July 5, 2016

Holly Hermansen, Superintendent
Nevada County Superintendent of Schools
112 Nevada City Highway
Nevada City, CA 95959

Dear Superintendent Hermansen:

The purpose of this letter is to provide the findings and recommendations identified by the Fiscal Crisis and Management Assistance Team (FCMAT) following completion of fieldwork and document review conducted for the Nevada County Superintendent of Schools office (COE).

On January 6, 2016, FCMAT and the county office entered into an agreement for management assistance. The study agreement specifies that FCMAT will complete the following:

1. Conduct an organizational and staffing review of the COE's Business Services Division and Human Resources Division for all positions.

2. Evaluate current workflow and distribution of functions within and between the departments, and provide recommendations for improved efficiency, if any.

3. Review job descriptions for all department positions, interview staff, and make recommendations for staffing improvements or reductions, if any.

4. Review newly implemented internal control procedures and provide recommendations for improvements, if any.

FCMAT visited the county office on February 22-23, 2016, to conduct interviews, collect data and begin reviewing documents. County office staff continued to provide requested documents through March 2016.

Introduction

The Nevada County Superintendent of Schools has an elected county superintendent, a five-member elected county board of education, and serves approximately 60 students in alternative settings and special education. The COE provides a variety of support services to the nine school districts located in Nevada County. The COE also provides back office administrative and support services to five charter schools serving 1,140 students. In total, eight charter schools are authorized by the COE serving 3,633 students. The total 2014-15 enrollment for the county was 12,305, almost half of which were eligible

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for free or reduced-price meals, and just over 5% were classified as English learners. (All enrollment and statistics cited are 2014-15 from www.Ed-Data.org or DataQuest.)

Management Information System

During interviews and document review FCMAT noted a consistent theme around extensive manual processes and a lack of full utilization of the COE's management information system. This is due in part to not fully knowing the system's features and functions, the level of internal technical support required, the staff time to fully set up the system tables, and employees' dependence and comfort level on manual work-around processes.

The COE uses Quintessential School Systems (QSS) as its financial and human resources management information system. QSS is used by numerous county offices of education and school districts throughout California, including county offices of education neighboring Nevada. Districts in Nevada County also utilize the COE's QSS management information system for integration with the COE.

During interviews with COE staff members, FCMAT noted that many processes are paper driven and performed manually, which is inefficient and contributes to workload issues. The QSS system is not utilized effectively, with some staff believing it is not reliable in certain aspects. Specific concerns are the lack of utilization for benefits management and employee absence tracking, necessitating extensive monthly and annual manual work processes to produce and monitor related information. Of greater concern is the lack of system utilization for position control, which includes some basic human resources, budget and payroll integration. Each of these areas is discussed in more detail below.

<u>Benefits Management Module</u> – The QSS benefits management module allows a customer to set up benefit plans and packages, assign them to employees, update the payroll system and use various reports to track and manage benefit costs. When this system is integrated with the payroll system, it can create voluntary deductions based on the data. The system includes a reconciliation report to compare benefit records against the billing statements received from benefit providers. At the end of each fiscal year, the system will roll the records for each employee over to the next fiscal year, eliminating the need to re-enter this information annually. Tracking benefits in this manner can ensure compliance and reporting under the federal Affordable Care Act.

<u>Absence Tracking Module</u> – This module can accrue leave and record employee absences. Staff can identify a variety of leave groups for different types of employees such as teachers, management, and administrative staff. Each employee is assigned to their identified leave group that defines the classifications for accruing and recording absence transactions. Annually users can transfer over the prior year amount of each employee's sick leave and vacation balances, and reset balances such as bereavement or personal leave that are not typically allowed to be carried forward.

Implementing the absence tracking module can assist the county in accruing sick leave balances as required under the Healthy Workplaces, Healthy Families Act of 2014 (AB 1522). This legislation provides that certain employees, including substitute and temporary employees who work for 30 or more days within a year, are entitled to paid sick leave after their 90th day of employment. The employer must record employees' balances on their pay stub or a document issued with their pay stub, and must keep records of the hours earned and used for a period of three years.

<u>Position Control Module</u> – One of the major components of any local educational agency (LEA) budget is salary and benefits. For the COE, these are estimated to be 70.8% of its 2015-16 first interim report. Accurately projecting these costs requires a reliable position control system to prevent over- or under-budgeting for staffing expenditures. For position control to be fully functional, the system should be

integrated with other financial modules such as payroll and budget, and in the best of circumstances with the financial system to support encumbrances of salary and benefits.

Position control enables an organization to control and maintain staffing levels by focusing on authorized positions rather than number or names of employees. Position control can exist in a variety of manners from sophisticated integrated management information systems to Excel worksheets to a manual log for a very small LEA. The existence of a position control system is essential, and its nonexistence is considered a high risk factor in analyzing an LEA's fiscal health.

The COE payroll staff manually tracks each employee's salary, stipend(s), longevity, and funding source on an Excel spreadsheet referred to as an employee's Annual Data Sheet. This data sheet is used as part of the payroll department audit to ensure employees are paid accurately. Both human resources and the payroll department have paper driven processes that require significant manual efforts, which is inefficient and contributes to an increased workload in these departments.

At implementation, position control functions should be separated between the human resources and business departments to provide assurance of the following:

Only budget-authorized positions are entered into the system.

- Human Resources only hires employees for positions that have been authorized through the position control process.
- The payroll staff only pays employees hired by personnel and authorized through the position control process.

Proper segregation of duties is a key factor in creating strong internal controls and a reliable position control system. Internal controls help ensure efficient operations, reliable financial information and legal compliance. The human resources and business services departments are key areas where strong internal control systems must be implemented to initiate, approve and execute authorized staffing decisions. Position control is an important element of an LEA's internal control system.

The following table provides a suggested distribution of labor between the human resources and business departments that maintains a high level of internal control:

Assignment	Accountability
Position authorization	Board adopted budget
Enter authorized positions into position control with salary and benefits	Business Department
Input demographic data: Employee name, address, employee identification number, credential, classification, salary schedule placement and annual review information	Human Resources
Update salary schedules, work calendars and employee benefits	Business Department
Budget development, multiyear projections, salary projections and account code information	Business Department

Implementing the position control module and establishing new policies and procedures will require acceptance by the staff in the human resources and business services departments. This may be a difficult transition because the COE has established a practice of utilizing Excel spreadsheets, and those who have been trained to use them may be reluctant to change. On the other hand, while interviews with staff indicated they have great pride in their manual work-around processes, they are fully aware there are easier and more productive ways to handle personnel information through electronic management information

systems and position control features. The COE will need to obtain the necessary acceptance from both departments.

QSS has a position control module that can be integrated with payroll and budget development. While the initial task of implementing a position control system can encompass many hours of work, once developed the system will yield better productivity and budgetary information. Because the payroll department staff are all relatively new to their positions, and to lessen the burden on the staff, it may be wise to use an outside consultant for the initial setup, or support a payroll or human resources staff member in this role by providing coverage for that staff member's regular duties.

No matter which aspect or module of the management information system is fully implemented, the COE will need to invest time and effort in implementation and training. Adequate training must be offered to ensure staff is able to maintain and use position control once the initial data has been entered.

Internal technical support for QSS is likely maximized and expansion of the QSS management information system will require increased staffing.

Internally, the COE supports QSS operations and provides related technical assistance to its employees through one computer analyst. This same position supports school districts utilizing the COE system. Technical support includes provisioning users and their privileges (roughly 90 users), server maintenance and the in-process/recent migration from an HP 3000 to Linux operating environment. The incumbent in the position has served in a variety of COE business operations roles over 28 years and in the current role for 16 years. The QSS technical support role includes executing weekly and monthly routines for accounts payable batches and payroll processes, necessitating this employee's physical presence at precise times.

The computer analyst role is essential. The COE's business operations depend on this position to ensure accounts payable and payroll operations are executed, system backups and changes are implemented, and users have the necessary access to conduct their daily duties. This single person position has no backup and no cross-training options. The title and responsibilities of the position are outdated and understated as expanded on later in this letter.

Setting aside increased needs from potential system expansion, QSS technical support is likely maximized and will need to be increased. Any expansion of QSS will exacerbate the current overdependence on a single employee, exposing the COE to system reliability and security weaknesses. QSS expansion will require staff time, both temporarily and permanently, from multiple departments and functions. Increasing the internal QSS technical support will also provide important backup for essential system support for access, privileges, batch processing, and backup functions.

The COE should consider adding internal QSS technical support to develop processes to assist staff with their workflow and to adjust workflow to align with system features and functions and maximize system usefulness.

Management information systems can be manual or electronic. In today's complex and high volume environment, most county office processes are automated utilizing electronic management information systems. When such a system is not fully utilized (or the system is not fully functional), staff must create manual, paper-intensive data collection and reporting processes to meet the demands for information. Manual processes are almost impossible to maintain efficiently when multiple entities are being served, such as multiple departments in the COE and multiple districts. This is the COE's current environment.

While each of these processes has been fashioned and implemented to meet a need, they have created inefficiencies that contribute to staff workload issues. Two examples in human resources and payroll are

the payroll datasheets and the benefit sheets created and maintained manually for each employee.

The Annual Data Sheet is a manual workaround created by the payroll staff to track a variety of information about an employee including hours, amounts paid, stipends, longevity, professional growth, monthly pay data, vacation and leave accruals, use and balances, and benefit amounts. All of this data is critical in managing budget associated with a position and employee pay and benefits. Any good electronic management information system will provide this data in real time without manual effort. Employees interviewed by FCMAT cited other examples of manual and paper-intensive processes.

Recommendations

The county office should:

1. Fully implement the existing electronic management information system, including various modules for position control, advanced payroll, benefits, and absence tracking.

2. Fully adopt QSS features and functions so that the system is fully integrated in Nevada County schools.

3. Adopt a fully functioning position control system as the first priority.

4. Allocate additional internal resources for one-time setup processes, initial professional development, ongoing technical support and professional development related to the expansion of QSS use.

5. Establish new policies and procedures to outline the workflow process between human resources and payroll, and information sharing throughout the COE's operations to support the implementation of the QSS modules.

6. Increase the internal QSS technical support role by adding staffing resources to ensure current operational needs are met and to fortify system reliability and security operations.

7. Consider expanding the internal QSS technical support function to include developing processes to assist staff with their workflow and adjusting workflow to align with system features and functions.

8. Rely on the COE's QSS account manager for recommendations on process and timelines associated with the implementation of new modules.

Workplace Environment

This study was requested and undertaken during a period of transition for the COE's business and personnel functions. The chief business official (CBO) position had recently been vacated and a CBO hired but not yet started. A part-time interim CBO had been in place for several months and at least one key position – external district advisory – remained vacant. The director of fiscal services is a longtime COE employee but has served in the director role for less than a year. Recent personnel hiring decisions to fill other vacancies appeared to have taken a new direction, raising concern by existing employees about their opportunities for career advancement.

The superintendent indicated that a decision had been made to relocate many of the COE's operations to a recently acquired building that would foster an improved physical workspace for human resources and

business services, and allow all of the business functions to be consolidated at one location. Currently, the charter school support services function is located at a separate physical location apart from other business services functions.

The COE has also experienced growth in its alternative education and child-care services, and assumed social service programs that generate many financial transactions.

Every employee interviewed for this study showed a positive attitude and spoke in terms of the COE in uplifting terms. The degree of personal satisfaction with their work environment varied among those interviewed, and most commented on workload pressures and frustration with manual processes. However, all were complimentary of each other and their working relationships with their colleagues. Additionally, all talked about their personal pride of ownership of their work on behalf of the COE.

Several staff talked about the need to stay busy. Some mentioned the ability to laugh and enjoy their work, and a team effort to accomplish many jobs. Staff came to the FCMAT interviews prepared, evidencing the forethought and the importance they placed on this study.

Staff view the decision to acquire a new central office facility for the COE as very positive. Important considerations in designing the workspace include noise levels, privacy, functional proximity needs, and client perceptions.

Staff interviews and workspace observations made it clear that the staff need more privacy in their work areas. All staff spoke about the open office concept that they now work in and mentioned the noise levels and need to eliminate distractions. Additionally, several functions in both human resources and the business office require privacy to interact with clients who are visiting or on the phone. Many aspects of payroll, benefits and personnel functions are examples where privacy is an important consideration. Functional proximity needs are also important. Employee location and how processes flow can impact the effectiveness and efficiency in any office environment. Lastly, the COE human resources and business functions have multiple clients – internal and external – who are made more or less comfortable depending on the access and the layout of the office they visit. Human resources and payroll support more external clients who may walk in for services. Thus easy access is important.

Less obvious is the unique back office functions that the COE provides to charter school clients. These clients may not feel completely comfortable conducting their business in an open space with non-charter business functions within easy listening distance. Charter clients depend on a trusting and receptive environment. While relocating the charter back office support department to be close by the other business operations will be extremely helpful to the workflow, providing a separate work area will be important given their clientele.

All interviewed mentioned in one manner or the other a need for updated policies and written procedures to ensure consistency, better understanding of process and as a basis for training. Some employees mentioned the creation of their own procedures book simply out of necessity when they were new and learning.

These procedures include both internal COE processes and those at districts, especially where district processes are integrated with COE processes. An example was cited that pertains to both accounts payable and payroll procedures to ensure data quality of submitted information from districts. Staff observed that districts don't appear to routinely check their own work, creating double effort.

Accounts payable has seen marked improvement over time in its procedure documentation, but still lacks consistent and clear procedures for many topics, including those related to backup submitted by districts. Accounts payable was the subject of a grand jury report, which drove a review of procedures. Staff should

review the adopted procedures carefully to ensure they support the function and align with the ultimate goal of meeting the COE's accounts payable obligations.

It is essential that such written procedures are prepared and adopted for payroll. The personnel action form (PAF) was cited as a helpful tool in the process, but also presents a complex document distribution system to ensure everyone is in the loop and aware of personnel changes. As procedures are documented, they should also be reviewed for practicality and the standard efficiency/effectiveness evaluation. Some complexities such as the PAF distribution will improve with the full implementation of the COE's electronic management information system and the process development that is inherently required when a system is implemented.

An organization-wide effort was begun last year to update policies using the California School Boards Association's GAMUT policy services, but the effort lost traction due to the volume of changes required. Developing written procedures is time consuming but essential. This will require allocating already limited resources to develop written procedures, update policies and rework forms that are outdated.

Most interviewed talked positively about professional development opportunities. When FCMAT sought specifics, QSS was the most frequent professional training opportunity mentioned. While professional development on its use is essential, so are job-alike training opportunities that build an improved understanding of the work performed and a strong professional network in which to seek advice, helpful hints and solve problems. Job-alike trainings are typical in accounts payable, payroll, charter schools, closing the books and budget development, and are generally offered by organizations such as the California Association of School Business Officials, School Services of California, the California Charter Schools Association, FCMAT and others.

Cross-training exists in some areas but has not been a focus and was expressed as a need by several interviewed. Cross-training reduces risk in the organization when the primary party responsible for a task leaves or is otherwise not available. It is also essential for time sensitive processes including accounts payable and payroll, both examples of where several COE business services staff have experience and can step in.

The COE is a small office with limited staffing to accomplish its internal human resources and business operations, and external and district advisory services. Like most offices, the staff is made up of both long-term employees and relatively new hires. Tasks are divided up based on standard organizational definitions (e.g., accounts payable and payroll), historical approaches (e.g., special education) and skill level and fit. Turnover and leadership voids have left some staff without clear direction and adequate training. As noted above, the COE is also experiencing growing pains in programs and the resulting number of financial transactions. All of these circumstances have created an environment where uneven workload exists from person to person. Some feel overwhelmed at the amount of work; others are eager to learn and do more.

Below are four notable examples; however, the examples are not limited to these but extend throughout the human resources and business departments.

1. Accounts Payable – Commercial warrant production has doubled in accounts payable over the past 12 months without any corresponding increase in personnel. Data submitted by districts for processing and warrant generation must be audited and checked for Form 1099 coding, description, object code, etc. Documentation from districts varies widely, forms are outdated and other factors influence workload and efficiency.

2. Payroll – Payroll is impacted by general employment activity such as new positions and turnover of personnel. Like accounts payable, payroll handles both internal and external (district) transactions since the COE processes payroll for its districts. Questions were raised as to the outdated processes, quality of data from other sources (human resources in this case), and how much auditing should be performed to ensure that data submitted by districts is accurate. Payroll taxes and retirement reporting is a critical monthly task that has been delayed and filed late on several recent occasions.

3. Accountants – The two new accountant positions have been filled with highly skilled and competent employees. Based on qualifications, they possess the highest general accounting skill but are not fully utilized to impact the effectiveness and efficiency of the office.

4. Director of Fiscal Services – The newly appointed director of fiscal services is overwhelmed covering for vacant positions, and is unable to provide strong guidance and training to others who are ready and able to assist. Once the workload is moved from the director's desk to more appropriate desks, the director will be able to focus on leadership, training, coaching and overseeing the work of the business services department. This shift in attention is critical but depends on a fully staffed operation.

The new CBO will need to address these circumstances along with her colleague in human resources. Re-engineering processes as part of the full implementation of the electronic management information system will provide opportunities that are not available in the manual-intensive environment. Vacancies need to be filled as a priority. As solutions to this less-than-ideal environment are identified, attention should be paid to organizational structures and assignments that strengthen the system of internal controls.

Human resources has come a long way in a short time but is understaffed to provide even essential services. No staff expansion plans were identified at the time of the FCMAT visit for human resources.

Five years ago, the COE had no human resources department. It is now a full service department with 2.5 full-time equivalent employees (FTEs). The human resources staff is overwhelmed with current workload, and has a list of important jobs to do that are being ignored and postponed. Everyone associated with human resources reported that they consistently work hard, but system and information limitations and volume of work is a hindrance to efficiency.

Below are eight notable examples; however, the issues are not limited to these few examples but extend throughout the human resources department.

1. Management Information System – As previously discussed, the COE has not fully implemented its electronic management information system, which presents numerous challenges that staff has met with manual and paper-intensive processes that are inefficient. Historical employment information is lacking to answer questions about longevity, bumping rights, performance evaluations and leave management. Human resources is often form driven, and technology can make such processes more efficient and easy to perform with fillable forms and web-based access.

2. Affordable Care Act – In concert with business services, human resources is responsible for ensuring implementation and compliance with the Affordable Care Act. Inefficient monitoring systems are in place for the COE and its districts, but much organizational work remains to be done, including the separation of federal employer tax identification numbers for the COE and its districts.

3. Employee Orientation – A comprehensive orientation for new employees is sorely needed. There is no meaningful new employee training or orientation, leading to a lack of investment in employee success and fostering turnover. A companion new employee handbook(s) should be developed. Furthermore, general orientation sessions and specific job skills orientation (e.g., special education teacher aides) are necessary and should be consistently implemented.

4. Employee Exit Interviews – A debriefing program is needed for when employees separate from the COE; no exit interviews are conducted.

5. Policies – Personnel policies and procedures are missing or significantly outdated. Human resources policies must be kept current to reflect current laws, regulations, court decisions and best practices. The COE generally does not make policy distinction between represented and non-represented employees, creating conflicts between some policies and bargaining unit agreements.

6. Position and Hiring Control – Contrary to a strong position control and hiring process, hiring takes place without the involvement of human resources, as evidenced by reported discrepancies in offer of employment and start dates.

7. Problem Resolution – General process improvement and problem resolution is lacking. Gaps and problems are identified but the current approach dictated by a lack of staffing is limited to solving the immediate issue in isolation rather than a more permanent approach that incorporates change and leads to prevention. Isolated problem solving also fosters inconsistencies in the procedures staff use.

8. Workers' Compensation – The human resources manager handles workers' compensation claims. Routine processing, claim details and tracking, and employee services are more efficiently performed by a clerk or technician who makes regular status reports and brings concerns to the human resources manager. This also can be accomplished by a broader scope of services from the COE's third party workers' compensation administrator.

Recommendations

The county office should:

1. Utilize its planners to design a workspace that takes noise levels, privacy, functional proximity needs, and client perceptions into consideration.

2. Relocate the charter back office support department close to the other business operations to improve workflow, but in a separate work area.

3. Develop written procedures for the human resources and business services operations. Set aside the required time to develop the procedures, update policies and rework outdated forms.

4. Support and encourage staff to attend job-alike training opportunities to build an improved understanding of the work performed and to build a strong professional network in which to seek advice, helpful hints, and problem solving.

5. Look for regular opportunities to cross-train staff to limit risks associated with small office operations where some functions may be limited to one person.

6. Understand and adjust for the increased work volume in human resources and business services as programs and services expand.

7. Fill vacancies in business services, reassign work and adjust work levels so that organizational structures and assignments strengthen the system of internal controls.

8. Address the understaffing in the human resources department.

Organizational Structure

A county office's organizational structure should establish the framework for leadership and the delegation of duties and responsibilities. The COE should be staffed according to basic, generally accepted theories of organizational structure and the standards used in other school agencies of similar size and type. The most common theories of organizational structure are span of control, chain of command, and line and staff authority (Principles of School Business Management, Association of School Business Officials International).

The organizational structure helps management to make key decisions to facilitate student learning while balancing financial resources. The organizational design should outline the management process and its specific links to the formal system of communication, authority, and responsibility necessary to achieve the office's goals and objectives. Authority in county office settings originates with the elected governing board and the elected superintendent. The superintendent delegates authority and responsibility to the administration and staff.

The special education business services desk operates as a non-integrated island and does not have adequate internal controls.

Due to a historical structure that no longer is applicable, the internal special education support desk in business services performs payroll and accounts payable processes for the special education department instead of integrating those processes with all other COE operations. Until recently, the human resources function of special education was also performed on this desk. That has since appropriately moved to human resources.

The purchasing and accounts payable activity is small, and the payroll activity supports approximately 45 employees. Additionally, the special education employees are represented by bargaining units and other COE employees are not. However, this is not a sufficient reason to maintain a unique approach to payroll processing. A segregation of duties issue exists. An example of this internal control weakness is that the same desk orders supplies, materials and services for special education and also processes the accounts payable. A more serious internal control lapse existed with human resource and payroll functions being performed by the same person, but as noted, has been rectified.

Different guidelines and procedures are utilized for this single desk even though the process should be uniform with other accounting procedures. This also is inconsistent with a firm internal control process where standards are uniform and like procedures are aligned.

Furthermore, a recent staffing change has left the special education funding (AB 602) and SELPA business support uncovered. Those tasks are better consolidated with the special education support staff performing the internal COE budget. The internal special education support role also collects special education attendance data but does not fully utilize or fully integrate that data in other processes such as the funding model or CALPADS. Reassigning payroll and accounts payable functions to those applicable desks will facilitate assignment of the funding and SELPA business support to the internal special education desk. This reassignment cannot be accomplished without training.

The COE generally follows a hierarchy of associate superintendent, director, business services advisor, manager, coordinator, accountant, analyst, specialist, and technician. The classification of technician includes multiple steps and job titles. Because job descriptions are dated, it is not entirely clear which positions are management, supervisory or staff positions. However, supervisory responsibilities exist at the advisor, manager, and specialist levels, depending on the function. One advisor has supervisory responsibilities and one doesn't; the same is true for specialist.

Strategic leadership – Two key positions, the director of fiscal services and the human resources manager, are buried in daily transactional details and need to spend more time providing strategic leadership. This concept is highlighted in the job description for the director of fiscal services adopted in March 2015 with references to "provide strategic leadership," and "innovate and maximize resources" and should be repeated in an updated job description for the manager human resources.

Human resources – Human resources is overwhelmed with workload and unaddressed responsibilities. While not addressing the capacity or capabilities situation directly, it is apparent that the human resources classifications are at a lower level than similar responsibilities in the business services department. The classifications and rate of pay should be evaluated with regard to the marketplace and the value to the organization. For example, human resources is led by a manager, not a director, at a pay difference of $14,000 to $17,000 per year. The business services advisor classification is higher than the manager of human resources. FCMAT is not recommending that the COE establish matched positions but that a greater level of comparability be analyzed and considered for human resources. Likewise, the human resources technician is likely underclassified and is more comparable to an analyst or specialist level role. The technology coordinator (who functions as a technician) earns $8,500 to $10,150 per year more than the human resources technician.

Technology support – In addition to the recommendations made above regarding the QSS internal technology support role, the computer analyst job description is outdated and does not reflect the current function. Additionally, the COE should review the comparative value of this analyst position to other technology support functions.

Payroll – Payroll is one of two multi-classification functions in the COE business services department (charter support services is the other). A specialist leads the function with a payroll technician and a business services technician. The business services technician also provides general clerical support to the business services department, but interviews indicate she spends much of her time performing payroll functions. The COE should consider the hierarchy of this function and the mix of payroll technician versus business services technician. For example, it may be more appropriate to have two payroll technicians I or a payroll technician I and II reporting to the specialist lead.

Accounts payable –The accounts payable function is addressed elsewhere in this letter. Additionally, the

COE should consider the business services technician III classification regarding responsibilities and pay rate as compared to others in the department, including the business services specialist and payroll services specialist.

Several staff interviewed by FCMAT expressed a sense of hopelessness regarding promotional opportunities. The predominant example of this concern was the perceived recent change to require a college degree for advancement. Senior staff explained that the recent recruitment for accountants (the example cited) was not a reflection of an overall change in approach nor was it designed to preclude existing staff from having promotional opportunities. The accountant role was appropriately designated to have a qualifying degree or equivalent as a prerequisite, but as noted above, the positions need to be used to their fullest abilities.

Many employees expressed a desire for an organizational structure and hierarchy that offers more advancement opportunities. Structuring position hierarchy to provide for promotional opportunities within families of classifications and being clear as to the expectations of qualifications for those promotional opportunities is an essential component of organizational planning and communication with COE employees.

Every district and county office of education is required to submit a variety of student and teacher data to the state through the California Longitudinal Pupil Achievement Data System (CALPADS). The submissions are made at selected key milestone points during the course of the school year and at the end of the school year. Data submitted via CALPADS is vital to operation of the state's school finance and accountability systems. The quality of data is of paramount importance.

Staff in several different functions expressed concern about the perceived lack of a formal process to review the data for reasonableness and validation (data owners versus data processors) before it is submitted to the state. COE staff interviewed indicated little communication and coordination regarding data management activities. No regular meetings are held to coordinate work or resolve issues. Staff reported that manually collected and maintained data doesn't match with CALPADS and the two should be reconciled.

Best practices for data management relative to LEA staff involve roles and responsibilities, communication and collaboration, and ongoing professional learning. Good communication and coordination play an essential role in data management best practices. Individuals and the data management team should understand the role clear and timely communication plays in building common understanding, setting expectations, reducing confusion and frustration, reinforcing the importance of data to the organization, and building the sense of connection with other team members and the overall mission and goals of the organization.

It appears that no formal processes have been established to systematically analyze data in the information systems for omissions or errors, or to verify the consistency of data stored in multiple systems. Human resources reported that limited input is solicited, reviewed or discussed between human resources and those responsible for CALPADS submissions. CALPADS contains a variety of teacher- and staff-specific data that would normally originate and be verified by human resources as the data owners.

Staff reported that responsibility for attendance data consolidation is distributed to different departments and functions. For example, one department performs special education attendance data consolidation while a different department consolidates and reports alternative education attendance. Thus differences in approach and ultimate ownership of attendance data, which is the basis of program funding, may be issues.

The Nevada County Charter Cooperative consists of five charter schools. Each school offers a different educational philosophy or program. In addition to recognizing the differences between these five charters

and avoiding competition between them, the cooperative provides the following services:

- Economies of scale for efficiency of operation
- Collaborative and supportive opportunities for sharing and discussing effective practices
- Sharing of back office business services provided by the COE
- Sharing of student support services
- Regular meetings of charter school directors to share resources, strategies, policies and procedures

The uniform oversight by the COE as charter authorizer includes policies, procedures, and requirements for the charter cooperative that ensure economies of scale and effective educational practices.

Each charter works cooperatively with the other local charter schools through a formal agreement that created the charter cooperative. The individual schools each have their own governing agreement that delineates specific functions of the charter. Furthermore, each charter has a memorandum of understanding and a business services agreement with the COE, which specifies the relationship between the authorizer and provider of back office business services with the individual charter schools.

Nevada County Charter Services has been in operation for over 13 years and provides for the financial and compliance needs of five charter schools while supporting and encouraging the philosophy of each individual charter. Services include financial reporting, accounting, budgeting, payroll, accounts receivable, accounts payable, employee benefits management, retirement system reporting, attendance accounting, annual external audit arrangements, CALPADS, CBEDS, OPUS and risk management. This is a unique arrangement between the COE and several of its authorized charters.

The charter services division of the COE operates similar to school districts in the county and is sometimes viewed by others in the COE as if it is an entity outside the county office. The charter services division has five employees: three business services technicians, one part-time accountant (shared assignment with fiscal services), and a manager. A business services advisor manages the division and reports directly to the associate superintendent of business services. Integration of this department with COE business staff is necessary to create a seamless efficient system, and the consolidation of the COE offices provides a great opportunity to accomplish this. At the same time it is imperative for the charter services division to remain a separate department, as the laws, approach and independence of charter schools are different than those of the financially dependent school districts.

Each technician handles a different area of focus for the charter schools, e.g., payroll and benefits, attendance and CALPADS, accounts payable and human resources. Small divisions like these typically have little opportunity for cross-training but should develop and implement a plan to ensure that for every position at least one other employee can temporarily perform the key duties of that position. Desk manuals that include step-by-step procedures for each job duty would help provide a stronger system of internal control and a better understanding of each position's responsibilities.

Charter oversight is a separate responsibility of the COE and should not be confused with the obligations of the charter services division.

Oversight by the authorizer is essential to a charter school's long-term development and success. Effective academic and fiscal oversight is designed to improve and strengthen performance goals and academic progress, ensure best practices, and guarantee compliance with the few applicable regulations and laws or other binding commitments in the charter petition or memorandum of understanding. Document review, school site visits, fiscal review, written findings, and follow-up provide the structure and sup-

port for charter school operations and allow the COE, as authorizer, to evaluate a charter school's fiscal strength and performance against the standards and criteria set forth in Education Code Section 47605 and California Code of Regulations (CCR) Title 5, Division 1, Chapter 11, Subchapter 19. Education Code Section 47605(l) gives specific authority to the charter authorizing entity to periodically inspect the credentials of charter school teachers as part of its oversight responsibility. Education Code Sections 47604.3 and 47604.4 give county offices of education general authority to request information from a charter school and may request credential information under this general authority.

The COE has assigned a multidisciplinary team to conduct charter oversight. The team includes representatives from business, human resources and student services. A broad knowledge base also is needed with regard to curriculum and instruction. The COE has recently begun to utilize staff from the charter services division on the multidisciplinary oversight team. This is a beneficial practice given the in-depth knowledge about charter school operations that the charter services division possesses. However, caution needs to be exercised so that the distinction between charter services and charter oversight is not blurred, and that the trust developed between the charter school and the charter services division is not harmed by their inclusion in oversight. Charter school authorizers collaborated on a checklist for annual visits that is available on FCMAT's website. The areas covered are: essential compliance requirements, state and federal reporting, fiscal and business operations, educational program and ongoing assessment, facilities, governance, personnel and student services.

Recommendations

The county office should:

1. Integrate the payroll and accounts payable tasks for internal special education into the normal COE process.

2. Assign the funding allocation and SELPA business support activities to the special education business services desk.

3. Update job descriptions to clearly designate which jobs are management, supervisory or staff positions.

4. Structure director and manager positions to provide strategic leadership.

5. Evaluate human resources positions for greater comparability with business services and educational services positions that have like responsibilities.

6. Analyze the business services technician III position that has primary responsibility for accounts payable for comparability with other business services positions.

7. Build an organizational structure and hierarchy that offers advancement opportunities and clearly outline the expected qualifications for those opportunities.

8. Establish a formal process for the various data owners to systematically analyze data before sending it to the state as part of CALPADS submissions.

9. Encourage staff of the charter services division to regularly attend professional development opportunities focused on charter schools.

10. Retain the charter services division as its own department in business services, and take every opportunity to more efficiently integrate the processes and related functions in this department with business services.

11. Ensure that the fees charged by the charter services division cover the full cost of the services performed. Operate the division on a cost recovery model without support from the COE's general fund budget.

12. Ensure there are regular updates to the COE's standard, published evaluation tool for the annual visits to charter schools.

13. Ensure that the COE oversight role of charter schools is separate and apart from the charter services division.

Job Descriptions

Each job description in business services was reviewed. Appendix A is attached and represents the business services and human resources portions of the COE's organization as presented to FCMAT on the date of the study team's visit.

- Accountant (August 2010) – The accountant classification is the highest technical resource position in the fiscal services department without supervision responsibilities. The classification is purposefully broad and comprehensive to allow maximum flexibility. This is how the COE uses the classification; the three accountant positions each perform different job responsibilities. The job description should reflect the updated organizational structure including the director of fiscal services. Two of the accountants report to the director, and the third reports to the associate superintendent and/or the business services advisor. This job description should include more relevant and current language, including Governmental Accounting Standards Board (GASB) statements, California School Accounting Manual (CSAM), principles of and techniques related to implementing and using electronic management information systems (replacing references to the outdated term "data processing"), and Standardized Account Code Structure (SACS).

- Associate Superintendent of Business Services (November 2015) – This position leads the COE's business services department. An outside consultant filled a three to four month vacancy in this position, with some duties temporarily reassigned to the director of fiscal services. The new associate superintendent had been selected but had not begun work at the time FCMAT conducted its fieldwork for this study. The organizational chart shows that the following positions report directly to the associate superintendent of business services: charter business services advisor, external business services advisor, external accountant, director of fiscal services, computer analyst and technology coordinator. The job description is current.

- Business Services Advisor (August 1998) – This position reports to the associate superintendent of business services. The job description is dated and requires a complete overhaul to match the duties and expectations of the position. According to the COE organizational chart, this position has supervisory responsibilities.

- Business Services Advisor, Charters (June 2010) – This position reports to the associate superintendent of business services. Its duties include supervision and oversight of the three business services technician III charter support services positions. The job description should be updated to clarify the position's responsibilities. The job descriptions of the staff supervised by

this position differ from other like classifications in that they include human resource functions for client charter schools. However, this classification omits any reference to personnel related functions.

- Business Services Specialist – This position reports to the director of fiscal services. Its duties include assisting with internal COE budgeting, assisting with the initial reviews of district budget and interim report submittals (AB 1200 reviews) and other general assistance for the department. No job description was provided for this position. The pay range places the job in proximity to a specialist.

- Business Services Technician II (August 2013) – Like other business office job descriptions, this position most likely should be updated to reflect the current organizational structure reporting to the director of fiscal services. However, this is a generalist classification and the direct report could be the associate superintendent, director or even one of the specialist classifications depending on where it is placed in the organization. This single employee classification works primarily in the COE payroll function and also performs some general duties to support the business services department. This position reports in a dual role to the director of fiscal services and the payroll services specialist. Its duties include maintaining employee vacation/ leave accruals, assisting with payroll auditing, accounting for accounts receivables, serving as the business office receptionist, filing and various daily business office functions. Information shared with FCMAT indicates that this position heavily supports the payroll function, spending as much as 90% of their time on these duties.

- Business Services Technician III (August 2004) – The classification is purposely broad and comprehensive to allow maximum flexibility based on organizational needs. One position with this classification reports to the director of fiscal services. The job description distinguishes this classification as "advanced working level" but then uses the term "assists" multiple times in the example of duties. The duties for the position responsible for accounts payable include internal and external COE accounts payable, external auditing of districts' payables, maintenance of vendor 1099s, and sales use tax reporting. Despite the job description, the incumbent in this role is the primary party for the accounts payable function, not "assisting" with the function. Based on FCMAT's review and the information provided, both the complexity and the volume of work have grown significantly in recent years. Careful analysis should be done to determine if the work performed justifies a reclassification, new classification or other adjustment. The job description is generally dated.

- Business Services Technician III, Charter Support Services (April 2007) – This job description also is an "advanced level classification" and then inconsistently uses the term "assists" multiple times in the example of duties. This function serves as the back officer provider of services to charter schools, and is more closely related to functions seen in school districts rather than county offices. The job description differs from the business services technician III with the inclusion of a reference to "personnel" consistent with human resources functions performed by the incumbents for their charter school clients. The only place in the job description where charter schools are referenced is in the job title. The description is generally dated and should include more distinguishing characteristics related to services for charter schools. Some functions performed by the incumbents include duties unrelated to the job description, including coordinator for state testing for the COE.

- Computer Support Analyst (November 1998) – This position reports to the associate superintendent of business services. The job description is extremely outdated in the use of

terminology and scope of responsibilities. The incumbent in this single position classification performs duties that have greater complexity and importance than the job description defines. Current terms, work requirements, technical knowledge, training facilitation and user provisioning need to be incorporated into the classification. The title is misleading and should be updated to reflect the nature of the work, e.g., management information system analyst.

- Director of Fiscal Services (March 2015) – The following positions report directly to this position: payroll services specialist, payroll technician I, business services technician II, special education accountant, accountant, business services specialist, and accounts payable. This position was created and filled in March 2015. Any overlapping functions with the associate superintendent of business services should be removed, such as the evaluation of the business services staff who report directly to the director of fiscal services. While it is given that management positions have broad responsibilities based on organizational needs, adding the clause "and other assigned duties" would support flexibility and new tasks.

- Payroll Services Specialist (October 2013) – This is the lead payroll position in the COE serving both internal and external customers. The job description for this position indicates it is under the immediate supervision and direction of the business services advisor, a position that no longer exists. This should be updated to reflect that the position reports to the director of fiscal services. This position has evolved over time in complexity, with significant task/time demands impacting the workload. A monthlong time analysis of the duties performed each day would help the COE to assess and develop a stronger understanding of the time required for the various duties assigned to this position. It may be that some duties could shift to one of the accountant positions.

- Payroll Tech I (July 2014) – Payroll tech I duties include preparing and processing payroll, auditing school district payroll, processing voluntary deductions, establishing direct deposits, processing W-2s and maintaining other payroll related records. The job description for this position indicates that it is under the direction of the payroll analyst, a position that no longer exists, and under the general supervision of the associate superintendent of business services which, while true, is dated given the creation of the director of fiscal services position. This should be updated to reflect the current organizational structure.

- Technology Coordinator (November 2006) – There is a discrepancy between the job description and the work that the incumbent in this position performs. As with most technology related job descriptions, this one is extremely outdated. The dated aspects include both the terminology and the scope of the work to be performed. Based on FCMAT's interviews, the incumbent in this classification functions more as a technician and not as a technology coordinator or leader. This does not reflect the work performance of the incumbent, but reinforces the variance between the job description and the duties actually performed.

Each job description in human resources was reviewed and FCMAT's comments are as follows:

- Human Resources Manager (April 2014) – The human resources manager has overall responsibility for the COE's personnel functions, except those provided through the charter support services function to charter schools. The position reports to the county superintendent. The job description is generally adequate except that there is no mention of employee benefits administration, including workers' compensation. Based on interviews, FCMAT understood

that benefits administration is a human resources function that is supported by staff in business services.

- Personnel Technician (November 2012) – This position is also referred to as human resources technician and reports to the human resources manager. Both the reporting relationship (to a personnel analyst instead of the human resources manager) and the classification title (the use of personnel compared to human resources) are inconsistent in the job description and should be updated.

- Support Services Secretary II (June 2015) – This position reports to the human resources manager and is split half-time (4 hours per day) with educational services. The job description is appropriately broad and encompasses a variety of secretarial support services requiring independent judgment. The incumbent, when serving in the human resources department, performs higher-level functions than those listed in the job description.

Recommendations

The county office should:

1. Review and update job descriptions to ensure consistency, currency, organizational structure, proper terminology, correct reporting relationships, supervision responsibilities where applicable, and standard language regarding abilities, requirements and compliance with the Americans with Disabilities Act.

2. Perform time analysis for one month for several classifications prior to updating the job descriptions to ensure that they accurately reflect the scope and mix of duties. Consider reclassifications as opposed to updates for some job descriptions.

3. Provide each staff member with a copy of his or her current job description, and establish a practice to do so for all newly hired or promoted personnel.

Staffing

The COE is experiencing growth in programs and services. This, coupled with vacancies and turnover, presents the COE with what is likely a combination of permanent and temporary strains on staffing. The workload is uneven and the lack of a fully utilized electronic management information system has contributed to burdens on staff that lead to inefficiencies and ineffective processes, and a dependence on manual work-arounds to manage the business office and human resources functions.

Through interviews and observations, FCMAT identified the following areas for staffing improvements:

- Internal QSS technical support – The internal QSS technical support is maximized and will need to be increased. Any expansion of QSS will exacerbate the current overdependence on one employee, exposing the COE to system reliability and security weaknesses. Expansion of QSS will require an additional permanent employee. This also will provide important backup to support access, privileges, batch processing and backup functions. This employee will need to help develop processes to assist staff with their workflow and to adjust the workflow to align with system features and functions and maximize system usefulness.

- Accounts payable – Commercial warrant production has doubled in accounts payable over the past 12 months without any corresponding increase in personnel. Additionally, new procedures in accounts payable place a heavy burden on the COE staff to validate data submitted by districts for processing and warrant generation. Examples include auditing and checking for Form 1099 coding, description, and object code. Documentation from districts varies widely, forms are outdated and other factors influence workload and efficiency. The accounts payable function for special education is performed on the special education support desk and should be consolidated with all other COE accounts payable activity in accounts payable. This move will further burden the one business services technician III. An additional permanent part-time or full time employee is needed.

- Human resources – There is simply no substitute for a well-run human resources division in an organization. The human resources staff is overwhelmed with current workload, and has a list of important jobs to do that are being ignored and postponed. The lack of a fully implemented electronic management information system presents numerous challenges that staff has met with inefficient manual and paper-intensive processes. System and information limitations and volume of work hinder the department. While improving the use of the electronic management information system will help tremendously, it will not solve all the issues found in human resources. Only additional permanent staffing will resolve these. While an exact number is difficult to determine because of the variable related to the management information system, a minimum of one and likely two FTEs at various responsibility levels are needed.

- At the time of FCMAT's visit to the COE, at least one FTE vacancy existed in business services (business services advisor, external). The COE should fill this vacancy from promotional or external hiring means as soon as practical.

Through interviews and observations, FCMAT also identified the following area for reassignment:

- Internal special education support desk – This desk in business services performs payroll and accounts payable processes for the special education department instead of integrating those processes with all other COE operations. These functions should be reassigned to payroll and accounts payable. With the reassignment of these tasks to a more appropriate desk (with related assignment and/or staffing adjustments in the receiving functions) the special education personnel will have more capacity to absorb the roles and responsibilities of special education funding and SELPA business support. At the time of FCMAT's visit, those tasks were essentially uncovered due to a prior vacancy that was filled but for which the position was realigned.

Recommendations

The county office should:

1. Add at least one full time equivalent computer analyst or closely related position for internal QSS technical support.

2. Add at least one-half FTE business services technician I or II to assist the existing business services technician III, and consider creating a lead role classification for the business services technician III.

3. Add at least one FTE human resources technician. If a second position is required, create a new position that provides a career ladder opportunity in human resources to the technician level.

4. Fill the business services advisor, external position, and fill future vacancies promptly.

5. Reassign payroll and accounts payable duties from the internal special education support desk to their respective functions, and place responsibilities for special education funding and SELPA business support with the internal special education support desk.

Internal Controls

Internal controls are the principal mechanism for preventing and/or deterring fraud or illegal acts. Effective internal control processes provide reasonable assurance that a district's operations are effective and efficient, that the financial information produced is reliable, and that the organization operates in compliance with all applicable laws and regulations. Internal control elements provide the framework for an effective fraud prevention program. An effective internal control structure includes the policies and procedures used by staff, adequate accounting and information systems, the work environment, and the professionalism of employees.

Organizational structure is a critical element of the internal controls system. An organization establishes control over its operations by setting goals, objectives, budgets and performance expectations. Several factors influence the effectiveness of internal controls, including the social environment and how it affects employees' behavior, the availability and quality of information used to monitor the organization's operations, and the policies and procedures that guide the organization. Internal control helps an organization obtain timely feedback on its progress in meeting operational goals and guiding principles, producing reliable financial reports, and ensuring compliance with applicable laws and regulations. Internal control provides the means to direct, monitor, and measure an organization's assets and resources and plays an important role in protecting it from fraud, abuse, or misappropriation.

The following is a partial list of common deficiencies and omissions that can cause internal control failures:

- Failure to adequately segregate duties and responsibilities related to authorization.

- Failure to limit access to assets or sensitive data (e.g. cash, fixed assets, personnel records).

- Failure to record transactions, resulting in lack of accountability and the possibility of theft.

- Failure to reconcile assets with the correct records.

- Unauthorized transactions, resulting in skimming, embezzlement or larceny.

- Lack of monitoring or implementation of internal controls by the governing board and management, or because personnel are not qualified.

- Collusion among employees where little or no supervision exists.

A system of internal controls consists of policies and procedures designed to provide the governing board, county superintendent and management with reasonable assurance that the organization achieves its goals and objectives. Traditionally referred to as hard controls, these include segregation of duties; limit-

ing access to cash; management review and approval; and reconciliations. Other types of internal controls, typically referred to as soft controls, include management tone; performance evaluations; training programs; and maintaining established policies, procedures and standards of conduct.

The internal control environment establishes the moral tone of the organization. Though intangible, it begins with the leadership and consists of employees' perception of the ethical conduct displayed by the governing board, county superintendent and executive management. The control environment is a prerequisite that enables other components of internal control to be effective in preventing and/or deterring fraud or illegal acts. It sets the tone for the organization, provides discipline and control, and includes factors such as integrity, ethical values and employee competence.

Control activities are a fundamental element of internal controls, and are a direct result of policies and procedures designed to prevent and identify misuse of a district's assets, including preventing any employee from overriding controls in the system. Control activities include the following:

- Performance reviews, which compare actual data with expectations. In accounting and business offices, this most often occurs when budgeted amounts are compared with actual expenditures to identify variances, and followed up with budget transfers to prevent overspending.

- Information processing, which includes the approvals, authorizations, verifications and reconciliations necessary to ensure that transactions are valid, complete and accurate.

- Physical controls, which are the processes and procedures designed to safeguard and secure assets and records.

- Segregation of duties, which consists of processes and procedures that ensure that no employee or group is placed in a position to be able to commit and conceal errors or fraud in the normal course of duties. In general, segregation of duties includes separating the custody of assets, the authorization or approval of transactions affecting those assets, the recording or reporting of related transactions, and the execution of the transactions. Adequate segregation of duties reduces the likelihood that errors will remain undetected by providing for separate processing by different individuals at various stages of a transaction, and for independent review of the work.

Each person in an organization is responsible for internal control in some capacity because nearly everyone either produces information used by the internal control system or takes action to implement organizational control. Further, each individual should take responsibility for appropriately communicating problems in operations, noncompliance with policies, or illegal actions. Ultimately, internal control should pervade every level of the organization; however, county administrators and program managers, governing board members and the county superintendent, and auditors have particular roles to play.

FCMAT did not conduct an internal control audit and the team's observations were made in the context of interviewing staff, personal observations and a review of documentation provided by the COE.

Segregation of Duties

Adequate internal accounting procedures should 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, and maintain the records of its transactions.

Internal special education support desk – This function operates as a non-integrated island and does not have adequate internal control. The desk performs payroll and accounts payable processes for the special

education department instead of integrating those processes with all other COE operations. Until relatively recently, the human resources function aspect of special education was also performed on this desk. That has since moved to human resources.

This approach to payroll and accounts payable processing creates a segregation of duties issue. An example of this internal control weakness is that this same function orders supplies, materials and services for special education and also processes the accounts payable. A more serious internal control lapse existed with human resources and payroll functions being performed by the same person, but as noted, the human resources duties have been appropriately moved to human resources. Furthermore, different guidelines and procedures are utilized for this single desk even though the process should be uniform to other accounting procedures. This is inconsistent with a formal internal control process where standards are uniform and like procedures are aligned.

Human resources – Human resources is a small 2.5 FTE department where clear segregation of duties is not always possible due to its size. However, clear delineation of duties is necessary to ensure that those approving the posting of open jobs are not the same ones fully responsible for the hiring process and assignment of personnel to fill the opening. A strong position control process will help alleviate some of the segregation of duties concerns in human resources.

Staff Cross-Training
More than one employee should be able to perform each job. Each staff member should be required to use accrued vacation, and another staff member should be assigned to perform those duties at that time. Inadequate cross-training is often a problem regardless of the size of an organization.

Internal QSS technical support – The computer analyst role is a key position. The COE's business operations is dependent on this single position to ensure accounts payable and payroll operations are executed, system backups and changes are implemented, and users have the necessary access to conduct their daily duties. This position has no backup and cross-training options are not currently available. The position title and responsibilities are outdated and understated. The current QSS technical support is likely maximized and there is over-dependence on a single employee, exposing the COE to system reliability and security weaknesses.

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

Accounts payable and payroll – County offices serve a unique role in processing accounts payable and payroll transactions for themselves and their districts. While there is no question about the COE's responsibility to maintain a system of checks and balances for its internal transactions, there is a constant balancing act of what the COE is obligated to do in maintaining a balance on behalf of its districts. The primary responsibility for data submission, accurate data, properly coded accounts payable and payroll transactions originating from districts lies with the districts. COE staff are engaged in checking and correcting this data on a regular basis, and report that such checks are voluminous. They feel that the districts do not audit or apply sufficient checks and balances in their own internal business operations.

Employee hiring – During interviews with human resources, the staff reported they experience circumstances where county departments hire and start candidates as employees prior to filing the final paperwork with human resources, relegating human resources to an after-the-fact paperwork processing

function. Only assigned human resources staff should make final hiring decisions, offers of employment, and conduct orientation processes.

Electronic management information system – As extensively discussed above, the COE has not fully implemented its electronic management information system. Most well-designed systems include systems of checks and balances that are superior to manual efforts. The right management information system makes routine processes manageable and efficient, allowing staff to devote less time to ministerial tasks and more time to analysis, which is an often-neglected element of checks and balances.

Timely Reconciliations

Bank statements and account balances should be reconciled monthly by an employee independent of the individual who is assigned to the original transaction and recording. For example, the office employee reconciling the checking account should not be the same person who maintains the check stock, makes deposits or writes checks.

Payroll tax and retirement reporting – FCMAT did not observe or hear any concerns over timely reconciliations of bank statements and account balances. However, FCMAT did learn that payroll tax and retirement system (PERS and STRS) reporting was often late. This reporting involves a process not unlike the reconciliation of bank statements and account balances and thus falls into this basic category of internal controls.

Policies and Procedures

Current comprehensive policies and corresponding administrative regulations and/or desk procedures for all operational areas are essential elements of an effective operation to support training, cross-training, documentation of internal controls, justification and support.

Current policies and procedures – The COE's business services and human resources functions generally lack current comprehensive policies. Additionally, every employee FCMAT interviewed commented on the lack of well-defined administrative regulations or desk procedures detailing their roles and responsibilities.

Training and orientation – Human resources does not conduct orientation processes outside of required paperwork. New employee orientation programs are an excellent time and method to introduce the COE's policies and procedures through a general review of where to find them, their organization, and examples of topics. An employee handbook is also an excellent communication tool for policies and procedures.

Accounts Payable and Cash Disbursements

These processes control the disbursement of funds to outside entities. Proper internal controls include segregation of duties between vendor management, ordering/purchasing, receiving, authorizing payment and the actual payment of invoices.

Grand jury report – The accounts payable function at the COE combines both the internal COE process and the external processing of commercial warrants for school districts in the county. The internal accounts payable function at the COE was the subject of a 2014-15 Nevada County Grand Jury report that focused on credit card use and expense reports. The grand jury's report, while limited and lacking clarity, is relevant to the scope of this letter in two ways: 1) the lack of "a definitive written policy to define allowable expenses, excessive spending, or reimbursement regarding travel expenses," and 2) "Supporting documentation for credit card charges was insufficient." Both of these topics directly relate to effective and efficient policies and procedures.

<u>Internal practices</u> – Based on interviews, staff are confused over the 1) consistent use or nonuse of formal purchase orders where encumbrances against fund balances are made, 2) consistent, relevant and appropriate backup for internally submitted expenses and obligations, 3) appropriate versus excessive backup for externally submitted transactions from school districts, and 4) the audit requirements of the COE of district submitted data for accounts payable processing.

Position Control

Position control enables an organization to control and maintain staffing levels by focusing on authorized positions rather than number or names of employees. The nonexistence of a system is considered a high risk factor in analyzing internal controls. Position control functions are a shared responsibility between business services and human resources and should be separated between the two to provide the best internal control over hiring and paying employees.

The COE does not maintain a comprehensive position control system. Elements of position control are maintained manually through great efforts by staff, but there is no integrated system that functions as part of internal controls.

As is common in smaller entities, the risk assessment component of internal control at the COE has been assigned to its independent auditors as part of their annual audit. However, the scope of the auditors' review is limited to consideration of internal control as a basis for designing audit procedures. Consequently, independent auditors do not express an opinion on the effectiveness of the COE's internal control, and they should not be the COE's only approach to monitoring internal controls. Common fraud detection methods include an anonymous employee hotline, surprise audits or fraud risk assessments. Knowing that someone is checking or could anonymously report suspicious behavior can deter fraudulent activity.

Recommendations

The county office should:

1. Assign the payroll and accounts payable tasks for internal special education to the COE's payroll and accounts payable staff.

2. Ensure there are sufficient staff in the human resources department to perform the required work and maintain segregation of duties.

3. Increase staffing in the internal QSS technical support role to ensure operational needs are met and to fortify system reliability and security.

4. Cross-train staff to limit risks associated with small office operations where some functions may be limited to one person.

5. Set clear expectations for the quality of data and accurate and sufficient backup for payroll and accounts payable information submitted by districts for the COE to process.

6. Establish and enforce policy designating human resources as the sole authority for final hiring decisions, offers of employment, and orientation processes for new employees.

7. Fully implement the existing electronic management information system, including various unused modules for position control, advanced payroll, benefits, and absence tracking for the COE and its districts.

8. Ensure the timely reporting of payroll taxes and retirement (PERS and STRS) reports originating from the payroll process.

9. Develop written procedures for the human resources and business services operation, especially where district processes are integrated with COE processes (e.g., accounts payable and payroll).

10. Hold new employee orientations to include an introduction to the COE's policies and procedures.

11. Implement a fully functioning position control system.

12. Implement common fraud detection methods such as an anonymous employee hotline, surprise audits or fraud risk assessments.

FCMAT appreciates the opportunity to serve the Nevada County Superintendent of Schools and extends thanks to its staff for their cooperation and assistance during this review.

Sincerely,

Michael H. Fine
Chief Administrative Officer

Appendix A

NEVADA COUNTY SUPERINTENDENT OF SCHOOLS

Board of Education
Robert Altieri
Tracey Lapierre
Larry Meek
Trevor Michael
Michelle Sexton

Holly Hermansen
Superintendent of Schools

Samie White
Asst to Supt .75/Brd Sec .25

Faith Yamamoto
Support Services Secretary II, 1.0

Regina Reno
Manager,
Human Resources, 1.0

Marea Filmer
HR Technician, 1.0

Randy McKean
Support Services Sec II
HR 0.5 / Ed Serv 0.5

VACANT
Associate Superintendent,
Business Services 1.0

Lori Brooks
Director of
Fiscal Services, 1.0

Brenda Herrill
Computer Analyst
1.0

Charles Stuart
Technology
Coordinator, 0.625

Joy Massey
Business Services
Specialist, 1.0

Sherry Tygart
Accounts Payable
1.0

Lisa LaHue
Accountant, 1.0

Nancy Gliko
Accountant,
Special Ed, 1.0

Tricia Bushey
Payroll Services
Specialist, 1.0

Yvonne Taylor
Payroll Tech I, 1.0

Terry Tripp
Business Services
Tech II, 1.0

Vacant
Business Services
Advisor, External, 1.0

Rebecca Schaeffer
Accountant, External
1.0

Carrie Stouder
Charter Business
Services Advisor 1.0

Tita Fowler,
Pam Hemminger,
Katie Huntsman
Business Services
Tech III, 3.0

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