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$213,298.00	$213,298.00	$213,298.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$0.00	$0.00	$0.00
Total Other Financing Sources\Uses		($213,298.00)	($213,298.00)	($213,298.00)
Net Increase (Decrease) in Fund Balance		$860,258.18	($2,257,683.71)	($2,335,754.29)
Fund Balance				
Beginning Fund Balance	9791	$1,663,935.04	$3,111,140.22	$853,456.51
Audit Adjustments	9793	$586,947.00	$0.00	$0.00
Other Restatements	9795	$0.00	$0.00	$0.00
Adjusted Beginning Fund Balance		$2,250,882.04	$3,111,140.22	$853,456.51
Ending Fund Balance		$3,111,140.22	$853,456.51	($1,482,297.78)

Components of Ending Fund Balance				
Reserved Balances	9700	$0.00	$0.00	$0.00
Revolving Cash	9711	$10,000.00	$10,000.00	$10,000.00
Stores	9712	$0.00	$0.00	$0.00
Prepaid Expenditures	9713	$0.00	$0.00	$0.00
Other Prepay	9719	$0.00	$0.00	$0.00
General Reserve	9730	$0.00	$0.00	$0.00
Legally Restricted Balance	9740 - 9759	$97,705.62	$151,573.17	$209,983.71
Economic Uncertainties Percentage		3%	3%	3%
Designated for Economic Uncertainties	9770	$749,439.79	$753,199.72	$774,572.89
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	$0.00	$0.00	$0.00
Other Designated	9780	$0.00	$0.00	$0.00
Undesignated/Unappropriated	9790	$2,253,994.81	$0.00	$0.00
Negative Shortfall	9790	$0.00	($61,316.38)	($2,476,854.38)

Adjustment Analysis

The following table and narrative information show the differences between the district's 2010-11 second interim report and FCMAT's analysis. The narrative also includes additional details regarding the assumptions used in the projection years.

Table 7: Combined General Fund Comparison Summary

Name	Object Code	District Second Interim 2010-11	FCMAT Analysis 2010-11	Difference
Revenues				
Revenue Limit Sources	8010 - 8099	$16,857,684.00	$16,928,765.89	$71,081.89
Federal Revenues	8100 - 8299	$2,243,277.00	$2,422,032.65	$178,755.65
Other State Revenues	8300 - 8599	$4,683,755.00	$5,108,289.00	$424,534.00
Other Local Revenues	8600 - 8799	$1,550,053.00	$1,382,497.00	($167,556.00)
Total Revenues		**$25,334,769.00**	**$25,841,584.54**	$506,815.54
Expenditures				
Certificated Salaries	1000 - 1999	$11,358,873.00	$11,225,873.00	($133,000.00)
Classified Salaries	2000 - 2999	$4,086,057.00	$4,056,557.00	($29,500.00)
Employee Benefits	3000 - 3999	$5,582,180.00	$5,610,067.02	$27,887.02
Books and Supplies	4000 - 4999	$1,223,763.00	$1,275,720.88	$51,957.88
Services and Other Operating	5000 - 5999	$2,146,093.00	$2,143,920.46	($2,172.54)
Capital Outlay	6000 - 6900	$28,500.00	$108,500.00	$80,000.00
Other Outgo	7000 - 7299	$347,390.00	$347,390.00	$0.00
Direct Support/Indirect Cost	7300 - 7399	$0.00	$0.00	$0.00
Debt Service	7430 - 7439	$0.00	$0.00	$0.00
Total Expenditures		**$24,772,856.00**	**$24,768,028.36**	($4,827.64)
Excess (Deficiency) of Revenues Over Expenditures		**$561,913.00**	**$1,073,556.18**	$511,643.18
Other Financing Sources\Uses				
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$218,954.00	$213,298.00	($5,656.00)
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00
Contributions	8980 - 8999	$0.00	$0.00	$0.00
Total Other Financing Sources\Uses		**($218,954.00)**	**($213,298.00)**	$5,656.00
Net Increase (Decrease) in Fund Balance		**$342,959.00**	**$860,258.18**	$517,299.18
Fund Balance				
Beginning Fund Balance	9791	1,663,935.04	1,663,935.04	$0.00
Audit Adjustments	9793	586,947.00	586,947.00	$0.00
Other Restatements	9795	0.00	0.00	$0.00
Adjusted Beginning Fund Balance		2,250,882.04	2,250,882.04	$0.00
Ending Fund Balance		2,593,841.04	3,111,140.22	$517,299.18

Revenues

Revenue Limit

FCMAT calculated and adjusted the district's revenue limit for the current year using the governor's May 2011 budget revision data, SSC's financial dartboard, the CDE's P-1 certification data, and the district's P-2 attendance report.

FCMAT used the enrollment projection included earlier in this report and the governor's May 2011 budget revision for the projection years.

Federal Revenues

Federal revenues were balanced to the current year awards, including deferred revenues and/or carryover balances. FCMAT recognized the remaining 10%, as estimated by CDE, for the State Fiscal Stabilization funds provided by the American Recovery and Reinvestment Act (ARRA). Medi-Cal Administrative Activities (MAA) funding was adjusted based on year-to-date receipts and was moved from the unrestricted general fund to restricted resource 5640 as required by the California School Accounting Manual.

In the projection years, Title I funding was reduced by 10% based on the latest estimates available. Title III (immigrant education) funding was eliminated because this resource was not included on the district's Consolidated Application. All one-time ARRA and Federal Education Jobs funding was eliminated.

State Revenues

State revenues were matched to grant and entitlement letters and include deferred revenues and/or carryover balances. FCMAT included supplemental hourly program and adult education program funding as shown in the CDE's 2010-11 P-1 certification data.

Mandated cost funding was adjusted based on year-to-date receipts, and the budget for this was moved from federal to state resources. Lottery funding was adjusted based on projected annual ADA. FCMAT also reduced the funding for K-3 class size reduction based on the district's 2010-11 J-7 CSR report.

Funding for mandated costs was eliminated in the projection years.

Local Revenues

FCMAT reduced the interest earnings based on the amount received to date and projected collections through the remainder of the fiscal year.

FCMAT reduced funding in the projection years because the following one-time revenue sources and amounts were included in fiscal year 2010-11:

Construction settlement	$400,000
Flooding claim	$416,771
Bus reimbursement	$279,992

FCMAT also reduced funding for special education in the projection years because of the one-time funds received from the SELPA for the district's overpayment of prior year excess costs.

Expenditures

Certificated Employee Salaries

Salary accounts were adjusted based on year-to-date actual expenses and projections to year end. Salary accounts were also adjusted to show the use of additional one-time ARRA funds as indicated by the CDE.

FCMAT's MYFP includes ongoing step and column costs of 1.70%. No other adjustments for salary increases have been included because those are determined locally. Certificated salary costs were moved from the ARRA and Education Jobs Fund resources to the unrestricted general fund beginning in the 2011-12 fiscal year because the former were one-time funding sources.

On February 24, 2011 the district's governing board adopted a resolution reducing certificated services by 32 full time equivalent positions (FTEs) for fiscal year 2011-12. However, as of the completion of FCMAT's fieldwork, the district had not served final layoff notices to affected staff members. Therefore, the reduction in force has not been included in the multiyear projection.

Classified Employee Salaries

Salary accounts were adjusted based on year-to-date expenses and projections to year end.

FCMAT's MYFP includes ongoing step costs of 1.40%. No other adjustments for salary increases have been included because those are determined locally. Classified employee salary costs were moved from the ARRA and Education Jobs Fund resources to the unrestricted general fund beginning in fiscal year 2011-12 because the former were one-time funding sources.

Employee Benefits

Benefit accounts were adjusted based on year-to-date expenses and projections to year end.

FCMAT's MYFP includes an estimated increase of 10% per year for health and welfare benefit costs. Benefit costs were moved from the ARRA and Education Jobs Fund resources to the unrestricted general fund beginning in fiscal year 2011-12.

Books and Supplies

The 2010-11 budget was adjusted based on current year expenditures to date and encumbrances.

FCMAT's projection for subsequent years includes adjustments based on the consumer price index (CPI) inflation factor from the SSC dartboard, and on projected ADA.

Services

The 2010-11 budget was adjusted based on current year expenditures to date and encumbrances.

FCMAT's projection for subsequent years includes adjustments based on the CPI and projected ADA.

Capital Outlay

The 2010-11 budget was adjusted based on current year expenditures to date and encumbrances.

Interfund Transfers Out

FCMAT reduced the current and projection year budgets based on the long-term debt schedule for the certificates of participation.

Direct Support/Indirect Costs

Indirect costs were adjusted based on the district's state-approved indirect cost rate of 1.61% and were applied to restricted programs where possible in the current year.

The projection for subsequent years includes the 2011-12 CDE approved indirect cost rate of 6.34%.

The district is not charging indirect costs to all programs, including programs that require a contribution from the unrestricted general fund, such as special education and home-to-school transportation. The full indirect cost rate for all allowable restricted programs should be charged to reflect the true cost of each program and maximize unrestricted resources.

FCMAT's projection reduced supplies and/or services in the restricted resources where possible to remain within the projected revenue estimates. However, this may also affect programs by reducing expenditures for these items.

Recommendations

The district should:

1. Begin preparing immediately for a period of fiscal instability.
2. Adopt a budget and multiyear projections that eliminate deficit spending and meet reserve requirements in the budget and projection years.
3. Maintain a reserve level sufficient to ensure that cash is available to meet payroll and other expenditure obligations and to avoid any adverse effects related to the requirements of AB 1200.
4. Ensure that MYFPs are accurate and up to date.
5. Ensure that the governing board immediately begins making decisions to address any conditions that are indicators of fiscal distress as listed in this report.
6. Carefully monitor and project student enrollment and ADA at each reporting period to ensure that the most recent data is included in budget assumptions.
7. Explore options to attract and retain students and increase the ratio of student attendance to enrollment.
8. Review contributions to restricted programs and ensure that all restricted programs are self-sustaining, except routine restricted maintenance, special education, and home-to-school and special education transportation.
9. Ensure that MAA funding is budgeted in restricted resource 5640 as required by the California School Accounting Manual.
10. Ensure that supplemental hourly program and adult education program funding is included in the unrestricted general fund budget.
11. Ensure that it calculates and charges the full indirect cost rate for all allowable restricted programs to show the true cost of each program and maximize unrestricted resources.

Cash Flow Projections

An increasing number of cash deferrals from the state have made it ever more challenging for school districts to maintain fiscal solvency. Thus it is more critical than ever for districts to have effective methods for projecting and monitoring cash flow. Although a balance sheet may show other assets, cash is critical for short-term operations; without it a district is effectively bankrupt and may require intervention from the state.

The purpose of a cash flow statement is to project the timing of revenue received and expenses incurred 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 required financial obligations. The cash flow analysis should not be confused with the district's budget and fund balance; it excludes transactions that do not directly affect cash receipts and payments.

Any cash flow projection is inherently limited by a number of factors, including unanticipated changes in enrollment and changing economic conditions at the state, federal and local levels. Therefore, the cash flow projection model should be viewed as an estimate based on certain criteria and assumptions rather than a prediction of exact numbers. Multiyear cash flow projections help districts make more informed decisions and allow them to project the fiscal impact of current decisions. Updating cash flow projections at least monthly helps districts accurately account for all revenues, expenditures and other changes related to cash.

Because of the current state and national budget crises, cash management is one of the main concerns in every local educational agency (LEA). The state has a history of deferring payments to education agencies, beginning with deferral of the 2002-03 June apportionment to fiscal year 2003-04 and continuing each fiscal year since. The 2008-09, 2009-10 and 2010-11 state budget acts further complicated the situation by adding numerous one-time and ongoing deferrals. In addition, the July 2009 state budget revisions included SBX4 16, which changes statutory apportionment schedules for LEAs and defers state funding to later in the fiscal year. To further address the state's cash needs, in March 2011 the governor signed SB 70 and SB 82, which further defer payments to LEAs in 2011-12. This makes it imperative for the district to place an emphasis on cash flow analysis.

The governor's May 2011 budget revision proposed to eliminate the deferrals in SB 70 that cross fiscal years. Table 8 shows the new revenue limit apportionment schedule and the most recent estimates from the CDE regarding cash payments and deferrals for 2010-11 and 2011-12.

Table 8: Most Recent Estimates of Cash Payments and Deferrals

State Aid Apportionment & Cash Payment Schedules			
Month	Apportionment	Cash Payment 2010-11	Cash Payment 2011-12
July	5.00%	0.00%	0.00%
August	5.00%	5.00%	0.00%
September	9.00%	5.00%	11.00%
October	9.00%	9.00%	0.00%
November	9.00%	9.00%	8.00%
December	9.00%	18.00%	8.00%
January	9.00%	9.00%	24.00%
February	9.00%	1.00%	2.60%
March	9.00%	0.00%	3.20%
April	9.00%	13.60%	9.30%
May	9.00%	1.90%	1.70%
June	9.00%	0.00%	0.00%
Subsequent Year			
July		9.10%	18.80%
August		12.10%	13.40%
September		7.30%	0.00%
Total	100.00%	100.00%	100.00%

FCMAT's cash flow projection includes all one-time and permanent apportionment deferrals for the revenue projections. Approximately 28.5% of the 2010-11 state aid funding has been delayed to the following fiscal year. Because LEAs could face additional cash deferrals, it is more important than ever for the district to monitor their cash position and cash flow requirements monthly to meet short-term fiscal obligations. The consequences of becoming cash insolvent are severe and must be avoided if a district is to maintain local governance and control.

To complete the cash flow projections for the remainder of fiscal years 2010-11 and 2011-12, FCMAT reviewed the district's 2010-11 second interim cash flow worksheet (Form CASH) and the financial system reports showing all transactions that affect the general fund cash balance, including the following:

- Cash Flow Report (GLD310), 2009-10
- Cash Flow Report (GLD310), 2010-11
- Financial Statement (GLD400), ending June 30, 2010
- Financial Statement (GLD400), ending June 30, 2011

The district's June 30, 2010 audit report includes adjustments totaling $900,000, which reduce the total amount owed from the general fund to other district funds. Although a portion of these adjustments are shown in the district's 2010-11 cash flow reports, as of the completion of FCMAT's fieldwork the district had not received detailed documentation from its auditors regarding the adjustments.

FCMAT's cash flow projection for 2011-12 shows a negative ending cash balance each month from October 2011 through June 2012, with the exception of January 2012. It is imperative for the district to monitor its cash regularly and complete monthly cash flow statements for the current and subsequent fiscal year to ensure that financial obligations can be met.

Any additional delay of cash receipts could cause further cash flow problems for the district and create a need to borrow to pay ongoing expenditures. If borrowing becomes necessary, options include the following:

- Internal borrowing between district funds as authorized by Education Code Section 42603, which allows LEAs to borrow temporarily between funds to address cash flow shortages. This is the most common method used by school districts, but it only works if cash is available in other funds. This type of borrowing has specific limitations regarding amounts and the timing of repayment.
- External borrowing from the county office of education as authorized by Education Code Sections 42621 and 42622. This option depends on the county office's willingness and ability to provide funds.
- External borrowing from the county treasurer, which is authorized by Education Code Section 42620. Under Article XVI, Section 6 of the California Constitution, the county treasurer must provide funds to an LEA that cannot meet its obligations. However, the county treasurer cannot lend districts money after the last Monday in April of the current fiscal year, and the district must meet additional requirements.
- External borrowing using tax and revenue anticipation notes (TRANs). This option consists of short-term borrowing, up to 15 months, and may be necessary on a mid-year or full-year basis. Because there may be arbitrage penalties, the LEA should determine its cash flow needs and size the TRANs appropriately. In addition, a mid-year TRANs may be classified as a taxable transaction, which increases the cost of issuance. Working with an outside financial consultant can help avoid potential problems.

The district's governing board approved the issuance of $3.5 million in TRANs, which the district received in April 2011. However, the scheduled repayment dates are July, August and September 2011, and the cash flow projections indicate a negative ending balance in the month following. Because of these timing issues, the April 2011 TRANs will not be sufficient to meet the district's projected cash flow needs.

Table 9a: Cash flow statement, 2010-11

Name	Object Code	Budget	Jul	Aug	Sep	Oct	Nov	Dec	Jan
			Actual	Actual	Actual	Actual	Actual	Actual	Actual
Beginning Cash Balance			$784,634.92	$2,884,880.29	$4,616,533.00	$6,917,585.65	$5,520,895.01	$4,611,405.06	$7,619,308.48
Receipts									
Revenue Limit Sources	8010 - 8099	$16,928,765.89	$28,810.72	$2,668,279.25	$2,927,104.57	$569,662.68	$116,595.40	$3,885,182.86	$847,541.51
Federal Revenues	8100 - 8299	$2,422,032.65	$128,340.00	$5,959.02	$634,488.97	$39,452.65	$18,590.00	$159,819.00	$24,560.00
Other State Revenues	8300 - 8599	$5,108,289.00	$103,533.00	$255,101.00	$78,559.00	$127,422.01	$346,431.00	$1,028,558.36	$585,717.60
Other Local Revenues	8600 - 8799	$1,382,497.00	$1,127.68	$8,753.50	$1,056.76	$165,874.60	$27,914.94	$11,993.96	$359,678.87
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total Receipts		$25,841,584.54	$261,811.40	$2,938,092.77	$3,641,209.30	$902,411.94	$509,531.34	$5,085,554.18	$1,817,497.98
Disbursements									
Certificated Salaries	1000 - 1999	$11,225,873.00	$113,459.45	$973,217.61	$991,394.26	$999,856.04	$1,018,761.91	$1,028,372.07	$1,009,060.21
Classified Salaries	2000 - 2999	$4,056,557.00	$282,926.82	$316,598.56	$328,204.29	$330,245.60	$334,791.09	$338,480.37	$334,654.62
Employee Benefits	3000 - 3999	$5,610,067.02	$69,122.66	$156,625.27	$536,031.89	$527,116.19	$526,217.19	$538,129.61	$522,958.31
Books and Supplies	4000 - 4999	$1,275,720.88	$8,105.91	$56,610.40	$139,655.17	$94,429.73	$24,625.36	$48,040.00	$46,990.38
Services and Other Operating	5000 - 5999	$2,143,920.46	$211,380.94	$150,017.90	$166,539.99	$170,120.61	$53,691.97	$187,781.55	$147,942.35
Capital Outlay	6000 - 6900	$108,500.00	$0.00	$1,913.35	$0.00	$0.00	$0.00	$0.00	$0.00
Other Outgo	7000 - 7299	$347,390.00	$0.00	$0.00	$21,508.20	$21,508.20	$73,490.20	$21,508.20	($291,544.80)
Direct Support/Indirect Cost	7300 - 7399	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Debt Service	7430 - 7439	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$213,298.00	$0.00	$0.00	$0.00	$0.00	$18,954.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total Disbursements		$24,981,326.36	$684,995.78	$1,654,983.09	$2,183,333.80	$2,143,276.37	$2,050,531.72	$2,162,311.80	$1,770,061.07
Assets									
Revolving Cash Account	9130	$5,000.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Cash with a Fiscal Agent/Trustee	9135	$586,947.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$586,947.00
Accounts Receivable	9200	$4,504,119.21	$1,228,562.27	$620,159.46	$968,169.86	$292,790.94	$543,348.48	$7,798.00	$18.44
Due from Other Funds	9310	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total Assets		$5,096,066.21	$1,228,562.27	$620,159.46	$968,169.86	$292,790.94	$543,348.48	$7,798.00	$586,965.44
Liabilities									
Accounts Payable (Current Liabilities)	9500	$3,404,150.44	$92,018.88	$171,616.43	$124,992.71	$222,948.50	($88,161.95)	($76,863.04)	$1,557,400.39
Due to Grantor Governments	9590	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Due to Other Funds	9610	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Current Loans	9640	$0.00	($1,386,886.36)	$0.00	$0.00	$0.00	$0.00	$0.00	$692,500.00
Deferred Revenue	9650	$225,668.65	$0.00	$0.00	$0.00	$225,668.65	$0.00	$0.00	$0.00
Total Liabilities		$3,629,819.09	($1,294,867.48)	$171,616.43	$124,992.71	$448,617.15	($88,161.95)	($76,863.04)	$2,249,900.39
Ending Cash Balance			$2,884,880.29	$4,616,533.00	$6,917,585.65	$5,520,895.01	$4,611,405.06	$7,619,308.48	$6,003,810.44

Table 9a: Cash flow statement, 2010-11 (cont.)

Name	Feb	Mar	Apr	May	Jun	YTD Actuals Plus Projected Cash	Accruals	Totals	Variance
	Actual	Actual	Actual	Projected	Projected				
Beginning Cash Balance	$6,003,810.44	$4,295,065.59	$3,520,346.75	$7,737,148.18	$5,939,896.00				
Receipts									
Revenue Limit Sources	$203,399.34	$65,960.06	$2,803,759.13	$80,789.00	$12.01	$14,197,096.53	$2,731,669.36	$16,928,765.89	$0.00
Federal Revenues	$3,440.87	$604,210.00	$30,946.63	$32,011.00	$139,588.92	$1,821,407.06	$600,625.59	$2,422,032.65	$0.00
Other State Revenues	$379,457.53	$425,057.00	$455,710.25	$162,426.00	$423,478.68	$4,371,451.43	$736,837.57	$5,108,289.00	$0.00
Other Local Revenues	$5,009.00	$39,033.50	$72,939.32	$3,093.00	$0.00	$696,475.13	$686,021.87	$1,382,497.00	$0.00
Interfund Transfers In	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
All Other Financing Sources	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total Receipts	$591,306.74	$1,134,260.56	$3,363,355.33	$278,319.00	$563,079.61	$21,086,430.15	$4,755,154.39	$25,841,584.54	$0.00
Disbursements									
Certificated Salaries	$990,926.79	$1,026,170.82	$1,006,259.87	$992,087.18	$1,066,080.02	$11,215,646.23	$10,226.77	$11,225,873.00	$0.00
Classified Salaries	$317,061.14	$339,348.85	$314,411.17	$315,821.00	$486,781.24	$4,039,324.75	$17,232.25	$4,056,557.00	$0.00
Employee Benefits	$528,609.34	$529,182.09	$520,051.69	$527,686.00	$617,107.37	$5,598,837.61	$11,229.41	$5,610,067.02	$0.00
Books and Supplies	$70,301.20	$52,703.00	$25,447.79	$48,551.00	$331,687.49	$947,147.43	$328,573.45	$1,275,720.88	$0.00
Services and Other Operating	$160,884.74	$151,907.63	$146,982.50	$171,936.00	$214,393.16	$1,933,579.34	$210,341.12	$2,143,920.46	$0.00
Capital Outlay	$0.00	$0.00	$0.00	$0.00	$53,165.02	$55,078.37	$53,421.63	$108,500.00	$0.00
Other Outgo	$271,508.20	$21,508.20	$21,508.20	$58,053.00	$128,342.75	$347,390.35	($0.35)	$347,390.00	$0.00
Direct Support/Indirect Cost	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Debt Service	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Interfund Transfers Out	$200,000.00	$0.00	$0.00	$0.00	($5,656.00)	$213,298.00	$0.00	$213,298.00	$0.00
All Other Financing Uses	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total Disbursements	$2,539,291.41	$2,120,820.59	$2,034,661.22	$2,114,134.18	$2,891,901.05	$24,350,302.08	$631,024.28	$24,981,326.36	$0.00
Assets									
Revolving Cash Account	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	($5,000.00)
Cash with a Fiscal Agent/Trustee	$0.00	$0.00	$0.00	$0.00	$0.00	$586,947.00	$0.00	$586,947.00	$0.00
Accounts Receivable	$200,946.00	$127,364.64	$1,912.57	$0.00	$513,048.55	$4,504,119.21	$0.00	$4,504,119.21	$0.00
Due from Other Funds	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total Assets	$200,946.00	$127,364.64	$1,912.57	$0.00	$513,048.55	$5,091,066.21	$0.00	$5,091,066.21	($5,000.00)
Liabilities									
Accounts Payable (Current Liabilities)	($38,293.82)	($84,476.55)	($49,275.55)	($38,563.00)	$1,610,807.44	$3,404,150.44	$0.00	$3,404,150.44	$0.00
Due to Grantor Governments	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Due to Other Funds	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Current Loans	$0.00	$0.00	($2,836,919.20)	$0.00	$0.00	($3,531,305.56)	$0.00	($3,531,305.56)	$3,531,305.56
Deferred Revenue	$0.00	$0.00	$0.00	$0.00	$0.00	$225,668.65	$0.00	$225,668.65	$0.00
Total Liabilities	($38,293.82)	($84,476.55)	($2,886,194.75)	($38,563.00)	$1,610,807.44	$98,513.53	$0.00	$98,513.53	$3,531,305.56
Ending Cash Balance	$4,295,065.59	$3,520,346.75	$7,737,148.18	$5,939,896.00	$2,513,315.67				

Table 9b: Cash flow statement, 2011-12

Name	Object Code	Budget	Jul	Aug	Sep	Oct	Nov	Dec	Jan
			Projected	Projected	Projected	Projected	Projected	Projected	Projected
Beginning Cash Balance			$2,513,315.67	$2,227,421.33	$607,648.41	$88,334.41	($1,232,264.16)	($1,745,235.02)	($211,938.22)
Receipts									
Revenue Limit Sources	8010 - 8099	$16,313,311.39	$21,207.30	$21,207.30	$1,502,455.98	$21,207.30	$1,096,254.53	$2,910,294.75	$2,955,972.02
Federal Revenues	8100 - 8299	$1,284,497.00	$29,543.43	$29,543.43	$53,948.87	$53,948.87	$53,948.87	$200,381.53	$53,948.87
Other State Revenues	8300 - 8599	$4,960,020.37	$243,041.00	$163,680.67	$292,641.20	$481,121.98	$292,641.20	$610,082.51	$396,801.63
Other Local Revenues	8600 - 8799	$291,145.00	$0.00	$8,734.35	$0.00	$24,747.33	$29,114.50	$11,645.80	$61,140.45
Interfund Transfers In	8900 - 8929	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
All Other Financing Sources	8930 - 8979	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total Receipts		$22,848,973.76	$293,791.73	$223,165.75	$1,849,046.05	$581,025.48	$1,471,959.10	$3,732,404.59	$3,467,862.97
Disbursements									
Certificated Salaries	1000 - 1999	$11,416,649.09	$115,308.16	$989,823.48	$1,008,090.11	$1,017,223.43	$1,036,631.74	$1,045,765.06	$1,026,356.75
Classified Salaries	2000 - 2999	$4,113,837.69	$286,734.49	$320,879.34	$332,809.47	$334,866.39	$339,391.61	$343,094.06	$339,391.61
Employee Benefits	3000 - 3999	$5,988,634.06	$73,660.20	$167,082.89	$571,914.55	$562,931.60	$561,733.87	$574,310.01	$558,140.69
Books and Supplies	4000 - 4999	$846,125.54	$8,461.26	$126,918.83	$126,918.83	$59,228.79	$59,228.79	$59,228.79	$59,228.79
Services and Other Operating	5000 - 5999	$2,152,223.09	$193,700.08	$172,177.85	$172,177.85	$172,177.85	$150,655.62	$150,655.62	$150,655.62
Capital Outlay	6000 - 6900	$28,500.00	$0.00	$7,125.00	$7,125.00	$7,125.00	$7,125.00	$0.00	$0.00
Other Outgo	7000 - 7299	$347,390.00	$0.00	$0.00	$26,054.25	$26,054.25	$112,901.75	$26,054.25	$26,054.25
Direct Support/Indirect Cost	7300 - 7399	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Debt Service	7430 - 7439	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Interfund Transfers Out	7600 - 7629	$213,298.00	$0.00	$97,172.00	$18,954.00	$0.00	$0.00	$0.00	$0.00
All Other Financing Uses	7630 - 7699	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total Disbursements		$25,106,657.47	$677,864.19	$1,881,179.39	$2,264,044.06	$2,179,607.31	$2,267,668.38	$2,199,107.79	$2,159,827.71
Assets									
Revolving Cash Account	9130	$10,000.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Cash with a Fiscal Agent/ Trustee	9135	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Accounts Receivable	9200	$4,755,154.39	$1,274,381.38	$1,564,445.79	$1,103,195.82	$404,188.12	$408,943.28	$0.00	$0.00
Due from Other Funds	9310	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total Assets		$4,765,154.39	$1,274,381.38	$1,564,445.79	$1,103,195.82	$404,188.12	$408,943.28	$0.00	$0.00
Liabilities									
Accounts Payable (Current Liabilities)	9500	$631,024.28	$126,204.86	$126,204.86	$126,204.86	$126,204.86	$126,204.86	$0.00	$0.00
Due to Grantor Governments	9590	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Due to Other Funds	9610	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Current Loans	9640	$3,531,305.56	$1,049,998.40	$1,400,000.21	$1,081,306.95	$0.00	$0.00	$0.00	$0.00
Deferred Revenue	9650	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total Liabilities		$4,162,329.84	$1,176,203.26	$1,526,205.07	$1,207,511.81	$126,204.86	$126,204.86	$0.00	$0.00
Ending Cash Balance			$2,227,421.33	$607,648.41	$88,334.41	($1,232,264.16)	($1,745,235.02)	($211,938.22)	$1,096,097.04

Table 9b: Cash flow statement, 2011-12 (cont.)

Name	Feb	Mar	Apr	May	Jun	YTD Actuals Plus Projected Cash	Accruals	Totals	Variance
	Projected	Projected	Projected	Projected	Projected				
Beginning Cash Balance	$1,096,097.04	($211,074.38)	($1,272,285.05)	($80,689.71)	($1,721,084.71)				
Receipts									
Revenue Limit Sources	$399,676.13	$430,671.42	$2,714,535.02	$122,349.84	$208,810.39	$12,404,641.98	$3,908,669.41	$16,313,311.39	$0.00
Federal Revenues	$53,948.87	$200,381.53	$53,948.87	$53,948.87	$53,948.87	$891,440.88	$393,056.12	$1,284,497.00	$0.00
Other State Revenues	$446,401.83	$441,441.81	$466,241.91	$292,641.20	$362,081.49	$4,488,818.43	$471,201.94	$4,960,020.37	$0.00
Other Local Revenues	$2,911.45	$37,848.85	$72,786.25	$2,911.45	$8,734.35	$260,574.78	$30,570.22	$291,145.00	$0.00
Interfund Transfers In	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
All Other Financing Sources	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total Receipts	$902,938.28	$1,110,343.61	$3,307,512.05	$471,851.36	$633,575.10	$18,045,476.07	$4,803,497.69	$22,848,973.76	$0.00
Disbursements									
Certificated Salaries	$1,008,090.11	$1,043,481.73	$1,022,931.76	$1,009,231.78	$1,084,581.66	$11,407,515.77	$9,133.32	$11,416,649.09	$0.00
Classified Salaries	$321,702.11	$344,328.21	$318,822.42	$320,467.96	$493,660.52	$4,096,148.19	$17,689.50	$4,113,837.69	$0.00
Employee Benefits	$564,129.33	$564,728.19	$555,146.38	$563,530.47	$658,749.75	$5,976,057.93	$12,576.13	$5,988,634.06	$0.00
Books and Supplies	$42,306.28	$42,306.28	$42,306.28	$42,306.28	$93,073.79	$761,512.99	$84,612.55	$846,125.54	$0.00
Services and Other Operating	$150,655.62	$150,655.62	$150,655.62	$150,655.62	$193,700.08	$1,958,523.05	$193,700.04	$2,152,223.09	$0.00
Capital Outlay	$0.00	$0.00	$0.00	$0.00	$0.00	$28,500.00	$0.00	$28,500.00	$0.00
Other Outgo	$26,054.25	$26,054.25	$26,054.25	$26,054.25	$26,054.25	$347,390.00	$0.00	$347,390.00	$0.00
Direct Support/Indirect Cost	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Debt Service	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Interfund Transfers Out	$97,172.00	$0.00	$0.00	$0.00	$0.00	$213,298.00	$0.00	$213,298.00	$0.00
All Other Financing Uses	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total Disbursements	$2,210,109.70	$2,171,554.28	$2,115,916.71	$2,112,246.36	$2,549,820.05	$24,788,945.93	$317,711.54	$25,106,657.47	$0.00
Assets									
Revolving Cash Account	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	($10,000.00)
Cash with a Fiscal Agent/ Trustee	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Accounts Receivable	$0.00	$0.00	$0.00	$0.00	$0.00	$4,755,154.39	$0.00	$4,755,154.39	$0.00
Due from Other Funds	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total Assets	$0.00	$0.00	$0.00	$0.00	$0.00	$4,755,154.39	$0.00	$4,755,154.39	($10,000.00)
Liabilities									
Accounts Payable (Current Liabilities)	$0.00	$0.00	$0.00	$0.00	($0.02)	$631,024.28	$0.00	$631,024.28	$0.00
Due to Grantor Governments	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Due to Other Funds	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Current Loans	$0.00	$0.00	$0.00	$0.00	$0.00	$3,531,305.56	$0.00	$3,531,305.56	$0.00
Deferred Revenue	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total Liabilities	$0.00	$0.00	$0.00	$0.00	($0.02)	$4,162,329.84	$0.00	$4,162,329.84	$0.00
Ending Cash Balance	($211,074.38)	($1,272,285.05)	($80,689.71)	($1,721,084.71)	($3,637,329.64)				

Recommendations

The district should:

1. Monitor and complete statements for its current year and subsequent year cash flow at least monthly to ensure that financial obligations can be met.
2. Closely track and update all fund balances and cash flow projections as economic data and other fiscal information continues to change.
3. Work with the county office to determine the borrowing options that are available if funds are needed to maintain cash flow.
4. Work with its auditors to ensure that the 2009-10 audit adjustments are booked and closed correctly.

Revenue Increases and Expenditure Reductions

California Education Code Section 39807.5 states that when a district provides home-to-school transportation for its students, it may require the parents/guardians of students transported to pay a portion of the cost. The amount is to be determined by the district's governing board but may not be greater than the statewide average non-subsidized cost of providing transportation to a student on a publicly owned or operated transit system. The maximum allowable rate for fiscal year 2011-12 is $8.50 for the daily round trip, as indicated in the CDE's February 11, 2011 letter entitled "Fees for Pupil Transportation." Therefore, if the district had a 180-day instructional calendar, the maximum that could be charged to parents would be $1,530 ($8.50 x 180) per student for the 2011-12 fiscal year.

Although the Education Code allows fees to be levied, before determining if fees should be implemented in Southern Kern, the district will need to analyze the population using its home-to-school transportation system to determine if charging fees would generate sufficient revenue to warrant implementation. The Education Code exempts students whose parents or guardians are indigent from paying transportation fees, and the state board of education recommends that districts use the free meal qualification guidelines to determine who is exempt.

Therefore, the district would need to determine the number of students using its transportation service who qualify to receive free meals; these students could not be charged. The district may also implement a reduced transportation fee for students who qualify for reduced-price meals, so this information would also need to be included in the analysis. In addition, the district would need to estimate the number of students who would no longer attend district schools and/or use district transportation if fees were implemented. The total estimated revenue could then be compared to the estimated loss in revenue limit funding to determine whether it is feasible to implement transportation fees. Additional information regarding home-to-school transportation fees may be found on the CDE website at http://www.cde.ca.gov/fg/aa/ca/ptran11feesltr.asp

Education Code Section 38134 states that fees may be charged to individuals and groups that use the district's facilities and regulates the amount that may be charged. When implementing a facility use fee schedule, those affected may not initially understand that while construction funds such as general obligation bonds may have been used to build district facilities, the ongoing operational costs, such as utilities and maintenance, are paid by the district's general fund. Thus, if facility use fees are not charged to outside organizations, the funds available to provide for students' educational needs are reduced. When implementing fees for the use of facilities, a district needs to develop policies, procedures and standard forms to ensure that fees adhere to the Education Code, a system is in place to process requests consistently, and language regarding the liability assumed by the district when allowing outside organizations or third parties to use its facilities has been reviewed and approved by the district's insurance carrier.

The district's 2010-11 second interim report includes a transfer of $200,000 from the unrestricted general fund to the special reserve fund for capital outlay projects (fund 40) for debt service payments on the certificates of participation (COPs). It would benefit the district to consider making these payments from the capital facilities fund (fund 25) instead of the general fund. Revenues generated in fund 25 are primarily from developer fees, which are allowed pursuant to Education Code Section 17620. Uses for these funds are specified in Government Code Sections 65970-65981 or in agreements with specific developers; however, the basic purpose of expenditures from the fund is to ease the effects of an increase in student population.

The district issued COPs in 1992 and in 1998 and some of the COPS have been refinanced since the original issue dates. The official statements dated October 16, 1992 and June 30, 1998 indicate that funds were used for construction and improvements to district facilities. However, prior to charging the debt service payments to fund 25, the district will need to consult with its legal counsel and financial advisors to determine the original purpose of the COPs and the purpose of the portion that remains unpaid. If the purpose of the outstanding COPs meets the expenditure requirements of fund 25, the district should consider making the debt service payments from fund 25. The district should also consider reimbursing the general fund for debt service payments made in prior fiscal years to the extent that funds are available in the capital facilities fund.

Each district school site negotiates individually with vendors for their photocopier contract. Purchasing or leasing copiers on a districtwide basis would likely give the district more bargaining power with vendors and provide lower prices based on economies of scale. The district would need to follow applicable bidding requirements when purchasing equipment.

Many districts freeze spending during difficult financial situations. The key to implementing a spending freeze is to do it immediately and without exception for unrestricted general fund expenditures, excluding health and safety issues. Spending of restricted program funding may need to continue because many resources include deadlines by which all funds must be expended or returned to the grantor. Like spending freezes, purchase order (PO) cut-off dates can help reduce spending and make it easier to estimate the ending fund balance and reserves. The PO cut-off date should include all expenditures from all funding sources and should be early enough in the year (normally in March or April) that a thorough review of each resource can be made to ensure that all restricted resource expenditure deadlines are met. It would benefit the district to consider implementing spending freezes and/or PO cut-off dates each year.

The district takes a year-end (June 30) inventory each year to determine the amount and value of items in the cafeteria stores. This amount is recorded in the district's financial accounts and reported as an asset on the balance sheet. The same amount must also be set aside as a reserve in the cafeteria fund's ending balance. Using the store's inventory instead of making additional purchases will reduce expenditures in the year the inventory is used. The district's financial statements indicate that stores have been reduced from $71,006 at June 30, 2010 to $56,295 as of February 23, 2011; however, further reliance on the current inventory will help the food service program stay within its budget and reduce the need for a loan from the general fund.

As noted later in the processes and procedures section of this report, the district has been contracting with and paying an annual fee to the California School Boards Association (CSBA) since 2007 for use of the GAMUT online policy service. However, the district has not used this service.

Like most California school districts, Southern Kern's primary source of revenue is based on average daily attendance (ADA). The multiyear projection for 2011-12 reflects that each 1% increase in ADA would provide approximately $174,000 in additional revenue. Options for increasing ADA should be explored such as: offering monthly and annual incentives to students for perfect attendance, awarding a trophy on a rotating monthly basis or small incentive to the school site with the highest monthly attendance ratio, reviewing the school calendar structure to determine dates where student attendance is low such as the day before/after holidays.

Best business practices include an ongoing evaluation of surplus equipment to determine if items stored in empty classrooms or a warehouse facility can be used at another school site or if they should be disposed of. Several private companies provide auction services to districts for the sale

of surplus goods, and many districts have found that they can generate revenue through the use of these services rather than paying to dispose of surplus items. This process may also help minimize the costs for storage and potential exposure to theft.

Education Code Section 38100 allows the district general fund to charge the cafeteria fund direct costs, including the cost of telephone charges, water, electricity, gas, and waste. The charges must be applied using the procedures defined in the California School Accounting Manual (CSAM), Procedure 910. Direct costs should be charged to properly reflect the total cafeteria program costs and to capture allowable dollars in the unrestricted general fund. A review of the district's 2010-11 second interim report found that the cafeteria fund is not charged its share of direct costs.

Governmental Accounting Standards Board (GASB) Statement 45, released in June 2004, established standards for employers to measure and report their costs and obligations relating to other post-employment benefits (OPEB). OPEB includes any postemployment medical, dental, vision, or prescription benefits. The district funds its OPEB expenditures on a pay-as-you-go basis and may, per Procedure 785 of the CSAM, "allocate to all activities in proportion to total salaries or total full-time-equivalent positions (FTEs) in all activities" the current year benefit costs for retirees. The district currently charges its entire OPEB expense to the unrestricted general fund although it could charge a portion to the restricted resources and to the other funds in proportion to the salaries paid in the fiscal year. Additional information regarding OPEB accounting standards is in CDE's letter of February 26, 2007, available on the following website: www.cde.ca.gov/fg/ac/co

Procedure 305 of the CSAM states that expenditures that occurred in another fund may be reimbursed by the capital facilities fund, fund 25, if they were for purposes specified in Government Code Sections 65970–65981 or for items specified in agreements with the developer (Government Code Section 66006). A review of payments the district made for architectural services in 2009-10 for the Rosamond High School and the New Elementary School projects indicated that $1,456,538 was paid from the general fund. Interviews indicated that adjustments included in the June 30, 2010 annual independent audit reflect repayments of $400,000 from fund 21 and $500,000 from fund 25 to the general fund. However, the district should consult with its independent auditors to determine if the remaining $556,538 can be reflected as an additional adjustment from fund 25 to fully repay the general fund.

The 2008-09 and 2009-10 state budget revisions provided some flexibility options to local educational agencies that included lowering the required contribution to the routine restricted maintenance account. For districts participating in the state school facility program, the amount was lowered from 3% to 1% of the total general fund expenditures and other financing uses. The legislation further exempts districts with facilities maintained in good repair from the 1% contribution (Education Code Section 17070.766). SB 70 extended this flexibility provision through the 2014-15 fiscal year. The Southern Kern Unified School District has not yet chosen to implement this flexibility option, and the 2010-11 second interim report includes a contribution of $791,086, or 3.1%, to the routine restricted maintenance account.

A review of the 2010-11 financial activity report for the capital facilities fund showed monthly payments of approximately $3,200 for portable building lease payments. Because of the district's declining enrollment, these leases should be reviewed to determine if the buildings are still required for student housing or if the leases may be terminated. However, when making this assessment, careful consideration should be given to determine whether terminating the leases would negatively affect the district's State School Facility Program funding eligibility.

As state resources for school districts have continued to erode, many districts have gone to the local voters to seek enhanced funding for operational programs through implementation of a parcel tax. Parcel taxes are normally levied at a flat rate per parcel and must be uniformly applied to all real property owners with the only permitted exemptions being to senior citizens and federal supplemental security income disability benefit recipients. Parcel taxes can be extremely difficult to pass because they require a two-thirds vote of the electorate. The advice of experienced financial advisors and legal counsel should be obtained before determining whether to place a local parcel tax measure on the ballot.

Recommendations

The district should:

1. Analyze the population that uses home-to-school transportation to determine if charging fees would generate sufficient revenue to warrant charging fees. Consider implementing fees if the analysis indicates sufficient revenues are attainable.
2. Consider developing and implementing a facility use fee schedule.
3. Consult with its legal counsel and financial advisors to determine if the COP debt service payments can be made from the capital facilities fund and if the general fund can be reimbursed for prior years' payments.
4. Consider purchasing or leasing copiers on a districtwide basis; ensure that all applicable bidding requirements are followed when doing so.
5. Consider implementing spending freezes and/or purchase order cut-off dates each year.
6. Continue to reduce stores inventory in the cafeteria fund.
7. Review the contract with the CSBA for use of the GAMUT system, and all other contracts with vendors, to ensure that services being paid for are used.
8. Explore options to increase student attendance.
9. Evaluate storage of surplus equipment to determine if items can be used or sold in an auction.
10. Consider charging the cafeteria fund its share of direct costs.
11. Review the CSAM and consult with the independent auditors and county office to implement the proper procedures to account for OPEB obligations.
12. Consider using any available developer fees to repay the general fund for architect fees that were originally paid from the general fund in 2009-10.
13. Determine whether to reduce the unrestricted general fund contribution to the routine restricted maintenance account as provided in the state flexibility options.
14. Evaluate the need for leased portable buildings and determine if the leases may be terminated.
15. Evaluate the feasibility of putting a parcel tax measure before the voters.

Expenditure Review

Many construction and facilities projects are subject to bidding under Public Contract Code Sections 20111 and 22002, which sets bid limits of $15,000 for public works projects and $78,900 (for calendar year 2011) for equipment, materials, or supplies to be furnished, sold or leased to the district. The bid limit amount for public works projects has not been adjusted for many years. However, the limit associated with equipment, materials and supplies is adjusted annually for inflation; the new limit is issued each December and is effective the following January 1. This means that districts must seek competitive bids on projects or purchases/leases costing more than the stated limit.

FCMAT's scope of work included examining a test sample of bid documents, contracts, and invoices for 2008-09 through 2010-11 for expenditures in the following funds: building fund, capital facilities fund, special reserve fund, and the deferred maintenance fund. A sampling of transactions was completed to determine if the appropriate funding source was used and that legal and procedural requirements concerning bidding, procurement and best business practices were followed.

The deferred maintenance fund, fund 14, is used to account separately for state apportionments and the district's contributions for deferred maintenance purposes (Education Code Sections 17582-17587) and for items of maintenance approved by the State Allocation Board. The fund is for projects included in the district's five-year deferred maintenance plan. As mentioned earlier in this report, the state has provided flexibility in the use of these funds through fiscal year 2014-15.

The building fund, fund 21, exists primarily to account separately for proceeds from the sale of general obligation bonds (Education Code Section 15146) and may not be used for any purposes other than those for which the bonds were issued and in accordance with the ballot language presented to the voters. The reduction of ending fund balance is typical of such funds and may require the use of other capital project funds to close out ongoing construction projects. The entire ending balance is reserved for projects.

The capital facilities fund, fund 25, is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (Education Code Sections 17620-17626). Expenditures are restricted to the purposes specified in Government Code Sections 65970-65981 or to the items specified in agreements with the developer (Government Code Section 66006). Procedure 305-10 of the California School Accounting Manual states that expenditures that occurred in another fund may be reimbursed by the capital facilities fund. Fund 25 is typically restricted to growth and growth-related projects.

The special reserve fund for capital outlay projects, fund 40, is primarily used to provide for the accumulation of general fund moneys for capital outlay purposes (Education Code Section 42840).

Interviews indicated that the district superintendent is responsible for the planning and financing functions of construction projects, including state applications and design, and that the assistant superintendent of personnel/operations is responsible for overseeing and managing projects once they are under construction. FCMAT's testing of the expenditure documents provided by the district indicated the following items that should be reviewed and corrected.

The vendor history report for Porter Concrete includes what appears to be an emergency water pipe repair at Tropico Middle School. Purchase order #151 for $1,200 was approved on July 21, 2008; however, the vendor invoice was dated July 2, 2008. Best business practices provides that

purchase orders be prepared in advance of the work being started to ensure that proper approvals have been obtained and that funds are encumbered before work is performed.

A review of the expenditure documents indicates that the scope of work for Porter Concrete was increased to include a separate water main break. The district prepared purchase order #166 for $720 dated August 11, 2008, and the contractor submitted an invoice dated August 4, 2008 that included the $1,200 previously billed and $720 for the additional work for a total of $1,920. It appears that the vendor was overpaid $1,200 as the original $1,200 invoice was signed by maintenance staff "ok to pay" and paid on August 5, 2008. The invoice for $1,920 was also marked "ok to pay" and was paid to the vendor on October 28, 2008.

Purchase order #369 was issued to Porter Concrete to remove asphalt at the Rosamond Elementary School kindergarten playground and replace it with concrete. The estimate was dated November 18, 2008 for $9,235. The purchase order reflected the work at $9,235, but also incorrectly included sales tax of $669.54 for a total of $9,904.54. The invoice was signed by district staff that was able to monitor the work and ensure it was completed before authorizing payment. The payment documentation indicates that $9,235 was paid; however, sales tax should not be added to construction services contracts and purchase orders.

Earth Systems is a geotechnical firm providing a number of services to the district on several projects. The costs of the services appear to be comparable with typical school construction projects. However, a review of the 2008-09 vendor history and financial activity report found a number of concerns. The documents provided to FCMAT did not include vendor proposals for all of the work to be performed, including services for the Rosamond High School football stadium and football field lights. The State School Facility Program and Government Code Sections 4525-4526 require a qualifications-based selection process for design professionals, including engineers. Although a formal request for proposal (RFP) process is not required, a written agreement should be obtained regarding the scope of work; and the rates, terms and conditions should be negotiated to achieve fair and reasonable prices. Purchase orders were not completed to encumber funds; rather, all invoices were paid on payment vouchers. The use of payment vouchers rather than purchase orders makes it difficult to adequately monitor and oversee the requests for payment and ensure they are commensurate with the work performed.

Proper internal controls provides that invoices/requests for payment are reviewed and approved by the district employee who received the goods and/or who can verify that work has been completed. A review of the 2008-09 and 2009-10 invoices from Earth Systems Southern California for projects at the United Street, Westpark, Tropico Middle, and Rosamond High school sites indicated that they may not have been adequately reviewed before payment. The invoices were signed "ok to pay" by the CBO, but lacked a signature from the assistant superintendent of personnel/operations and/or the architect. The invoices should have been reviewed and signed by a district employee who had direct knowledge that the work was completed.

The 2008-09 financial activity report for Earth Systems reflects that the general fund initially paid $59,106 of the costs for Earth Systems. The documents provided to FCMAT included expenditure transfers of $17,923 from the general fund to fund 21; however, supporting documentation was not provided indicating that the remaining costs had been transferred from the general fund. The document review also showed that some payments were made from account codes that did not include project locations. It is important to use an account code that includes the project location for all facility-related purchase orders and payments to help properly track and monitor individual project expenditures.

The governing board minutes reviewed by FCMAT indicated that the board has approved several contracts with Earth Systems Southern California since July 1, 2008. However, FCMAT did not receive board minutes showing that the board had approved the January 22, 2010 proposal for the geologic services for fault rupture evaluation at Hamilton Elementary School for $6,500; the Rosamond High School gym roof beam repair project in the amount of $2,343; and the United Street School project (new Hamilton Elementary School) in the amount of $400. The governing board minutes reviewed by FCMAT also did not include approval of a contract dated January 15, 2009 for $40,500 with Penfield and Smith. District staff indicated that the governing board was provided warrant lists for approval, but were not provided purchase orders. Best business practices would provide that purchase orders and contracts be approved and that the warrants be ratified by the governing board.

The district's board policy 3312 was adopted on August 16, 2000 and states the following:

> As specified in law, the power to contract is invested in the Board of Trustees. However, the Board may, by a majority vote, delegate the power to enter into contracts on behalf of the district to the Superintendent or designee.

To be valid or to constitute an enforceable obligation against the district, all contracts must be approved and/or ratified by the Board of Trustees. (Education Code 17604)

FCMAT's examination of the invoices selected for review and the 2008-09, 2009-10 and 2010-11 financial activity reports found that numerous items were paid by pay voucher rather than by purchase order, including payments to Penfield and Smith, Earth Systems, Heiser & Associates, Flewelling and Moody, Southern Bleachers, Bowe Contractors, and R. Thompson Consulting. Best business practices include the use of purchase orders for all facilities and construction-related items to ensure that the necessary funds are encumbered, invoices can be tracked properly and tied back to proposals, bids and governing board approval, and that funds are not overcommitted.

The project file for Seward Schreder Construction contained numerous documents, including Board Resolution 08-09-17, signed and approved on April 18, 2009, approving the guaranteed maximum price (GMP), a facilities lease agreement, a site lease agreement, and general conditions for the construction of a gymnasium, physical education and music facilities at Tropico Middle School; correspondence from legal counsel indicating review and approved of the lease-leaseback agreements; and a copy of purchase order #44 for $5,924,509.00 to Seward Schreder Construction, with appropriate backup documentation attached. However, the file did not include copies of insurance certificates and bonds. While these documents may have been filed elsewhere in the district, copies should be included in the project file to ensure that records are complete and can be accessed readily by those responsible for managing the project.

The project file entitled Roofing Projects 2009 included the governing board item showing approval of a bid award to Cal-Pacific Roofing for a labor amount of $598,000.00. The progress payments to Cal-Pacific were made from invoices that included two signatures. A statement was included on the first invoice indicating that 10% was to be withheld for retention. However, this was not done, and 100% of the invoice was paid. FCMAT's review indicated that no retention amount was withheld throughout the project. In addition, the documents reviewed indicated this work was for various roof replacements and repairs throughout the district and that the capital facilities fund, fund 25, was the source used for payment. As discussed earlier in this report, the use of developer fees is typically restricted to growth and growth-related purposes. Therefore, it is important for the district to be able to provide proper justification for any project funded by developer fees.

Education Code Section 17603 states, "The governing board of any school district shall determine the method of payment for construction contracts, including progress payments for completed portions of the work or for materials delivered on the ground or stored subject to the control of the board and unused." Construction contractor invoices must be prepared in accordance with terms of the contract and signed by the contractor, the inspector, the architect, and the district representative. Retention is typically required on all construction projects to help ensure that the contractor completes the project. However, the Cal-Pacific Roofing invoices were submitted on standard invoice forms rather than formal American Institute of Architects (AIA) Construction Progress Payment forms and the line item for 10% retention was not included. The file for Cal-Pacific Roofing also did not include copies of the bonds and insurance certificates.

In addition, the documents provided to FCMAT did not include purchase orders or invoices for the materials portion of the project. The governing board agenda includes approval of a bid award to Cal-Pacific Roofing with a statement indicating a division between the labor of $598,000 to Cal-Pacific and material to Garland Roofing through the California Multiple Award Schedules (CMAS) procurement process. The March 17, 2009 governing board minutes included the following statement, which is unclear regarding the award of the material bid:

> Approve Contract Award to Cal-Pacific Roofing, Inc. for various roof replacements and repairs throughout the district. The labor bid was in the amount of $598,000, the material bid was in the amount of $1,009,114.21 for a total of $1,607,114.21.

FCMAT's examination of the documents selected for review indicated that payment was made from capital outlay/building funds and from the general fund for some facility/construction items. For example, On July 28, 2008 the governing board approved a master architectural services contract with Heiser & Associates, Inc. Heiser & Associates was paid a total of $5.17 million in 2008-09 and 2009-10. Of that amount, approximately $1.46 million was paid from the general fund, $3.29 million from fund 21, and $420,000 from fund 25. While it is legal to use general fund monies for capital outlay projects, it is typically a better business practice to have sufficient facilities funding secured before making commitments for large projects and large expenditures unless the governing board has determined that general fund resources are to be used for a specific project. This is particularly important at this time because the state has few remaining funds available in the State School Facility Program and as of December 2008 could no longer guarantee that it would be able to provide the fund release (cash) once a project was approved.

The governing board approved an agreement with Flewelling & Moody, Inc. for architectural services for the Tropico Middle School gymnasium project on December 10, 2008. A review of the payment documentation for 2008-09 and 2009-10 shows that payments were made from fund 25, fund 21 and the general fund. Two of the warrants paid from fund 25 were for bleachers and a marquee at Rosamond High School. Because developer fee funds are to be used for items related to student enrollment growth and growth-related purposes, it is important for the district to be able to provide proper justification for any project funded by developer fees. In addition, some invoices were signed only by the CBO rather than by the superintendent who was in charge of facility planning or by the assistant superintendent of personnel/operations who was in charge of construction.

On September 2, 2009, following the bid process, the governing board awarded a $66,725 contract to Jerry's Electrical Service for rewiring the Rosamond High School football field. In addition, payments totaling $20,653 were provided to the same vendor over several months for additional work, some of which was also at Rosamond High School and included wiring for new

construction. It is imperative that the district properly plan any construction work that may be subject to the competitive bidding requirements, as discussed earlier in this report, to ensure that bidding laws are followed and avoid the appearance of bid splitting.

The district has a contract for services with Caldwell Flores Winters, Inc. (CFW) dated May 7, 2008. FCMAT did not determine if the contract was approved by the governing board as that would have occurred prior to the 2008-09 fiscal year. The contract amount for CFW is 2% of state funds received for state aid services, a $100,000 flat fee for school facilities implementation services, and expenses reimbursed at a rate of direct cost plus 10%. An encumbrance of $572,000 was set up in 2008-09; however, no payments were made against this encumbrance in 2008-09. An encumbrance of $557,575 was set up in 2009-10, and a payment of $4,500 was made in December 2009 for a developer fee study. While the district has a school facility needs analysis report dated October 1, 2009, FCMAT did not receive board minutes indicating that a contract or purchase order had been approved for this work.

In addition, the district signed a proposal for $15,000 in August, 2008 for CFW to conduct a voter opinion survey in preparation for a possible general obligation bond election. No purchase order or encumbrance was completed for this obligation.

Architectural Services

A master agreement for architectural services with Heiser & Associates, Inc. was approved by the governing board on July 28, 2008. Payments to Heiser & Associates in the 2008-09 and 2009-10 fiscal years total $5.12 million for the Rosamond High School expansion project and the New Elementary School project. Vendor history reports show that payments were made by payment voucher rather than by setting up purchase orders and encumbering the contract amounts. Some of the payments were also made using the wrong account code as $4.53 million was charged to the Rosamond High School project even though the total fee was $3.78 million. In addition, the documents provided to FCMAT did not include copies of the required insurance certificates.

Although an expedited schedule for services was agreed to by the district and the architect, accelerated schedules can cause an increased rate of error and lack of time for coordination between the district, architect and engineers. Therefore, the district should be extremely mindful of entering into contracts that include expedited schedules.

As stated in the architectural services agreement, the fee of 9.5% of construction costs is based on either low bid or negotiated proposal, or most recent bona fide preliminary estimate of construction cost or detailed estimate of construction cost if no bid or proposal is received. Contracts using a percentage fee basis used to be the required structure used for state-funded K-12 school facility projects. However, many school districts have changed their architectural fee structure to a negotiated maximum, not-to-exceed amount, based on an estimated project budget that does not fluctuate based on the actual construction costs. The reasoning behind this new structure is that the architect should not be paid more because the bid climate for construction is high, neither should the architect be paid less because the bid climate results in lower construction prices. The estimated construction budget also may or may not be accurate resulting in overpayment or underpayment to the architect if a percentage fee structure is used. This can lead to a contentious relationship with the architect as the project goes into construction.

The progress payment schedule included in the contract is based on a typical percentage for preliminary design phase, design development, and construction drawings. The remaining amount is to be paid when the state approves the plans. However, this includes payment for

100% of the contract fee, which leaves nothing to be held during contract administration and close-out by the Division of the State Architect (DSA). Given the attention focused on the lack of DSA close-outs, it is important that districts hold architects accountable for DSA close-out performance at the end of projects. As of the completion of FCMAT's fieldwork, neither the Rosamond High School project nor the New Elementary School project had been approved by DSA or by the California Department of Education (CDE).

In the current architectural agreement, the district has agreed to limited liability for the architect in exchange for lower fees. The contract limits the total liability of the architect to $1 million, including injury, claims, liabilities, losses, costs, expenses, or damages from any cause, including architect negligence, errors, omissions, or breach of contract and applies to third party claims. The district should negotiate liability terms and conditions which provide less exposure to the district in future contracts and ensure that contracts over a district-designated amount are reviewed by legal counsel prior to board approval.

Because the district lacks internal expertise in the area of facility program management, it should consider engaging a knowledgeable, outside program/project manager experienced with the management of architects and other facility consultants and that can provide necessary project budget and expenditure tracking tools. A consultant could also help ensure that contracts are written with favorable and fair terms for the district. However, if the district decides to continue these duties internally, applicable staff members should be provided with training regarding bidding, lease-leaseback procedures, and facility project management by organizations that have expertise in this area such as the Coalition for Adequate School Housing (CASH) and the California Association of School Business Officials (CASBO).

A review of the 2008-09 and 2009-10 vendor history reports for the Rosamond High School project showed that a payment was made to the architect from fund 21 on December 15, 2008 for $411,480. Following that time, the architect provided invoices and was paid minimum monthly payments until April 2010. Interviews indicated that payments to the architect were delayed to protect the district's financial hardship status in the State School Facility Program.

According to the architect's agreement, interest was due on invoices unpaid 30 days beyond the invoice date. Records provided to FCMAT indicate that Heiser & Associates billed approximately $678,000 for interest on the Rosamond High School project and $84,000 for the New Elementary School project. Although the architect reduced the accrued interest amount billed, it appears that the district's delay in making payments cost approximately $318,987.

All payments to Heiser & Associates were made out of various funds in 2008, 2009 and 2010 from payment vouchers without purchase orders being issued. Therefore, the funds were not encumbered prior to payment.

A summary of the contract fees and payment amounts are shown below based on data from the district's vendor history reports, vendor invoices, and a summary spreadsheet entitled Heiser & Associates, Rosamond High School Expansion, dated June 10, 2010.

Rosamond High School Project	
Revised Construction Budget	$ 39,800,000
Architect Basis Services Fee @ 9.5%	$ 3,781,000
At 90% completion, due and payable	$ 3,402,900
Reimbursables "authorized by District" (as of March 2010 invoice)	$ 186,489
Reimbursables, May 2010 invoice	$ 9,013
Total Due and Payable at 90% Completion	**$ 3,598,402**
New Elementary School Project	
Revised Construction Budget	$ 13,900,000
Architect Basic Services Fee @ 9.5%	$ 1,320,500
At 90% completion, due and payable	$ 1,188,450
Reimbursables "authorized by District"	$ 15,541
Total Due and Payable at 90% Completion	**$ 1,203,991**
Total Two Projects Due and Payable	**$ 4,802,393**
Total Paid per Vendor History 2008-09 and 2009-10	**$ 5,121,380**
Difference/Interest	**$ 318,987**

Bid Documents

Public Contract Code Section 20111 requires a district that needs a public works project to award that project to the lowest responsible bidder. To determine the lowest responsible bidder, districts provide all bidders with bid packets containing various documents including, but not limited to, the advertisement for bid, information for bidders, bid specifications, general conditions, bond forms, a sample agreement, and various certifications and affidavits.

The district provided FCMAT a copy of the bid documents it used for the VOIP telephone system installation project. A review of the documents revealed a standard set of bid documents, including the requirements and forms for insurance, bid bond, bid form, general conditions and supplementary general conditions. However, the bid documents did not include a copy of the advertisement for bid, forms requiring information about the bidder and any subcontractors, or sample copies of standard forms that are to be used throughout project completion, including AIA Application and Certificate for Payment and Change Order forms.

Recommendations

The district should:

1. Prepare purchase orders before work starts to ensure that proper approvals have been obtained and that funds are encumbered in advance of the work being performed.
2. Ensure that the accounts payable staff reviews each invoice in an effort to avoid duplicate payments.
3. Determine if Porter Concrete was overpaid for the work at Tropico Middle School, and if so, seek reimbursement.
4. Ensure that sales tax is not included on purchase orders for construction services.
5. Obtain proposals and written agreements for work to be performed by design professionals, as indicated in Government Code Sections 4525-4526.
6. Provide necessary internal controls by having the employee that oversees a project sign the invoices authorizing payment after ensuring the work has been completed.
7. Ensure that the governing board approves or ratifies all contracts and purchase orders as required by the Education Code and board policy.
8. Use purchase orders for all facilities and construction-related items to ensure that the necessary funds are encumbered, invoices can be tracked properly and tied back to proposals, bids and governing board approval, and that funds are not overcommitted.
9. Ensure that facility project files include copies of insurance certificates and bonds.
10. Use standard AIA Construction Progress Payment forms for construction projects instead of accepting invoice forms from the contractor.
11. Withhold 10% retention on all construction project payments.
12. Secure sufficient facilities funding before making commitments for large facility projects unless the governing board has specifically determined that general fund resources are to be used.
13. Provide proper justification for all projects funded by developer fees.
14. Properly plan for construction projects to ensure that bidding requirements are followed and avoid the appearance of bid splitting.
15. Use an account code that includes the project location for all facility-related purchase orders and payments.
16. Review the payments made to Heiser & Associates to ensure the payments were charged to the correct district account codes and make corrections as necessary.
17. Proceed with caution when determining whether to enter into contracts that require expedited schedules.
18. Consider the feasibility of renegotiating the terms of the agreement with Heiser & Associates.

19. Develop future architect agreements with terms that include the definition of basic and extra services, a flat rate fee structure, more equitable risk management provisions, and a higher level of responsibility for overall consultant coordination by the architect.
20. Ensure that legal counsel reviews all contracts that exceed a district-designated amount, prior to governing board approval.
21. Consider obtaining the services of an experienced project/program manager who would oversee and manage district facility projects.
22. Ensure that staff members are provided training regarding bidding, lease-leaseback procedures, and facility project management.
23. Encumber all contracts for facility projects and pay invoices timely to avoid incurring interest payments.
24. Work with legal counsel to ensure it is including all applicable forms in the bid documents used for future projects.

State School Facility and Financial Hardship Programs

FCMAT's review of expenditure transactions also included a sample review of the district's construction project files to test whether best practices were followed regarding facilities planning and construction activities.

As discussed earlier in this report, interviews indicated that the superintendent is responsible for the planning and financing activities of construction projects, including state applications and design. The assistant superintendent of personnel/operations is responsible for overseeing projects once they are in construction, and the CBO is responsible for project accounting, including expenditure tracking and monitoring. However, this type of structure does not provide for either a district employee or an outside program/project manager to be involved in each project from start to finish. Having one individual that is involved in the entire project, beginning with planning and design and continuing through construction and occupancy, is necessary to help ensure there is continuity of information throughout the process and that the project meets the district's needs and budget constraints.

The district hired Caldwell Flores Winters, Inc. (CFW) to provide a large array of facilities-planning and funding services, including state aid services and what is referred to in the contract as "school facilities implementation services." Because the area of school facilities is complex and involves expertise and experience in functions that are not typically and routinely performed by many school districts, it is often beneficial to hire outside experts who can maximize funding and assist the district with its construction projects. It is also important for district staff to understand the state's facility programs to ensure that they are familiar with the facility and fiscal implications of each program, can communicate the issues to the governing board and community, and can adequately manage consultants. Interviews indicated that an in-depth knowledge base in this area is lacking in the district.

The district was successful in obtaining State School Facility Program (SFP) funding for its modernization project at Hamilton Elementary School in 2000. The district has three new construction projects waiting for funding from the SFP. In addition, the district has applied for financial hardship status. However, the district did not provide the certification necessary to obtain the $11 million in financial hardship funding it had qualified for during the most recent

priority funding round. Interviews indicated that the district decided to wait for funding as it would be increased to approximately $15 million in the future. However, FCMAT is unaware of an opportunity to obtain this higher level of funding.

The Financial Hardship Program allows districts that meet specified financial requirements to obtain up to 100% funding for construction projects, rather than being required to supply a local funding match of 40% for modernization projects or 50% for new construction projects. However, the program includes substantial requirements for districts to participate and includes the risk of state funding being reduced or denied if the district does not comply.

To qualify for the Financial Hardship Program, the law requires that the district show it has made all reasonable efforts to obtain local funding, including the collection of level II developer fees. The Southern Kern's School Facility Needs Analysis, dated October 1, 2009 indicates that the district is no longer able to levy level II developer fees. The district will likely have to provide justification for this in future financial hardship status reviews completed by the Office of Public School Construction (OPSC). The state also reviews the district's financial statements to determine if there are local funds that can be contributed toward the cost of the facility project.

Interviews indicated that the district decided to wait for funding as it would be increased to approximately $15 million in the future. However, FCMAT is unaware of an opportunity to obtain this higher level of funding.

Interviews indicated that in 2009, the three facility projects for which the district had state-funding eligibility were moved from the state's New Construction Program, which provides 50% state funding, to the Financial Hardship Program that provides up to 100% state funding. Since the district had already expended some funds for architectural and other planning services, the state considered these expenditures as part of the district's contribution toward facility projects.

In a letter from the OPSC, dated December 17, 2009, the district received financial hardship approval. The letter states, "the OPSC has determined that the District has $927,712 available to contribute towards its projects and $2,354,689 available as contribution due to expenditures. Upon approval by the State Allocation Board assigning District contribution to a project, the District must transfer those funds to the County School Facility Fund." The district's 2009-10 unaudited actuals report and the 2010-11 second interim report do not reflect a transfer to the County School Facility Fund. However, the district has expended funds for the financial hardship projects from other funding sources, including fund 21, fund 25 and the general fund. The district should also be aware that any expenditures made from capital project funds following financial hardship approval must be included in the approved encumbrances listed in the December 9, 2009 financial review letter from OPSC, and that the OPSC will audit all related expenditures in future reviews. The letter also states that, "All developer fees and other revenue received after the district is placed on an unfunded list will be considered district contribution." In addition, any bridge financing, such as bond anticipation notes or certificates of participation, issued after the district has received financial hardship approval may also be viewed as local match funds if state approval is not received in advance. Once in the Financial Hardship Program, a district is not allowed to encumber funds for a new project that has not been listed in the financial hardship application. The timing issues regarding available funds the district has to contribute to the project are very complex and subject to interpretation at OPSC, and require skillful lobbying and negotiating on behalf of the district

Beginning in 2008-09, following the economic crisis at the state and national levels, the district began to experience a decline in student enrollment. This could jeopardize the district's eligibility

for new construction funding. Additionally, the state has minimal funds remaining for school construction projects and a date has not yet been established for a new statewide bond election. Therefore, before the district commits to any further facility project expenditures, it should ensure that local bond funds and/or state facility funds are available for such expenditures.

Recommendations

The district should:

1. Ensure that at least one individual is involved in all stages of each facility project, including planning, design, construction and occupancy.
2. Ensure that applicable district staff members are provided the training necessary to have an understanding of the state's school facility programs.
3. Discuss with its OPSC project manager the need to transfer funds to the county school facility fund.
4. Conduct an updated review regarding the current status of SFP eligibility, including the effects of declining enrollment.
5. Consider the costs and benefits of continuing to expend funds on facility projects that are in the planning and design stages, based on the outcome of the updated eligibility review.
6. Ensure that local bond funds and/or state facility funds are available before committing to any facility project expenditures.

Budget and Expenditure Tracking and Reporting

It is important that districts develop and use adequate budget and expenditure tracking and reporting capabilities for construction projects. This is especially essential for Financial Hardship Program projects because of the requirement that the projects be completed within the state budget allocation, with no additional funds from the district.

An adequate budget and expenditure tracking report includes all funding sources and spans all fiscal years for each project. It should be maintained separately from the district's financial accounting system, but the two must be reconciled annually. The budget and expenditure report can be completed in a simple spreadsheet format, but it is important that the correct budget and expenditures categories and percentages are included to ensure compliance with state reporting requirements. Some private companies offer varying levels of service for this function, from providing complete budget and expenditure tracking and reporting services to supplying the software, training, and technical support so that district staff may complete the functions internally. To obtain these services, the district should use the request for qualification (RFQ) or request for proposal (RFP) procurement method and request assistance from the county office when developing the RFP/RFQ document.

A review of the documentation provided to the Citizens' Oversight Committee found that the district provided the State Allocation Board (SAB) 50-06 Project Expenditure Form to the committee. This form provides a listing of all expenditures with vendor name and category in chronological order. However, no detailed project budget spreadsheets were provided to the committee or the FCMAT study team.

The SAB 50-06 form is required at specific times during the project, including on an annual basis while the project is under construction and prior to close out by OPSC. A review of the form indicated that it was completed incorrectly because the expenditures for all projects were included on one form and the SAB requires each project to be reported on a separate form. It is imperative, particularly with Financial Hardship Program projects, to complete the SAB 50-06 form accurately to help ensure that state funding does not have to be returned as a result of an unfavorable audit.

Recommendations

The district should:

1. Provide detailed budget and expenditure tracking reports to the Citizens' Oversight Committee, governing board and district administration routinely.
2. Consider seeking assistance from on outside company to complete budget and expenditure tracking reports or to provide software and training for district staff to complete this function.
3. Ensure that applicable district staff members are properly trained to complete the SAB 50-06 form.

Citizens' Oversight Committee

Proposition 39, a statewide ballot measure passed by the California electorate in 2000, provided the option of a lower voter approval threshold requirement of 55% instead of two-thirds for K-14 school facilities general obligation bond elections in exchange for various accountability measures. Those measures include the formation of a Citizens' Oversight Committee (COC) with specific membership requirements, the posting of COC agendas and minutes on the district website, an annual financial audit, an annual performance audit, and other related requirements.

The district's governing board must establish and appoint members to the COC no later than 60 days after the election results are entered into the board minutes. According to the implementing legislation, AB 1908 approved by the governor on June 27, 2000 and Education Code Section 15278, the purpose of the COC is to inform the public concerning the expenditure of bond revenues. The committee is to actively review and report on the proper expenditure of taxpayers' money for school construction, advise the public as to whether the district is in compliance with the general obligation bond language, ensure that the bond revenues are expended only for construction projects included in the ballot language of the bond measure, and ensure that no funds are used for any teacher or administrative salaries or other school operating expenses.

Education Code Section 15278 also states that the COC may receive and review the independent performance audit, independent financial audit, inspect school facilities and grounds, receive and review copies of deferred maintenance proposals or plans, review efforts by the school district to maximize bond revenues by implementing cost-saving measures, including, but not limited to, all of the following:

(A) Mechanisms designed to reduce the costs of professional fees.

(B) Mechanisms designed to reduce the costs of site preparation.

(C) Recommendations regarding the joint use of core facilities.

(D) Mechanisms designed to reduce costs by incorporating efficiencies in school site design.

(E) Recommendations regarding the use of cost-effective and efficient reusable facility plans.

Education Code Section 15280 requires all committee proceedings to be open to the public and notice to be provided in the same manner as the proceedings of the governing board. The Citizens' Oversight Committee is to issue regular reports on the results of its activities at least once a year and minutes of the proceedings of the COC and all documents received and reports issued are to be a matter of public record and be made available on a website maintained by the governing board.

Measure H was passed in November 2008 and provided authorization to the district for $24 million in general obligation bonds. The district's governing board announced the names of the COC members at its December 10, 2008 meeting, within the 60-day time line for formation. However, district records indicate that the COC did not begin meeting until November 5, 2009, a year after the bond election and after expenditures were incurred and contracts were approved for Measure H projects. For example, the governing board approved the lease-leaseback contract with Seward Schreder for the Tropico Middle School gymnasium project on February 4, 2009.

COC meeting agendas and minutes were provided to FCMAT for the meetings on November 5, 2009, December 10, 2009, January 21, 2010, March 31, 2010, April 21, 2010, and May 12, 2010. However, only minutes were provided for the August 11, 2010 meeting. Correspondence from the superintendent indicated that the last COC meeting would be held on October 4, 2010. The documents provided for review included a one-page COC report dated October 12, 2010; however, there was not an agenda or minutes included.

FCMAT found no COC agendas or minutes posted on the district website, as required by law. No records were provided indicating that the required annual financial audit or annual performance audit reports pertaining to Measure H funds were provided to the COC or the governing board. The December 10, 2009 COC meeting agenda and minutes state that the CBO would request Burkey and Cox to complete an audit of bond monies and expenditures. However, the proposal from Burkey and Cox dated February 16, 2009 was for financial audit services for the district, but not for a performance audit of the Measure H bond funds.

A review of the May 12, 2010 meeting minutes and the report dated October 12, 2010 reflected that information was presented to the COC in an abbreviated and somewhat unclear manner regarding financing and payment issues. These issues included payments owed to the architect, the repayment of bond anticipation notes, the need to issue bonds in 2010, and the need to borrow funds from the county office of education to meet facility payment obligations.

Recommendations

The district should:

1. Post all COC agendas, minutes, and reports on its website.
2. Provide an annual report to the governing board from the COC, as required by law.
3. Reconvene the COC, and conduct periodic meetings until all Measure H bond funds have been expended.
4. Hire an independent auditor to complete a Measure H performance audit for 2008-09, 2009-10, and for each fiscal year thereafter, as required by law.
5. Annually provide the COC with the financial audit and performance audit reports.

6. Maintain complete records of all COC meeting agendas, minutes, and backup documentation provided to the committee.

7. Provide clear, written information to the COC regarding the facilities financing plan and budget and expenditure tracking reports.

Processes and Procedures

Budget Development and Monitoring

Districts adopt their annual budgets in accordance with the statutory time lines established by California Education Code Section 42127, which requires that on or before July 1 the governing board shall hold a public hearing on the budget to be adopted for the subsequent fiscal year. No later than five days after that adoption, or by July 1, whichever occurs first, the governing board must file that budget with the county superintendent of schools. A district's budget should indicate its goals and objectives, which are developed annually and approved by the board. School district budgets are not static; the revenues, expenses and estimated ending balance of each fund can change because of items such as the state-adopted budget, changes in personnel, and negotiated settlements of employee bargaining agreements.

Budget development is a detailed process that begins as early as November or December of the prior year in some districts. During budget development, position control is revised and updated, revenues are estimated, and the district prioritizes its goals and ensures that expenditures reflect those goals. Effective budget development also includes development of a budget calendar so that each staff member is aware of deadlines and meets them. FCMAT's interviews with various district personnel revealed that the district does not have a budget development calendar.

The district's chief business officer (CBO) has primary responsibility for budget development, including developing site and department budgets. Although having a single staff member create the budget may speed budget development, best business practices include site administrators and department managers in the process. This helps create a sense of shared ownership and responsibility, a deeper understanding of budgetary issues, and possibly fewer budget transfers during the year. The district's administrators have a desire to provide input in budget development. Many districts also share the responsibility for categorical program budget development with educational services department personnel because they have additional knowledge regarding allowable program expenditures. Implementing a budget process that includes sites and departments requires a significant effort at the beginning. The business department would need to prepare budget development materials, provide a budget workshop and be available to provide assistance and answer questions as work progresses. However, the end result would be improved budget development.

The materials provided to sites and departments would need to include a budget allocation form that provides estimated revenue amounts to be allocated for each applicable funding source; shows ongoing expenditures such as staffing and indirect costs; and indicates the funds available for the site or department to budget. These forms would need to be distributed to and completed by the sites and departments each spring during budget development. In addition, site and department managers need to be provided with a position control report that includes a list of all employees charged to their respective budgets. A proper report will include each employee's name, position, hours per day, and the funding source for the position. Site and department managers need to review the report for accuracy and immediately report any inconsistencies to the district office. This process helps to verify the position control database, which affects budget reports and employee compensation.

Site and department staff indicated frustration at not having current budget information readily available. It would benefit the district to provide sites and departments with read-only online access to the financial system so they can review account line budgets as often as neces-

sary. Currently, the district's business office staff prepare budget transfer requests and provide supporting documentation. A better practice would be to have site and department managers complete this task. This would also help them better understand the budgets they develop and improve internal controls.

The district's largest revenue source is revenue limit funding, which accounts for approximately 66% of its 2010-11 total general fund revenues. The revenue limit calculation is based on an historical amount that is increased or decreased by the COLA and equalization funding. This total (also known as the base revenue limit per ADA) is then multiplied by the total ADA recorded by the district at the last complete school month prior to April 15, known as the second principal apportionment period, or P-2. To capture the attendance data, the district uses a student attendance software product. The district recently implemented new attendance accounting software, and staff expressed concerns about the accuracy of the information provided by the system. In finding 2010-4 of the district's audited financial statements for the year ending June 30, 2010, the auditors expressed concerns that the attendance system reports may not provide accurate numbers. Although the district is planning to implement a new attendance system, a review of attendance reports prepared using the current system would help the district ensure that accurate data has been included on the state-required reports.

Prior to passage of the 2008-09 state budget, the district was required to maintain attendance records for its supplemental hourly programs to obtain funding from the state for these programs. The 2008-09 state budget included flexibility provisions for hourly programs in SBX3 4 that were subsequently amended by ABX4 2. The flexibility allowed supplemental hourly program funding to be based on the student hours reported in fiscal year 2007-08 and required no further documentation to obtain funding for fiscal years 2008-09 through 2012-13. The district is still tracking and compiling attendance information for hourly programs. Because of the revised requirements, this is not necessary for state reporting.

Salaries and benefits are the largest portion of any school district's budget and comprise 84.4% of all general fund expenditures and 88.5% of the unrestricted general fund expenditures for the Southern Kern Unified School District in 2010-11. Thus, to help control costs, it is important to review all staff positions using factors relevant to each position, such as the number of students per teacher, students per counselor, secretaries or clerks per school site, and custodians per areas to be cleaned. The district provided FCMAT with staffing projections used for certificated teaching positions but did not provide staffing formulas for other certificated positions or for classified positions.

A school district's costs can be categorized as direct or indirect, depending on the nature of the activity generating the cost. Direct costs can be identified with a particular instructional program or support service needed to maintain the program. Indirect costs are costs for services that are more generalized but still needed, including districtwide management and administrative activities such as accounting, budgeting, payroll preparation, personnel management, purchasing and central data processing. Each district establishes an annual indirect cost rate based on its individual expenditures as applied to the CDE federally approved indirect cost plan. This individual district rate is then multiplied by each program's actual allowable expenditures to determine how much to charge the program for its share of the cost of general administrative activities.

Individual programs are charged the district's CDE-approved indirect cost rate unless the program specifically requires a different rate or does not allow for indirect costs. For example, the federal Education Jobs Fund allows for no indirect costs while vocational education and the After School Education and Safety program allow for a 5% indirect cost rate. In addition, Education

Code Sections 52616.4(a) (3) and 38101(c) limit school district indirect costs to the lesser of the district's CDE-approved indirect rate or the statewide average indirect cost rate for adult education and food service programs. For fiscal year 2010-11, districts are limited to the lesser of their CDE-approved indirect cost rate or 4.35% for adult education, and to the lesser of their CDE-approved indirect cost rate or 4.44% for food service.

FCMAT's review of the district's comparative budget report for fiscal year 2009-10 indicated the following:

- Most allowable programs were not charged for their share of the district's general administrative costs using the district's CDE-approved indirect cost rate. This included programs in the general fund and the adult education and food service programs.
- Some programs were charged more than the district's CDE-approved indirect cost rate. For example, the district's Title I program was charged 6.75% for its indirect costs instead of the allowed 4.93% rate.
- Some programs were charged less than the district's CDE-approved indirect cost rate. For example, the district's Title I ARRA, Title II/Part A and After School Education and Safety programs were charged 2.58%, 4.68% and 4.26%, respectively for their indirect costs instead of the allowed 4.93% rate.

The misapplication of the district's CDE-approved indirect cost rate to its programs causes the unrestricted side of the general fund to bear the burden for most of the district's administrative costs even though restricted programs and other funds are using those services. Although the district cannot recover prior years' costs that were not charged appropriately, the district can review its processes for applying indirect costs and revise its procedures beginning with fiscal year 2010-11 to ensure that all programs are charged the maximum allowable indirect cost rate.

The misapplication of the district's CDE-approved indirect cost rate to its programs causes the unrestricted side of the general fund to bear the burden for most of the district's administrative costs even though restricted programs and other funds are using those services.

The indirect cost rate process is based on the CDE's federally approved indirect cost plan, which is driven by the function codes that an individual district assigns to expenditures. The formula for the individual indirect cost rate is indirect costs (general administration costs, central data processing, external financial audit costs, costs for staff relations/negotiations, employment separation costs, plant maintenance and operations, and facilities, rentals and leases) divided by base costs, which include but are not limited to instructional costs, instruction-related services, pupil services, ancillary services, community services, board/superintendent costs, adult education, child development, and cafeteria costs. Identifying too many costs in the base cost category will result in a reduced indirect cost rate, while identifying too many costs in the indirect cost category will produce a higher rate. The district's indirect cost rate approved by the CDE decreased from 4.93% in 2009-10 to 1.61% for fiscal year 2010-11. Discussions with district staff revealed that several expenditures with an administrative function had been erroneously coded to an instructional function.

In addition to the district charging indirect costs to programs and other funds, Education Code Section 17620(a)(5) allows the district to use up to 3% of the developer fees collected in a fiscal year for reimbursement of the administrative costs incurred by the district in collecting those fees. District staff indicated that the County of Kern is collecting all developer fees on behalf of the district and forwarding funds via electronic transfer. It would benefit the district to determine whether the County of Kern is withholding funds to cover its collection costs and, if so, review the district's ability to collect fees using district staff so that the district may retain the entire fee.

The district would also benefit from routinely reviewing the collections made by the County of Kern to ensure that all developers are paying at appropriate fee levels, the fee calculations are correct, and that funds are posted to the district's account on time.

A review of the 2009-10 comparative budget report indicated that the district matches K-3 class size reduction (CSR) revenues to a lump sum of certificated salary expenditures rather than assigning specific teachers to the program and charging the applicable salary and benefit costs to resource 1300. The program is also not charged for items such as substitutes, professional development or indirect costs. Charging all applicable costs to the program would help determine the true costs of operation. If it is determined that the K-3 CSR program is not self-sufficient, the district should consider using funding from other restricted programs, such as Title II, Part A, to help offset the costs of K-3 CSR.

A review of the budget comparative report also revealed that statutory benefits have been charged to lottery, resource 1100; however, no corresponding salary expenditures were posted to the resource. It is best business practice to ensure that salaries and the corresponding benefits are posted to the same funding source.

Recommendations

The district should:

1. Review its budget development tasks and time lines and construct a district-specific annual budget development calendar.
2. Assign sites and departments the task of creating their budgets.
3. Ensure that the business department designs budget materials and offers a workshop to site and department staff to provide the tools and knowledge needed for budget development.
4. Consider providing applicable site and department staff members with online, read-only access to the financial system.
5. Give site and department staff the task of preparing budget transfer requests.
6. Review its attendance accounting system to ensure that accurate information is being provided and is included on state reports.
7. Consider suspending attendance tracking for supplemental hourly programs.
8. Develop staffing formulas for all positions.
9. Determine if the County of Kern is withholding funds to cover its collection costs for developer fees and, if so, review the district's ability, as well as the costs and benefits of collecting developer fees on its own behalf.
10. Routinely review developer fee collections to ensure that all developers are paying appropriate amounts, the fee calculations are correct, and funds are posted to the district's account on time.
11. Charge the maximum allowable indirect cost rate to all programs and funds.
12. Carefully review the coding of expenditures to ensure that the proper function has been applied to achieve a more accurate indirect cost rate.
13. Consider revising accounting procedures in the K-3 CSR program.

14. Ensure that salaries and corresponding benefit amounts are posted to the same funding source.

Financial Reporting

Unaudited Actuals Report

California Education Code Section 42100 requires that by September 15 the governing board of each district approve a statement of all receipts and expenditures of the district for the preceding fiscal year. This statement and an estimate of the district's total revenue and expenses for the current year are known as the unaudited actuals report. This report is filed with the county office and the CDE and serves as the basis for the independent auditors' review of the district's books as well as subsequent audited financial statements, which are prepared and filed with the county superintendent of schools and the state controller's office. The audited financial statements are also filed with a financial clearinghouse and used by financial entities with which the district has done business regarding any form of debt, including but not limited to general obligation (GO) bonds, certificates of participation (COPs), tax revenue and anticipation notes (TRANs), and bond anticipation notes (BANs). Investors use this information to make decisions regarding items such as bond ratings, interest rates and investments.

The district entered into a contract with Heiser & Associates, Inc. (Heiser) in July 2008 for architectural services for the construction and modernization program at the new elementary and Rosamond High schools. Heiser presented the district with invoices totaling $5,121,380 for these projects, the majority of which were for services rendered in fiscal year 2008-09. As of April 1, 2010, $4,005,640 of Heiser's invoices remained unpaid. The district completed paying the invoices on June 18, 2010. County office and district staff indicated that the district had determined that Heiser's invoices should not be accrued and posted to the district's accounting records in the fiscal year services were rendered. The rationale for not posting the liability was that the district lacked the funds to pay the invoices and was attempting to qualify for financial hardship funding for school facilities. District staff also indicated that they were instructed that invoices were not to be accrued unless the invoice had been received by year end (June 30). Invoices that the district did not have in its possession on June 30 would not be included in the year end closing and would be shown as expenses in the next year.

This practice poses multiple problems. First, as noted by the auditors in their 2009-03 finding, it violates generally accepted accounting principles (GAAP). Furthermore, Education Code Section 41010 requires school districts to follow the procedures contained in the California School Accounting Manual (CSAM). CSAM Procedure Number 551-2 states, "Accruals for accounts payable at the end of the fiscal year are recorded for services rendered or for goods received by June 30." The basis for this guideline can be found in statements authored by the Governmental Accounting Standards Board (GASB), which is recognized as the standard-setting body for governmental accounting. GASB Summary of Statement No. 11, Measurement Focus and Basis of Accounting -- Governmental Fund Operating, states:

> Governmental fund operating expenditures that arise from exchange transactions generally should be recognized when the transactions that result in a claim against financial resources take place, regardless of when cash is paid.

Further, the Statement of Federal Financial Accounting Standards (SFFAS) No. 1, paragraph 156 states:

> …when a contract is entered, an obligation is recognized in budgetary accounting. However, until goods or services are received or work progress is made, the Board does not believe that an obligation should be recognized as a liability. When goods or services are received or work progress is made under either a short or long-term contract, a liability for unpaid amounts should be recognized.

Clearly the district's auditors, GAAP, CDE, GASB and the federal government are all in agreement that at the point goods or services are received or rendered they become a liability and must be entered into the district's accounting records.

Second, a failure to accrue accounts payable items produces misstatements and inaccuracies in financial statements. The failure to post the Heiser invoices into the district's financial statements produced an understatement of liabilities and an overstatement in fund balance and net assets. Investors and financial institutions have relied on these financial statements to make investment/financial decisions.

Third, a failure to post financial transactions on time has caused confusion at the schools sites as staff have found that purchases made and received in one fiscal year were posted to their budgets the following year.

The district's auditors included findings in their 2008-09 and 2009-10 audit reports regarding failure to accrue accounts payable items. The June 30, 2009 audit report included finding 2009-3, which indicated that in four of 20 items sampled, $297,019 of $1,336,734, or 22%, had not been properly recorded. The district's response to that finding was as follows:

> The District accepts the recommendation, in theory. However, there were two serious complications as to why the District did not comply with GAAP requirements, as explained to the auditors.
>
> Accounts Payable - On April 30, 2009, the District filed a financial hardship application with the Office of Public School Construction (OPSC). Required documentation included a list of project encumbrance, by fund; financial hardship worksheet, by fund providing revenue and expenditure amounts from the District's Audited Financial Statement of June 30, 2008 through September 24, 2009; as well as a detailed general ledger report, by fund FYE 2009. These reports were required by OPSC to document the project encumbrance as of April 30. Had we cleared accounts payable balances we would never been able to document said encumbrance as of June 30, 2009.

The district's auditors found the same problem with unaccrued accounts payable items during their audit for the fiscal year ending June 30, 2010. Audit finding 2010-2 indicates that the $1,171,637 sample of 20 items included one item totaling $869,893, or 74% of the total, that had not been properly recorded. The district partially agreed with the finding and responded as follows:

> Construction had just started on a gymnasium. One invoice dated June 30, 2010 for $556,840 was received by the business office in July. The entire project was already encumbered in the post-fiscal year. The project was then completed four months (October) with all accounts payable cleared. However, the additional accounts payable of $313,053 is an actual payable.

The auditor's update of the prior year's 2009-3 finding stated that accruing accounts payable had been "partially implemented."

During FCMAT's inquiries regarding the absence of accounts payable accruals, one staff member indicated that she was simply doing what she was told. The district's staff's lack of knowledge regarding accounting policies and procedures, coupled with the district's above responses in the audit reports, is cause for significant concern. The district needs to immediately provide additional training for employees entrusted with accounting duties and hold them responsible for completing their assigned duties correctly.

In addition to financial statements for all funds, the unaudited actuals report includes various forms and schedules that provide additional information. Some forms and schedules were omitted in the district's 2009-10 unaudited actuals report and others were missing important information:

- As noted in the budget development section of this report, a district's indirect cost rate is based on the CDE's federally approved indirect cost plan, which is driven by the function codes that an individual district assigns to expenditures. The formula for the district's indirect cost rate is indirect costs divided by base costs. This formula, along with the amounts associated with an individual district's formula, is shown on the indirect cost rate worksheet or form ICR in the unaudited actuals report. The majority of the numbers on form ICR are downloaded automatically from the district's financial software; however, some items require manual entry to complete the calculation. On the district's form ICR for fiscal year 2009-10, numbers requiring manual insertion had been omitted, including the cost of the district's annual audit and separation costs.
- The special education maintenance of effort (MOE) report was missing. According to Section 300.203(b) of the Individuals with Disabilities Act (IDEA), the district must spend at least the same total or per capita amount from either state or local funding sources as it spent for that purpose from the same source for the most recent prior year. Noncompliance with this federally-mandated requirement can cause the district to lose special education funding, and without a completed special education MOE form it is not possible to know whether the district was in compliance with this requirement.
- The annual report of pupil transportation, or form TRAN, revealed issues regarding the coding of special education expenditures and lacked manual entries. Both of these problems result in inaccurate information being reported.

  First, all transportation expenditures for special education students were reported in only two categories: classified salaries and benefits; and travel/conferences and dues/memberships. In addition to these expenditures, it is expected that other expense items, including fuel, repairs, insurance, and reimbursements to parents, will normally be included on the report. However, none of these items were reported, nor were they included on the district's 2009-10 budget comparative report.

  Second, the district reported the purchase of vehicles in the home-to-school column of Schedule II.D. This item should have been removed on Schedule III.D. Likewise, any payments made to reimburse parents for the cost of transporting their students are required to be deducted from special education transportation costs on Schedule III.C. Not including these deductions can result in inaccurate information regarding per-mile and per-pupil costs being provided to involved parties and can result in other inaccuracies if these costs are used to determine other costs, such as costs for field trip transportation.

Becoming more familiar with all required forms would help district staff members who are responsible for the unaudited actuals report produce more accurate financial information, and completing and submitting all required forms to the governing board for approval would help ensure that proper processes are followed.

Pursuant to the provisions of GASB Statement No. 34 issued in 1999, the district is required to prepare government-wide financial statements. To comply with this provision, districts typically assign a staff member to prepare and enter conversion entries into the SACS financial reporting forms that convert the district's fund-based financial statements to the government-wide statements. The preparation of these entries is considered a management function and if prepared by the district's external auditors can impair the auditor's independence in providing auditing services to the district. The district had not prepared the government-wide conversion entries when the unaudited actuals report was completed, but they are included in the audited financial statements. Thus it appears that someone other than district staff made the conversion entries. However, because of the turnover of the CBO position in the past year as well as county office assistance provided to close the books for fiscal year 2009-10, FCMAT was not able to determine who performed this function.

As part of the passage of the state's 2008-09 budget, the governor and the Legislature allowed for transfers of the 2007-08 ending balances from certain general fund categorical programs and from specific funds including adult education, cafeteria and deferred maintenance. The ability to transfer the 2007-08 ending balance continued through June 30, 2010, and the district took advantage of this flexibility option. However, all revenue and expenses for the district's cafeteria fund are being coded to federal resource 5310, including food service sales (object 8634) and interest revenue (object 8660). Food service sales are generated when students and/or staff purchase meals and should be coded to resource 0000 in the cafeteria fund. Interest revenue should also be coded to resource 0000. Continuing to code interest earned to resource 5310 could subject this revenue to Code of Federal Regulations, Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Subpart C – Post Award Requirements, Section 80.21 Payment, which requires that grantees and sub-grantees remit at least quarterly to the federal agency any interest earned on advances. Federal cafeteria revenues are collected on a reimbursement basis and are usually paid several months after the meals are provided to students. Thus it is probable that the majority of interest earned in the cafeteria fund is on local funds collected from students and staff. Coding interest earnings to a federal resource may cause them to be subject to federal reporting requirements.

A review of the district's 2009-10 and 2010-11 financial statement reports indicated that the district has carried a balance of more than $170,000 in the workers' compensation liability account (object code 9520) each fiscal year since 2008-09. Reviewing all of its balance sheet accounts will help the district determine if the balances are valid and make any necessary adjusting entries. Monitoring accounts receivable and accounts payable balances and clearing them as early as possible each fiscal year will also benefit the district. Best practice is to close most, if not all, accruals by the first interim reporting period.

Adopted Budget

It is best practice for a district to present its governing board with the state's SACS forms and a detailed list of budget assumptions with each budget adoption. The board must review the information and determine by vote whether the document presented meets the district's goals and objectives, including the goal of maintaining fiscal solvency. The board's ability to understand the

information presented and recognize budget trends is essential to maintaining a school district's fiscal health.

The district's governing board members expressed their lack of understanding regarding how the district had arrived at its current financial condition. Given the district's dire financial situation, it is imperative that the board gain this knowledge quickly. Immediately providing governing board members with workshops designed to further their understanding of the budget and financial information presented to them would help this situation.

The district's 2010-11 adopted budget, which was presented to the governing board for approval on June 12, 2010, contained very little historical data that could be used to compare estimated current year and prior years' actual performance to anticipated results for the budget year. The district needs to include charts and graphs depicting year-to-year trends in key areas such as enrollment; average daily attendance; total revenues and expenditures; net ending balances for both the unrestricted and restricted general fund; general fund contributions to special education; other programs or funds requiring a contribution from the general fund; and net change in the ending balance and/or deficit spending for both the unrestricted and restricted general fund.

Preparing a budget involves using assumptions to arrive at estimates for revenues and expenses. It is important to use the most recent information available, ensure that it is as accurate as possible and present any assumptions in a detailed format. FCMAT's review of the district's 2010-11 adoption budget revealed the following:

- Some of the assumptions used for the 2010-11 budget were not correct and appear to have come from the governor's 2010-11 budget proposal provided to districts in January of 2010 rather than from the governor's 2010-11 May revision provided to districts in May of 2010. For example:
    - The COLA used was negative $24 per ADA from the budget proposal instead of negative $25 per ADA from the May revision. This would have resulted in the overstatement of revenue limit funding.
    - A negative $201 per ADA other revenue limit adjustment was used from the budget proposal instead of applying the 3.85% reduction to the undeficited base revenue limit from the May revision. This would have resulted in the overstatement of revenue limit funding.
    - The district is allowed to use the current year or prior year ADA, whichever is greater. The adoption budget used the current budget year estimated ADA of 3,099 instead of the prior year ADA of 3157.29. Using the former would have understated revenue limit funding.
    - The above three errors result in an understatement of revenue limit funding of approximately $149,000.
- The budget assumptions for fiscal years 2011-12 and 2012-13 consist of three lines of text for 2011-12 and one line of text for 2012-13. In addition, the COLAs used were different from those presented at the 2010 budget proposal and from those presented at the 2010 May revision. The COLAs used by the district would have caused its revenues to be understated in fiscal year 2011-12 and overstated in fiscal year 2012-13. Following is the COLA information used by the district compared to the governor's January budget proposal and May revision.

Budget Year	Used in District Adoption Budget	Governor's Budget Proposal	Governor's May Revise
2011-12	1.78%	1.80%	2.10%
2012-13	2.59%	2.40%	2.40%

It would benefit the district to ensure that the most recent information available is used to develop the budget, ensure that the information is as accurate as possible, and include a list of detailed assumptions for the budget and projection years, including the following: COLA, enrollment and ADA, revenue increases and decreases, step and column costs, staffing increases and decreases, health and welfare premiums, and one-time increases or decreases in expenditures.

- The former CBO included the following statement in the budget assumptions under the heading "Prognosis": "Should the great state of California reduce education revenue any further, they will have to come take the keys because there is nothing left to cut. Pray for those who have lost their job. Good luck and God help us all!" This statement appears to be personal in nature; it is best practice to avoid placing such statements in a district's budget documents.
- Several funds contained budgets for fiscal year 2010-11 that mirrored the amounts anticipated to be spent in fiscal year 2009-10, or the fund was omitted as in the case of the bond interest and redemption fund (fund 51). Best practices include analyzing and determining the correct budget assumptions for each fund for the coming year and preparing the budget accordingly.

Audited Financial Statements

California Education Code Section 41020.3 requires the governing board to review the district's annual audit at a public meeting. Because information in the audited financial statements is used by both the district and outside agencies, the board needs to understand this document and be prepared to ask questions about it so that it can be used as a tool to facilitate board decisions.

For example, one of the first documents in a district's audited financial statement is the management discussion and analysis (MD&A), which is usually written by the CBO. The MD&A in the district's June 30, 2009 audited financial statements provided data indicating that the district's financial health was failing and that it was overstaffed. The report indicated that expenditures had increased by 10.65% while revenues declined by 1.09% and that the district lost 166 students without a corresponding reduction in staffing.

The MD&A in the June 30, 2010 audited financial statements contained similar information: it indicated an 11.43% decrease in revenue and a 2.45% decrease in expenditures, another decline in enrollment, and overstaffing. Table 1 in the MD&A also showed that cash had decreased by $9.4 million. This type of information should indicate to the reader that actions are needed to reduce expenditures and/or increase revenues.

A review of the 2009 and 2010 audit reports revealed that complete disclosures regarding debt, specifically the district's 2009 bond anticipation notes (BANs), were excluded from formal note disclosure, and that there was a typographical error in the date of issuance of the general obligation bonds.

Districts are required to provide information to the county office regarding audit findings. To comply with Education Code Section 41020(i), Kern County Superintendent of Schools office (KCSOS) submits an annual audit finding correction form to districts in Kern County to help ensure that districts have corrected their audit findings. This document helps the county office

determine if the district has corrected the audit exceptions or developed an acceptable plan to correct them. The district has had numerous audit findings in the last two years, including eight in the June 30, 2009 audit report and four in the June 30, 2010 audit report. The 2009 report indicated that one of the previous year's findings had not been implemented, and the 2010 report indicated that two of the previous year's findings had only been partially implemented.

AB 1200 Disclosures

In response to the public's desire to have information and provide input regarding settlements with employee bargaining units, many laws have been established, including the following:

- Government Code Section 3547.5 requires that a public meeting be conducted to disclose the costs of a tentative collective bargaining agreement before it becomes binding on the school district.
- Government Code Section 3540.2 requires that a school district that has filed a qualified or negative certification pursuant to Education Code Section 42131 allow the county office of education at least 10 working days to review and comment on any proposed settlement between an exclusive bargaining representative and the district.
- Assembly Bill (AB) 1200, signed into law in 1992, and AB 2756, signed into law in 2004, provide additional standards and requirements for fiscal accountability.

In response to these laws and requirements, county offices of education have prepared and distributed to districts templates for disclosing collective bargaining information. The district provided FCMAT with copies of their AB 1200 disclosures for fiscal years 2004-05 through 2006-07. However, the district was unable to produce the disclosure documents for fiscal year 2007-08 to the present. County office staff confirmed that the district failed to file the AB 1200 disclosures in fiscal years 2007-08, 2008-09 and 2009-10. The district is currently negotiating with its employee bargaining units. Upon reaching a tentative agreement, the district will need to ensure that the proper AB 1200 disclosure is filed with the county office at least 10 days prior to the board meeting at which the agreement is scheduled to be heard so that the county office can analyze the proposal and provide comments to the district.

Interim Reporting

In accordance with Education Code Section 42130, the district is required to submit two interim reports per fiscal year. The first interim report is to encompass July 1 to October 31, and the second interim report is to cover July 1 through January 31. After approval by the governing board, the reports are filed with the county office as required by Education Code Section 42131(a) (2). A review of the district's 2010-11 second interim report revealed the following:

- The cash flow projections for property taxes and state apportionment revenue had been reversed on the cash flow worksheet.
- No COLA was applied to the other state revenues funding category for fiscal year 2012-13, resulting in an understatement of that funding source of approximately $38,000.

A review of the district's 2010-11 second interim and comparative budget report indicated that the district budgeted for state revenue in the adult education fund (fund 11). However, starting with fiscal year 2008-09 the state budget has included adult education funding in the flexibility provisions provided to LEAs. Thus state funding for adult education is to be budgeted and deposited in the unrestricted general fund.

Recommendations

The district should:

1. Immediately provide additional training for employees entrusted with accounting duties, and hold them responsible for completing their assigned duties correctly.
2. Ensure that staff members responsible for the unaudited actuals report are knowledgeable regarding all the required forms so that accurate financial information is reported.
3. Ensure that all required forms are completed and included with the unaudited actuals report that is submitted to the governing board for approval.
4. Ensure that a district staff member prepares the conversion entries necessary for completing the government-wide statements and consults with the county office or district auditors if instruction is needed in their preparation.
5. Review its coding of cafeteria revenue and expenses to properly separate them into federal and unrestricted resource codes.
6. Review of all of its balance sheet accounts to determine if the balances are valid and make any necessary adjusting entries.
7. Ensure that all accounts receivable and accounts payable balances are monitored and that transactions are closed as early as possible each fiscal year.
8. Immediately provide the board with additional training to further their understanding of the district's budget and financial information.
9. Ensure that budget documents include charts and graphs depicting year-to-year trends in key areas.
10. Ensure that the most recent information available is used and that data is accurately calculated in the budget at each reporting period.
11. Include a detailed list of the assumptions used in the budget at each reporting period.
12. Avoid including personal statements in district budget documents.
13. Analyze and determine the correct budget assumptions for each fund during budget development and at each reporting period.
14. Provide additional training to its board members and administrators regarding the annual independent audit report.
15. Carefully review its audited financial statements to ensure that they provide complete and correct financial information.
16. Ensure that it provides the county office of education with the information it needs regarding audit findings and the corrective actions taken to resolve them.

17. Ensure that the proper AB 1200 disclosure is filed with the county office of education and that it allows the required time between submission and the district's board meeting for the county to analyze the proposal and provide comments to the district.

18. Ensure that state funding for adult education is budgeted and deposited in the unrestricted general fund as required by the flexibility provisions in the state budget.

Internal Controls

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

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

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

- System of checks and balances

Formal procedures should be implemented to initiate, approve, execute, record and reconcile transactions. The procedures should identify the employee responsible for each step and the time period for completion. Key areas requiring checks and balances include payroll, purchasing, accounts payable and cash receipts.

- Segregation of duties

Adequate internal accounting procedures must be implemented and necessary changes made to segregate job duties and protect the district's assets. No single employee should handle a transaction from initiation to reconciliation and no single employee should have custody of an asset (such as cash or inventory) and maintain the records of related transactions.

- Staff cross-training

More than one employee should be able to perform each job. Each staff member should be required to use accrued vacation time, and another staff member should be able perform those duties. Inadequate cross-training is often a problem even in the largest business offices.

- Use of prenumbered documents

Checks, sales/cash receipts, purchase orders, receiving reports and tickets should be printed by an outside printer. Physical controls should be maintained over the check

stock, cash receipt books and tickets. It is not sufficient to simply use prenumbered documents. A log of the documents and numbers should be maintained and reconciliation performed periodically.

- Asset security

Cash should be deposited daily, computer equipment should be secured, and access to supplies/stores, food stock, tools and gasoline should be restricted to designated employees.

- Timely reconciliations

Bank statements and account balances should be reconciled monthly by an employee independent from the original transaction and recording process. For example, a central office accountant should reconcile associated student body (ASB) accounts every month and the district office employee reconciling the revolving checking account should not be the same person who maintains the check stock.

- Comprehensive annual budget

The annual budget should include sufficient detail for revenues and expenditures (by school site, department and resource) to identify variances and determine whether financial goals were achieved. Material variances in revenues and expenditures should be investigated promptly and thoroughly. This includes ensuring that potential revenues and expenditures for ASB funds are identified at the start of each year.

- Inventory records

Inventory records should be maintained that identify the items and quantities purchased, sold or designated as surplus. Physical inventory should be taken periodically and reconciled with inventory records. Typical inventoried items include computer equipment, warehouse supplies, food service commodities, maintenance and transportation parts and student store goods.

The district office has experienced a great deal of change this fiscal year, including the retirement of one CBO, the hiring of a new CBO, the county office's assignment of a fiscal advisor, and governing board elections. The departure of a long-term key employee has highlighted the need for cross-training to help staff members become familiar with other positions' duties, provide more flexibility when employee changes occur, and allow the district to more readily accommodate employee vacations and leaves.

However, the only cross-training that has occurred in the business department has been due to an employee moving to a different position within the department. It would benefit the district to increase cross-training so that every position has at least one other employee who can temporarily perform its duties in the event of illness, vacation or resignation. This would enable the district to continue essential business office functions without interruption.

The business department does not have desk manuals that include step-by-step procedures for the majority of the job duties. Desk manuals of procedures are important to ensure proper internal controls and provide a better understanding of each position's responsibilities.

Like desk manuals, a business department policies and procedures manual provides an opportunity to plan and diagram internal controls as well as written standards regarding transactions for the business office, school sites and other district departments to follow. The district's

independent audit for the fiscal year ending June 30, 2009 contains finding 2009-1, which cites the lack of an accounting procedures manual and includes the external auditor's directive to complete such a manual as soon as possible. The external auditors are required to report on prior year findings, and the district's audited financial statements for the year ending June 30, 2010 indicate that the district had begun work on such a manual; however, a manual was not provided to FCMAT.

Board policies and administrative regulations are based on laws and regulations in numerous documents, including the California Education Code, Government Code, Public Contract Code, federal regulations, case law and district practice. Board policies and regulations provide guidelines and directives by which a district and its personnel operate, and they are a key component of internal controls. Because they are based on laws and regulations that are revised frequently, it is important to ensure that board policies are updated to reflect changes in legislation. Many of the district's board policies and administrative regulations have not been updated since 1993. As a result, many do not comply with current law and district practice. Following are several examples:

- BP 3100 (last modified 7/6/94) establishes a budget advisory committee composed of members of the community and staff appointed by the superintendent to review budget proposals at various intervals. District staff did not indicate that such a committee exists.
- BP 3220.1 (last modified 12/13/00) provides that lottery funds are not to be used for recurring expenses. However, budget and actual expenditure data provided by the district indicated that items such as statutory benefits and car allowances are being paid from lottery funds.
- AR 3350 (last modified 8/15/01) establishes the district's mileage reimbursement rate at $0.32 per mile. However, staff indicated that the district is using the IRS mileage rate effective January 1, 2011, which is $0.51 per mile.
- BP 3440 (last modified 11/3/93) requires an inventory of equipment costing $300 or more and purchased with federal funds. However, as part of the state's categorical program monitoring (CPM), the CDE reviews whether the district has maintained an inventory of equipment with an acquisition cost of $500 or more. BP 3440 contradicts AR 3440 (last modified 12/9/09), which corresponds with the CPM $500 per item acquisition cost.
- BP 3514.2 (last modified 3/1/95) relates to a rideshare program. However, the California School Boards Association's (CSBA) recommended BP 3514.2 relates to a district's integrated pest management program. The documents provided to FCMAT did not include a policy related to an integrated pest management program.
- BP 3541.1 (last modified 11/3/93) allows students to be driven by an adult with a valid driver's license and liability insurance in an amount required by law. The CSBA's recommended language specifies a driver at least 21 years of age with a good driving record, necessary insurance as provided by law and registered with the district to provide transportation to its students. In addition, the most current CSBA sample regulation includes language regarding the prohibition against smoking in a vehicle when minor children are present and the requirement to have a seatbelt for each passenger. Some of this language is contained in the district's AR 3541.1 (last modified 7/2004). However, some portions of the AR also contradict BP 3541.1, making district policy difficult to follow and administer.

Several policies are also missing from the district's business and noninstructional operations board policies, including BP 3111, Deferred Maintenance Funds; AR 3451, Petty Cash Funds; BP 3511, Energy and Water Management; and BP 3513.1, Cellular Phone Reimbursement.

The district also has some policies that the CSBA no longer provides, including BP 3310, Purchasing Procedures; AR 3312.11, State Allocation Board Contracts; BP 3315, Relations With Vendors; BP 3515.1, Crime Data Reporting; BP 3541.3, Transportation for Nonpublic School Students; BP 3541.4, Transportation for Outside Groups; and BP 3544.1, Use of District Vehicles.

The district has been contracting with and paying CSBA since 2007 for use of the GAMUT online policy service but has not used this service to update many of its policies and regulations. Based on the number of policies and administrative regulations that require updating, it would benefit the district to use CSBA's policy audit program to identify policies that are missing or out of date and to use the CSBA policy development workshop to review all of its board policies and update those that need it.

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

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

District staff indicated that the district is maintaining its accounts payable records for five years. Title 5, Section 16025 of the California Administrative Code defines these items as class 3 records requiring a four year retention period. However, accounts payable records may contain items related to the district's payments or reimbursements for special education programs. Because this is an area in which some educational agencies experience a higher than normal level of litigation, it is advisable for a district to consider keeping special education records longer than the required four years.

Both Education Code Section 44830.1 (for certificated employees) and Section 45122.1 (for classified employees) state, "…no person who has been convicted of a violent or serious felony shall be hired by a school district…" District staff indicated instances in which individuals were allowed to begin employment before the district had received fingerprint clearances, particularly for coaching positions. The district may incur significant liability if it allows this practice to

continue because an individual may begin working with students before the human resources department determines whether they can be legally employed by the district.

District personnel indicated that sites are responsible for placing inventory tags on applicable items. However, an inventory has not been performed in accordance with Education Code Section 35168, which states the following:

> The governing board of each school district shall establish and maintain a historical inventory, or an audit trace inventory system, or any other inventory system authorized by the State Board of Education, which shall contain the description, name, identification numbers, and original cost of all items of equipment acquired by it whose current market value exceeds five hundred dollars ($500) per item, the date of acquisition, the location of use, and the time and mode of disposal.

The district is required to inventory items that have a useful life of one year or more, cost $500 or more per unit and are purchased with federal funds. In addition, the Code of Federal Regulations Title 34, Section 80.32 requires that a physical inventory be completed at least once every two years.

Recommendations

The district should:

1. Ensure that adequate internal control procedures are in place and that employees are cross-trained in all key areas of responsibility.
2. Develop desk manuals of employee duties; ensure that each employee includes step-by-step procedure for all assigned duties in their desk manual.
3. Ensure that a policies and procedures manual is created for the business department.
4. Immediately update its board policies and administrative regulations, and consider using the CSBA's policy audit program and policy development workshop to aid in this endeavor.
5. Review its records retention policies and procedures to ensure compliance with retention periods prescribed by law, and consider retaining records related to special education for longer than required by law.
6. Review its hiring procedures to ensure that all paperwork is completed before an individual begins their employment with the district. Consider revising the notice to payroll form to include verification of fingerprint clearance to help ensure that this takes place.
7. Conduct an inventory of its equipment with an original cost exceeding $500, and implement policies and procedures to ensure that the inventory is kept current, in accordance with the California Education Code and the Code of Federal Regulations.

Payroll

The CBO supervises the district's payroll technician, who processes all of the district's monthly payroll transactions. The technician has been employed by the district for the past 23 years and has been in her current position for three and one-half years. She is responsible for processing all payroll transactions on the following payroll cycles:

- Supplemental payroll: substitutes, stipends, and extra duty is paid on the 10th of the month
- End of month payroll: contracted employees are paid on the last working day of the month

The technician is responsible for calculating pay, entering the information into the Quintessential School Systems (QSS) accounting software, preparing the payroll prelists, transmitting the payroll information to the county office, picking up the payroll warrants and pay stubs (in the case of employees with automatic deposit), sorting the warrants by work location and distributing them to the sites and departments. The technician is also responsible for processing voluntary payroll deductions and wage garnishments and for distributing the applicable vendor warrants once they have been processed by the county office. This procedure lacks adequate internal controls because the payroll technician has access to the warrants after they are processed for payment.

A sound internal control structure requires job duties to be segregated to adequately 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 payroll warrants) and maintain the records of related transactions. Another component of a sound internal control system is to reconcile records with one another. In this case, that means reconciling the county office's final payroll report and the district's payroll records. The district does not have procedures for performing this reconciliation.

District staff indicated that employees are not required to sign for their payroll warrants or stubs and that the method of delivery is left to the individual site or department. Some of the methods include hand delivery of warrants to employees, placing warrants in employee mailboxes, or placing all warrants in a box and allowing employees to sort through them to find their own warrant or stub. These methods of disbursing payroll do not include adequate internal control procedures such as a documented chain of possession and a mechanism to help ensure that individuals who do not exist (also known as ghost employees) are not included in the payroll system. Requiring employees to pick up their checks or pay stubs in person and sign for them would provide for this.

For monthly supplemental payroll, the district requires employees to submit timesheets on or before the 20th of the month for payment on the 10th of the following month. Education Code Section 45167 requires that if an error is made in calculating, reporting or paying an employee's salary, a correction must be made within five working days after the error is discovered.

District personnel indicated some confusion regarding what constitutes employee error and what constitutes employer error. Interviews revealed that employer errors, such as a supervisor misplacing an employee's timesheet and turning it in late or timesheets lacking a supervisor's signature, were treated as an employee error. In these cases, employees received payment for services a month later than normal, which is 50 days after the payroll cutoff. Errors that involved an employee not submitting their timesheet or submitting an incomplete timesheet were also

treated as employee errors. Discussions indicated a perception that some individuals are allowed flexibility when making late submission of payroll information while others are not. Best practice is to establish, communicate and enforce firm payroll deadlines and accountability for all employees.

Numerous documents and items of information are needed to process payroll. These include but are not limited to initial hiring information, employment contract, notice to payroll form, California Public Employee Retirement System (PERS) or California State Teachers Retirement System (STRS) elections, federal and state income tax withholding information, voluntary deductions for items such as insurance premiums or retirement plans (403(b) or 457 plans), wage garnishments, and evidence of governing board approval for new hires and position changes. Good business practices include maintaining a separate payroll file for each employee. Staff indicated that the district does not maintain individual payroll files, and information that would normally be kept in a payroll file is instead placed in an employee's personnel file.

Employee compensation may be determined by salary schedules that the district has negotiated with employee bargaining units or by individual employment contracts. Individual contracts are commonly entered into with employees in upper management positions such as the superintendent, assistant superintendents and CBO. The individual negotiates these contracts with the district, and they become binding on the district when approved by the governing board. These contracts become public documents when submitted to the board. District staff indicated that payroll staff had not received and/or kept a copy of individual employment contracts. This lack of documentation being provided to the payroll department violates a major component of internal control: the retention of supporting documentation for all payments made by the district.

To memorialize initial hiring or changes to district positions, the district has developed a notice to payroll form, which provides information regarding the position, including the hire date, pay rate, daily hours, and a checklist to help ensure that the employee has provided all needed information such as their W-4 form. The notice also includes a section for informing the payroll technician regarding the date of the governing board's action. Staff indicated that written information regarding the board's approval is not routinely communicated to the payroll department and that the payroll technician is expected to process payment based on verbal information. This deficiency in written communication is a breach of internal control procedures because it allows payroll to be processed without written documentation.

The payroll technician position is responsible for employee attendance tracking. Employee attendance information is maintained manually, and copies of the absence tracking requests are filed by site at the district office. Because the QSS software is not used for employee attendance tracking, sick leave and vacation accruals are not printed on employees' pay stubs. This results in numerous inquiries from employees, who must call or e-mail the payroll technician to access accumulated leave balances. This can be disruptive and is an unproductive use of staff time. In addition, when inquiries are made about leave time requested or taken, extra time is needed for the payroll technician to locate the data in the current filing system.

Recommendations

The district should:

1. Review the processes and procedures performed by the payroll technician position and adjust them to ensure that duties are adequately segregated and reconciliation procedures are established and implemented.
2. Require employees to pick up and sign for their payroll warrants.
3. Establish firm payroll submission deadlines, ensure that all employees are notified of these deadlines in writing, and hold employees accountable for following them.
4. Establish an individual payroll file for each employee.
5. Immediately provide the payroll technician with a copy of the board-approved individual employment contracts for inclusion in the employee's payroll file.
6. Ensure that written confirmation of the board's hiring actions are included in the notice to payroll form and provided to the payroll technician.
7. Consider using the QSS system for employee attendance tracking, posting the leave balances on the employees' monthly pay stubs and filing absence tracking forms by employee.

Position Control

Salary and benefit costs are the largest part of any school district's budget, averaging more than 92% of the unrestricted general fund budget in unified districts statewide. Because of this, accurately projecting salary and benefit costs is critical.

A reliable position control system establishes positions by site or department and helps prevent over- or under-budgeting of staff by including all district-approved positions. In addition, a reliable position control system prevents the omission of routine annual expenses that are tied to district positions in the budget process, such as substitutes, extra duty pay, stipends, vacation payouts and column changes. Effective position control requires a single position control system that is integrated with other financial modules such as budget and payroll.

Position control functions must be separated to ensure proper internal controls. Adequate controls ensure that only board-authorized positions are entered into the system, that the human resources department hires only employees authorized by the board, and that the payroll department pays only employees hired for authorized positions. The proper separation of duties is a key factor in creating strong internal controls and a reliable position control system. Table 10 shows a suggested distribution of labor between the business and personnel departments to help provide the necessary internal control structure for position control.

Table 10: Suggested division of duties for position control

Task	Responsibility
Approve or authorize position	Governing Board
Input approved position into position control, with estimated salary/budget. Each position is given a unique number.	Business Department
Enter demographic data into the main demographic screen, including: Employee name Employee address Social Security number Credential Classification Salary schedule placement Annual review of employee assignments	Personnel Department
Update employee benefits Review and update employee work calendars	Business or Personnel Department
Annually review and update salary schedules	Business Department
Account codes Budget development Budget projections Multiyear projections Salary projections	Business Department

Carrying forward position control data from the current fiscal year to the budget year provides a starting point for developing a district's budget and should be completed early in the cycle. Position control files for the budget year can then be updated to eliminate positions as needed, add new approved positions, change statutory and health and welfare benefit rates, and make any other adjustments that will affect salaries and benefits for the budget year. A fully functioning position control system helps districts maintain accurate budget projections, employee demographic data and salary and benefit information. Integrating the position control system with the financial system's payroll and budget modules and using it to update the budget at each reporting period is a best practice.

Although the district started implementing the position control module in its QSS accounting software during the last two years, implementation has not been completed. Staff indicated that both the personnel department and the payroll technician maintain individual Microsoft Excel spreadsheets for their specific needs but that there is no complete position control system in place. The district uses a monthly payroll report to extrapolate salary and benefit information for its budget projections.

The district uses a staff position requisition form to initiate new positions or changes to existing positions and requires multiple signatures to execute these changes. When an individual is hired, a notice to payroll – employee information form is completed. The personnel technician enters the employee demographic information into the QSS system and the payroll technician enters the payroll information. The personnel and payroll technicians each have access to both the demographic and payroll screens of every employee. Allowing one person to access all financial system software screens needed to create and pay employees does not provide proper separation of duties because a ghost employee could be created and paid without the district's knowledge.

Although staffing formulas can help determine the number of employees needed in each classification, and a staff requisition form can help control the hiring process, these controls can often be circumvented by site or department personnel, resulting in large and unbudgeted increases in salary and benefit costs. Salary and benefit costs are often higher than projected because administrators and department managers add time to positions without obtaining prior approval.

Staff indicated that the district's sites and departments have added time to positions after the governing board reduced the assigned daily hours.

One of the expenditures associated with classified employees is the payment of a percentage of each qualified employee's salary to PERS. The payment is divided between employer and employee, with the employer contributing 13.02% of salaries and the employee contributing 7%. For fiscal year 2010-11, the employer portion is further divided between the regular PERS contributions of 10.707% and the PERS reduction of 2.313%. The PERS reduction amount is reported as a reduction to the revenue limit calculation; however, it is not required to be paid on salaries associated with federal programs. A review of the district's Payroll 2nd Interim 2010-11 spreadsheet revealed the following:

- The PERS and PERS reduction percentages had been rounded to 10.71% and 2.31%, respectively. Although the differences in the percentages and resulting dollar amounts are small, the district uses this spreadsheet when making budget and fiscal decisions so it should be as accurate as possible.
- Many classified positions funded by federal resources did not include the cost of PERS benefits. This may be because the positions are not assigned the required number of hours to qualify for PERS benefits. However, this could not be verified with the documents provided. Thus a review of PERS benefits for all classified positions is needed.
- All federally-funded classified positions to which PERS benefits were applied also include an amount for PERS reduction. Because this spreadsheet is used for budget development, removing the PERS reduction would result in a reduction of $6,324 to the general fund and $4,625 to the cafeteria fund budgets. Although these amounts are relatively small, it is important to have the most accurate information available when making budget decisions.
- One classified position with a salary of $38,852 is coded to state special education funding (resource 6500), which generates a PERS reduction expense of $899. If it is allowable to code this position to the federally funded special education program (resource 3310), the district would save the PERS reduction cost associated with this salary.

Recommendations

The district should:

1. Immediately resume efforts to implement the QSS position control module so that it contains all of the district's active positions, open positions, retiree health and welfare benefit costs and routine annual expenses for items such as substitutes, extra duty pay, stipends, vacation payouts and column changes.
2. Provide read-only access to the personnel technician for payroll screens and to the payroll technician for employee demographic screens.
3. Review its policies and procedures related to changes in assigned work hours, provide the policies and procedures to all employees in writing, and hold employees accountable for following them.
4. Review all classified positions to ensure that PERS benefits are being applied correctly.

5. Remove the budget for PERS reduction from federally funded programs.

6. Investigate whether it is allowed to change the coding of a classified position from the state-funded special education program to the federally funded special education program, and do so if allowable.

Purchasing

Numerous district staff members are involved in processing purchase orders (POs). School sites and departments complete PO forms and send them to the business office clerk. The clerk verifies that funding is available in the account, forwards the purchase order to the CBO for signature, enters the information into the district's financial software system, sends the PO to the vendor, and forwards a copy to the respective school site or department. The QSS financial software alerts staff if there is not enough money in the line item budget for the purchase; in such cases a budget transfer is completed at the district office.

Staff indicated that purchase orders are not always sent to the assistant superintendent of educational services for approval when categorical funds are used. Routing purchase requests involving categorical funds to the assistant superintendent for approval before sending the PO to the CBO for final approval would streamline the PO process.

A review of the 2010-11 financial activity and vendor history reports indicate that numerous purchases are made without using the purchase order process. Best business practices include the completion and approval of POs prior to each purchase to ensure that the necessary funds are encumbered and to protect against over expenditure. The use of purchase orders, especially for large contracts, also helps to provide a tracking mechanism in the financial software system to ensure that all district obligations have been properly accrued at year end.

Purchase order processing could also be simplified by providing sites and departments with online access to the financial software system and using the software's electronic purchase requisition capabilities.

Credit Cards

Credit cards are typically issued to employees so that they can purchase from vendors that may not accept purchase orders, or to expedite purchases such as conference registration fees. It is best practice to provide a purchase order (for encumbrance) with and seek prior approval for all credit card purchases. Credit card use should be closely monitored to ensure conformity to policies and procedures, and having staff that are provided with district credit cards read and sign a credit card user agreement can help prevent misuse. An effective agreement will require the individual to acknowledge receipt of the card and agree to the district's terms for its use and for reimbursement procedures. A sample user agreement is attached as Appendix A to this report.

The district has issued five credit cards to district office administrators, including the superintendent, CBO, assistant superintendents and special education director. The card used by the business office has a limit of $500,000 and the other four credit cards have limits of $10,000 each. These limits are excessively high.

Recommendations

The district should:

1. Ensure that the assistant superintendent of educational services approves all purchase orders involving the use of categorical funds.
2. Ensure that purchase orders are completed and approved prior to each purchase.
3. Consider providing online access to the district's financial software system to site and department staff who are responsible for processing purchase orders, and consider using the online purchase requisition process.
4. Immediately reduce the limits on each district credit card to a more reasonable amount, such as $2,000.
5. Consider requiring that employees obtain a purchase order and have it approved prior to using district credit cards for a purchase.
6. Require employees who are provided with a district credit card to read and sign a credit card user agreement.

Accounts Payable

The CBO supervises the business office clerk who is responsible for processing accounts payable transactions. The clerk organizes and assembles the documents needed for accounts payable, including purchase orders, invoices and packing slips. The county office processes the warrants and returns them to the district for further processing, mailing and distribution. The business office clerk matches the warrants received to the county's batch report and mails the warrants to the respective vendors. Effective internal controls and separation of duties would prevent the same person from initiating, processing and mailing transactions, and from posting the transaction in the accounting records. The district's current system allows the business office clerk to have custody of the warrants once they have been issued by the county office. No control is in place that would detect whether the clerk processes the warrants appropriately.

The business office technician is also responsible for setting up new vendors in the district's financial software system. This does not provide for proper internal controls because one employee has access to the financial system screens required to create vendors and the screens required to pay vendors.

The district uses an alphabetical filing system for accounts payable documents. However, best business practice includes having a separate accounts payable file for each vendor. This type of filing system allows easier access to vendor payment information.

The business office clerk has received training regarding accounts payable duties from other district office staff members but has not been provided with training from an outside source. Best business practices include training from other sources such as the county office or the California Association of School Business Officials (CASBO) to help ensure that the district is following current laws and regulations and to provide staff with networking opportunities.

Revolving cash funds are typically maintained by districts for instances where a payment must be made immediately and the district does not have the time available to process the payment

through the normal accounts payable or payroll process. The maximum amount allowed in any district's revolving cash fund is governed by Education Code Section 42800. Staff indicated that the accounting technician has access to the revolving fund check stock, is a signer on the account and reconciles the monthly bank statement. While the account requires that two signatures be included on each check, proper internal controls would provide for further segregation of duties to ensure that signers on the account are not also able to write checks and/or reconcile the monthly statement as this process provides an opportunity for checks to be altered and not discovered timely by the district.

Travel Expenses

The district uses a request for conference approval form for employees who wish to attend conferences, trainings and workshops. The attendance request form authorizes the employee to attend and estimates the costs associated with the event. Staff indicated that the process for approval now requires prior authorization by the CBO. After the conference, the employee completes a travel expense report form to request reimbursement for expenses incurred. Actual expenses are itemized, and the form indicates that original receipts must be attached for all expenses. The district's AR 3350, dated August 15, 2001, authorizes a maximum per diem meal reimbursement of $35 for in-state travel more than 24 hours in duration and $25 per day for in-state travel lasting less than 24 hours. However, the request for conference approval indicates a $45 per diem limit for meals. In addition, the form specifies a rate of 51 cents per mile for travel while AR 3350 indicates that the rate shall be set annual by the governing board and was 32 cents per mile beginning in 2001-02.

Internal Revenue Service ruling 2006-56, dated November 13, 2006, requires organizations to track and record employee per diem meal reimbursements. Per diem reimbursements that are higher than the federal per diem rates must be included as gross wages on the employee's W-2. In addition, per diem rates cannot be used for non-overnight travel.

Many hotels offer a state government rate to LEA employees when they travel for school business. In addition, because the district's employees are considered government employees, hotels may waive the transient occupancy tax. If this is the case, the employee can fax or take with them a hotel/motel transient occupancy tax waiver exemption claim for governmental agencies. A sample of this form is attached as Appendix B to this report. Because the total amount saved during a fiscal year can be substantial, is best practice for employees to always seek these reduced rates and waivers when traveling on district business.

Recommendations

The district should:

1. Review and adjust warrant processing procedures to ensure that warrants do not return to the custody of the business office clerk after they are processed by the county office.
2. Ensure that individual employees do not have access to change the financial system screens necessary to create and the screens necessary to pay a vendor.
3. Review its filing procedures to ensure that the accounts payable filing system has individual vendor files.

4. Ensure that relevant outside training opportunities are provided to business office staff members.

5. Implement a system of checks and balances so that no single employee handles the revolving cash fund from initiation to reconciliation.

6. Update AR 3350 as needed and ensure that reimbursement rates for travel expenses comply with board policies and administrative regulations.

7. Confer with its independent auditors to determine if procedures for per diem meal reimbursements comply with IRS regulations.

8. Modify conference attendance procedures to require employees who make hotel reservations to inquire about the state government discount rate and the possible waiver of the transient occupancy tax.

9. Consider printing conference attendance policies and procedures on the back of the request for conference approval form to help employees comply with district policies and complete the form accurately.

Accounts Receivable

Cash is one of the most fluid assets held by any local educational agency because it can be transferred from one entity or individual to another without third party intervention. Because of this fluidity, safeguards are essential for accounts receivable transactions, including a sound internal control structure that segregates job duties to protect 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 related transactions.

Three positions in the business department process accounts receivable transactions. The payroll technician receipts funds daily and places the cash and stamped checks in a fireproof cabinet at the district office. The business office clerk deposits the funds into the revolving account approximately every two weeks. The accounting technician transfers the funds from the revolving account to the district's cash account at the county treasury and is also responsible for reconciling the revolving account. This is an appropriate division of duties; however, the district would benefit from correcting the following two items:

- Staff indicated that the fireproof cabinet is left unlocked during business hours. This severely diminishes the safeguarding of district assets.
- Deposits are made every two weeks, but making deposits at least weekly is a best practice and can help ensure that no cash is left in the office during weekends and holidays, thus helping to avoid the possibility of theft during these times.

Staff indicated that each school site handles its cash receipts differently. One school reported some segregation of duties while another reported that one employee receipts the funds, deposits the funds, writes checks, is a signatory on the account, and reconciles the associated student body (ASB) account bank statement. This lack of segregation of duties makes it possible for an employee to write a check, obtain signatures, alter the check and conceal that alteration.

The district's annual independent audit reports for fiscal years 2008-09 and 2009-10 included findings regarding ASB accounts, in particular the ASB's inability to provide cash receipt records to the auditors, the loss of computerized accounting records, and the lack of reconciliation of

bank statements to the accounting records (or book balance). Specifically, the audited financial statements dated June 30, 2009 noted that four out of the district's five schools were unable to provide auditors with cash receipt records, and prior year findings showed that the middle school's computerized accounting records had been lost and the high school was reporting a $2,271 difference between what had been reported by the bank and what had been recorded in the accounting records. The district reported that the middle school's account records had been reconstructed but offered no reason why cash receipts could not be produced or why the $2,271 difference existed in banking records.

The audited financial statements for the year ending June 30, 2010 reported a similar finding regarding the district's inability to produce cash receipts for ASB accounts. Of the district's five school sites, only the high school was found to be out of compliance; however, high schools typically process the vast majority of any district's ASB transactions because of the number of clubs and activities on a high school campus. Consequently, internal controls for high school ASB accounts are an area of great concern.

Recommendations

The district should:

1. Establish a procedure to ensure that the fireproof cabinet containing deposits is locked when not in use, and to limit the number of people who have access to the cabinet key.
2. Establish a procedure to ensure that deposits are made at least weekly and no later than the last workday of the week.
3. Review accounts receivable policies and procedures and provide a system of checks and balances so that no single employee handles a transaction from initiation to reconciliation, or has custody of an asset and also maintains the records for the related transactions.
4. Share audit findings with its school sites and follow up to ensure that all findings are corrected in a timely manner.
5. Develop accounts receivable policies and procedures for all sites to follow, provide in-depth training to applicable site staff regarding cash collection and deposit procedures, and conduct periodic internal audits of its schools' ASB accounts to monitor compliance.

Appendices

A. Sample Credit Card User Agreement

B. Sample Transient Occupancy Tax Waiver Form

C. Study Agreement

District Cal-Card Usage Policies & Procedures

Congratulations! You have been selected as a site/department for the District's CAL-Card Program. The broad intent of the program is to assist the District in allowing additional flexibility for your site/departmental purchasing needs. The card's intent is that it be used for conferences (advance approval for conferences must still be obtained through the Conference Attendance Form process and POs will be necessary for the items to be paid with the CAL-Card) and Internet purchases ***only*** at this time (POs must still be submitted and approved in advance of making the purchase in order to encumber the funds property). By accepting the attached CAL-Card and signing below, you agree as follows:

1. To read, review and abide by the terms of the attached Cardholder Guide.

2. To sign the back of the card and call U.S. Bank Customer Service at the telephone number on the front side of the card to activate. Be aware that you might be asked for your "CVV" numbers, which stands for "Card Verification Value." The "CVV" number is a three-digit number following the account number within the signature block on the reverse side of your card. You may also be asked for the following information:

    a. Single Purchase Limit:

    b. 30-Day Limit:

    c. Telephone Number Assigned to Card:

    d. Zip Code Assigned to Card:

    Once this has been accomplished, your card is ready for use.

3. To allow no one, other than yourself, to use the card and to retain physical custody of the card in a safe and secure location at all times.

4. To retain physical, hard copy proof of all purchases made with your card. In the event that the receipt cannot be located, you agree to notify me in writing of such circumstances. You further agree to include in the notification all facts surrounding the missing receipt as well as all documentation available to provide evidence of receipt of the merchandise. Due to audit requirements, recurring and/or frequent instances of missing receipts may result in forfeiture of your card.

5. To review, reconcile and sign your monthly statement immediately upon receipt but in no circumstances later than 5 days after receipt of the statement – our billing cycle date is the 22nd of each month and we typically receive statements around the 1st of the next month. You are also to provide a complete description of each item purchased on the appropriate description line of the monthly statement and attach the original receipts. The executed, reconciled statements should then be forwarded to me. The sooner these reconciled statements are processed and sent to me for review and then forwarded to Accounts Payable for payment, the larger the payment rebate received by the District and the larger your site's/department's portion of the rebate. For example, if the rebate was $100 based on total District purchases of $3,000 and your purchases totaled $600, your portion of the rebate would be calculated as follows: $600/$3,000 = 20% x $100 = $20.

Sample

6. You understand that should interest charges be incurred due to your failure to process your monthly statement in accordance with item number 4 above, those charges will be applied first to directly reduce your portion of the rebate and any remainder will be applied against budgeted amounts. Recurring and/or frequent instances of untimely submission of monthly statements may result in forfeiture of your card.

7. If, because of travel or extended leave, you are scheduled to be away for more than 5 days at the time you would normally receive the monthly statement, you agree to contact me so that we can make arrangements for your monthly statement to be processed on a timely basis.

8. Should there be an error on the statement, you agree to be responsible for the completion of the Cardholder Statement of Questioned Item form (CSQI) and forwarding it to the U.S. Bank Government Services address or fax number listed below. A copy of the CSQI is also to be included with your executed and reconciled monthly statement. Keep in mind that the District will loose its dispute rights if the CSQI is not submitted within 60 days from the cycle date.

   U.S. Bank Government Services
   P.O. Box 6346
   Fargo, ND 58125-6346

   Fax: (701) 461-3910

   Toll free: (800) 227-6736
   Outside the U.S., call collect: (701) 461-2020

   You further agree to attempt to resolve the dispute directly with the vendor and keep detailed records of those attempts. This documentation will be required by U.S. Bank and must be submitted along with the cardholder CSQI form.

9. Once disputes are resolved and you have received notification from U.S. Bank, you agree that you are responsible for instructing the Billing Office (Accounts Payble) to either apply a credit or certify a payment to the original Statement of Account where the dispute occurred.

   Purchases are to be for work-related expenses only. Please refer to page 7 of the Cardholder Guide for a list of Prohibited Purchases. Your CAL-Card has been programmed so that use of it for these Prohibited Purchases will be disallowed at the time of the transaction. Keep in mind that should you use the card for meals while traveling on District business, no alcohol can be purchased using the CAL-Card – ask your waitress for a separate bill and use another means for payment (e.g. cash or your personal credit card). Additionally, should you use the card for business related meals while traveling, your per diem will be adjusted accordingly. For example, if you were to receive 3 complete days of meals ($43/day x 3 = $129) and used the CAL-Card for lunch (spending $16 on that lunch), the per diem payable to you at the end of the trip would be $113 ($129 - $16). In the event that you received the per diem in advance, you would be required to submit your personal check for all meals purchased at the time of submission of your executed and reconciled statement.

   Use of the CAL-Card for personal items will result in termination of your CAL-Card privileges and confiscation of the card. Should you inadvertently use the CAL-Card for a personal charge, you should notify me immediately (e-mail or voice mail messages are perfectly acceptable given you may be out of town at the time) and payment for the charge should be submitted upon your return.

10. To immediately report lost or stolen cards to U.S. Bank Government Services at the number provided in the Cardholder Guide. You are also to immediately notify me via telephone or e-mail of such loss.

Sample

11. Likewise, any fraudulent activity must be immediately reported to the U.S. Bank Government Services -- see your Cardholder Guide for contact information. The activity must also be reported to me with the following particulars:

    - The account number on which the fraud has been detected;
    - The date and dollar amount of the fraudulent transaction(s);
    - The date the cardholder first contacted, or was contacted by, U.S. Bank regarding the fraud;
    - The name of the U.S. Bank Fraud Representative investigating the account; and
    - The new account number (if established).

    You should reconcile your Statement of Account by circling any unauthorized items and writing "fraud" next to the item(s). Deduct the fraudulent charges from the total amount owed and process the statement as usual. Do not submit a cardholder CSQI for fraudulent transactions.

    You are also responsible to:

    - Monitor future statements for (a) any trailing fraudulent charges; and (b) credits for previous fraud charges; and
    - When the credit appears on the statement, provide written instructions on the Statement of Account for the Billing Office to apply the credit to the previous Statement of Account where withheld the payment(s) and/or fraudulent charge(s) originally appeared.

Again, welcome to the CAL-Card Program. We hope that you will find it to be a more convenient system to aid you in making purchases. Should you have questions or concerns, please do not hesitate to contact me.

I hereby acknowledge receipt of CAL-Card Number _____ and the Cardholder Guide. I also hereby acknowledge that I have read the foregoing and agree to the conditions therein.

_____ _____
Signature Date

Print Name: _____

Sample

HOTEL/MOTEL TRANSIENT OCCUPANCY TAX WAIVER EXEMPTION CLAIM FOR GOVERNMENT AGENCIES

Name: _____

Title: _____

Employed By: _____
District Name/Federal ID Number

Hotel/Motel: _____

Location: _____

Arrival: _____

Departure: _____

This is to certify that I, the undersigned, am a representative or employee of the school district indicated above. The district is an agency of the State of California. The charges for the occupancy at the above establishment on the dates set forth have been, or will be, paid for by such governmental agency, and such charges are incurred in the performance of my official duties as a representative or employee of the above-noted governmental agency.

I hereby declare, under penalty of perjury, that the foregoing statements are true and correct.

_____ _____
Signature of Employee Date

INSTRUCTIONS TO EMPLOYEE: Please check with the hotel/motel when making your reservations to see if they allow Transient Occupancy Tax Exemptions. If they do, complete this form and fax it to the hotel/motel either ahead of your arrival or, if acceptable to them, at the time of registration.

INSTRUCTIONS TO HOTEL/MOTEL: Please retain this form for your files in order to substantiate your tax report.

SCANNED

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

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
February 11, 2011

The FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT), hereinafter referred to as the Team, and the Kern County Superintendent of Schools hereinafter referred to as the COE, 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 COE has requested that the Team provide for the assignment of professionals to study specific aspects of the Southern Kern Unified School District's operations. These professionals may include staff of the Team, County Offices of Education, the California State Department of Education, school districts, or private contractors. All work shall be performed in accordance with the terms and conditions of this Agreement.

2. SCOPE OF THE WORK

The scope and objectives requested of FCMAT pursuant to the provisions of Education Code Section 42127.8 (d) (1) include the following:

A. Scope and Objectives of the Study

1) Kern County Superintendent of Schools would like to retain FCMAT to conduct an external and independent review of the Southern Kern Unified School District's 2010-11 general fund budget and develop a multiyear financial projection (MYFP) for the current and two subsequent fiscal years utilizing the district's 2nd Interim Financial Report as the baseline for the projection. FCMAT's Budget Explorer software will be used to prepare the MYFP. The MYFP will include a cash flow component for 2010-11 and 2011-12 to project the district's cash balances at the end of each fiscal year to assist in estimating cash flow shortages. The MYFP and cash flow analysis will also include the impact of other funds including alternative strategies for cash management from both internal and external sources.

2) The FCMAT Team will validate the district's budget assumptions and provide recommendations for expenditure reductions or revenue enhancements to assist the district in maintaining their financial solvency under AB 1200.

3) The FCMAT Team will review expenditures in the following funds for fiscal years 2008-2009 through 2010-2011 to ensure expenditures are appropriate and meet legal requirements. FCMAT review will be completed by examining a test sample of referenced documentation for district outside services contracts, invoices, bid documents, and any other necessary documentation required.

- Building Fund
- Capital Facilities Fund
- Special Reserve Fund
- Deferred Maintenance Fund

4) Conduct a review of the district's Business Department processes and procedures and provide recommendations for improvements if necessary, to improve the efficiency and productivity of the Department in the following areas;

- Budget Development and Monitoring
- Financial Reporting
- Internal Controls
- Payroll
- Position Control
- Purchasing including outside services contracts and bid award procedures
- Accounts Payable
- Accounts Receivable

The primary focus of scope points #3 and #4 is to provide KCSOS with reasonable assurance based on the testing performed that adequate management controls are in place. Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. Specific audit objectives will include evaluating the policies, procedures, and internal controls related to the Business Department.

B. Services and Products to be Provided

1) Orientation Meeting - The Team will conduct an orientation session at the COE to brief COE management and supervisory personnel on the procedures of the Team and on the purpose and schedule of the study.

2) Orientation Meeting - The Team will conduct an orientation session at the District to brief District management and supervisory personnel on the procedures of the Team and on the purpose and schedule of the study.

3) On-site Review - The Team will conduct an on-site review at the district office and at school sites if necessary.

4) Progress Reports - The Team will hold an exit meeting at the conclusion of the on-site review to inform the COE and district of significant findings and recommendations to that point.

5) Exit Letter - The Team will issue an exit letter approximately 10 days after the exit meeting detailing significant findings and recommendations to date and memorializing the topics discussed in the exit meeting.

6) Draft Reports - Sufficient copies of a preliminary draft report will be delivered to the COE and district administration for review and comment.

7) Final Report - Sufficient copies of the final study report will be delivered to the COE and district following completion of the review. The final report will be published on the FCMAT website.

8) Follow-Up Support – Six months after the completion of the study, FCMAT will return to the school district, if requested by the COE, to confirm the school district's progress in implementing the recommendations included in the report, at no cost. Status of the recommendations will be documented to the COE and district in a FCMAT Management Letter.

3. PROJECT PERSONNEL

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

A.	***Diane Branham***	***FCMAT Fiscal Intervention Specialist***
B.	***Margaret Rosales***	***FCMAT Consultant***
C.	***Julie Auvil***	***FCMAT Consultant***
D.	***To Be Determined***	***FCMAT Consultant***

Other equally qualified consultants will be substituted in the event one of the above noted 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:

A. $500.00 per day for each Team Member while on site, conducting fieldwork at other locations, preparing and presenting reports, or participating in meetings.

B. All out-of-pocket expenses, including travel, meals, lodging, etc. The COE 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 acceptance of the final report by the COE.

Based on the scope of work identified in section 2 A, estimated total cost is $18,000.

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

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

5. RESPONSIBILITIES OF THE COE AND DISTRICT

A. The district will provide office and conference room space while on-site reviews are in progress.

B. The district will provide the following (if requested):

1) A map of the local area
2) Existing policies, regulations and prior reports addressing the study request
3) Current or proposed organizational charts
4) Current and two (2) prior years' audit reports

5) Any documents requested on a supplemental listing
6) Any documents requested on the supplemental listing should be provided to FCMAT in electronic format when possible.
7) Documents that are only available in hard copy should be scanned by the district and sent to FCMAT in an electronic format.
8) All documents should be provided in advance of field work and any delay in the receipt of the requested documentation may affect the start date and completion date of the project.

C. The COE and district administration will review a preliminary draft copy of 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. The final report will be posted on the FCMAT website.

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

6. PROJECT SCHEDULE

The following schedule outlines the planned completion dates for key study milestones:

Orientation:	***February 24, 2011***
Staff Interviews:	***February 24-25, 2011***
Exit Interviews:	***February 25, 2011***
Preliminary Report Submitted:	***To be determined***
Final Report Submitted:	***To be determined***
Board Presentation:	***To be determined***
Follow-Up Support:	***If requested***

7. **CONTACT PERSON**

Name of contact person: Mark Fulmer, Assistant Superintendent of Business

Telephone: (661) 636-4276 FAX (661) 636-4533

E-mail: mafulmer@kern.org

Christine Lizardi Frazier, Superintendent Date 2/15/11
Kern County Superintendent of Schools

Anthony Bridges, CFE February 11, 2011
Deputy Executive Officer Date
Fiscal Crisis and Management Assistance Team