

March 16, 2016

Joshua Schultz, Deputy Superintendent
Napa County Office of Education
2121 Imola Ave.
Napa, CA 94559

Dear Deputy Superintendent Schultz:

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 conducted for the Howell Mountain Elementary School District.

In September 2015, FCMAT and the county office entered into an agreement for management assistance on behalf of the district. The study agreement specifies that FCMAT will complete the following:

1. FCMAT will review the district's adoption budget including the multiyear financial projection for 2015-16 and two subsequent fiscal years and will make recommendations to reduce any structural deficit. The budget review will be a snapshot in time of the district's current financial status and will use the district's 2015-16 adopted budget as the baseline for developing all recommendations. Any budget review 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; forecasts for utilities, supplies and equipment; and changing economic conditions at the state, federal and local levels. The budget review should be evaluated as a trend based on certain criteria and assumptions instead of a prediction of exact numbers.
2. FCMAT will conduct an internal control review of the district's business operations. The Howell Mountain Elementary School District is approximately 101 students. While proper internal controls are difficult to attain due to the district's size and number of employees, the primary focus is to provide the county office and district with reasonable assurances that the governance and business practices performed have adequate management controls in place regarding the reporting and monitoring of financial transactions. Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. Specific review objectives will include evaluating the board policies and administrative regulations, procedures, internal controls and transactions performed by the district related to the following:

FCMAT

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1. Governance (board policies and organizational structure)
2. Payroll
3. Accounts Payable
4. Cash Deposits

FCMAT visited the district and county office on November 16-17, 2015 to conduct interviews, collect data and begin reviewing documents. County office staff continued to provide requested documents through December 2015.

Introduction

Located in Napa County, the Howell Mountain Elementary School District has a five-member elected governing board and serves approximately 78 students in transitional kindergarten through grade eight at one school site. The district is located in the rural mountain community of Angwin, California.

According to data from the California Department of Education, student enrollment reached a high of 113 students in 2009-10 but since that time has declined to 78 as reported on the district's 2015-16 first interim financial report. The district's unduplicated count of free and reduced-price meal eligible, English learner and foster youth students is approximately 50% of enrollment.

The county office's September 10, 2015 budget review and approval letter to the district expressed concerns regarding projected unrestricted general fund deficit spending in 2015-16, 2016-17 and 2017-18 and the inability to meet its required 5% reserve for economic uncertainty in 2017-18. In addition, the district filed a qualified certification for the 2015-16 first interim financial reporting period. Education Code Section 42131 states that a qualified certification indicates that based on current projections, a district may not meet its financial obligations in the current or two subsequent fiscal years.

If at any time during the fiscal year a district may be 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. The county office is required to follow Education Code Section 42127.6 when assisting a school district in this situation, and take all actions necessary to ensure that the district meets its financial obligations. Assistance may include assigning a fiscal expert or fiscal advisor to advise the district on financial issues, conducting a study of the district's financial and budgetary conditions and/or directing the district to submit a proposal for addressing its fiscal condition.

The district has faced fiscal challenges, including declining student enrollment and increased costs for special education services that will require the governing board and administration to continue to make and implement difficult decisions to ensure that the district remains fiscally solvent.

2015-16 Budget and Multiyear Financial Projections

District Budgeting

Board Policy 3460, Financial Reports and Accountability, states, “The Board of Trustees is committed to ensuring public accountability and the fiscal health of the district. The Board shall adopt sound fiscal policies, oversee the district’s financial condition, and continually evaluate whether the district’s budget and financial operations support the district’s goals for student achievement.”

School districts are either state aided districts that receive most of their funding from a formula derived from average daily attendance (ADA), or are basic aid districts whose property tax revenues exceed the state aid Local Control Funding Formula (LCFF) calculations. Howell Mountain is a basic aid school district, meaning that its unrestricted funding comes primarily from local property taxes as opposed to state aid through the LCFF. The district receives some state funding for specific purposes and qualifies for several federal grants and entitlements, but relies heavily on the local property tax estimates provided through Napa County.

Basic aid school districts receive their general purpose funding based on the assessed valuation of secured and unsecured property within the district’s boundaries without regard for enrollment and ADA. Therefore, when enrollment varies up and down, creating both opportunities and challenges, unrestricted revenue received by the district is not materially influenced. Typically, declining enrollment in a basic aid environment is positive because there is more revenue per student, but dramatic decreases in enrollment coupled with the small school/district environment, such as that in Howell Mountain ESD, create a challenge to providing basic instructional resources and staffing.

Even though the district does not receive funding through the LCFF, it is obligated to adopt and follow a Local Control and Accountability Plan (LCAP). The LCAP must describe goals and specific actions/ services to achieve those goals for all pupils, unduplicated pupils, and each significant subgroup of pupils, including pupils with disabilities, for each of eight state priorities and any locally identified priorities. The LCAP is intended to be a comprehensive planning tool. As such, in developing goals, specific actions/ services, and expenditures, the district should carefully consider how to reflect the services and related expenses for its basic instructional program in relationship to the state priorities. While each state priority must be addressed each year, the district is not required to address all eight priorities equally, acknowledging local priorities and resource limitations.

Enrollment estimates define the caseload for the district and should be made during budget development. Many districts utilize birth rate statistics to estimate kindergarten enrollments and the cohort survival method for the remainder of the grades. The cohort survival method groups students by grade level upon entry and tracks them through each year 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 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.

Howell Mountain ESD is very small and therefore has the ability to closely project enrollment by name and need based on the knowledge of each of its students’ unique circumstances. The district serves a community with a concentration of private schools, a church-based hospital and church-based college.

Employment at the hospital and enrollment in the college may influence the district's enrollment changes to a greater degree than in typical communities.

A district's estimated enrollment should determine its basic staffing needs. Those needs are translated into the district's position control, which is updated each year during budget development to reflect employee separations such as retirements, resignations, or layoffs, as well as the natural step and column movement of its employees. A district receives notifications of changes to statutory benefits such as state retirement, unemployment insurance, workers' compensation insurance, and state disability insurance and will communicate with its health insurance carriers to obtain estimates of increases in those benefits. Each of these variables is incorporated in position control to generate the estimated cost of salaries and benefits. Expenditures for salaries and benefits for Howell Mountain ESD represent 67.7% of its adopted 2015-16 general fund budget.

Other expenditures for items such as books, supplies, materials, utilities, professional services and equipment should be based on estimates provided by administrative staff, contractual obligations, board goals, or assumptions founded on a base year such as an assumption that utility costs will rise by 5% over the prior year.

Interviews with staff and review of the district's budget assumptions indicated that in the past many of the district's revenue and expenditure budgets were simply rolled over from the previous year's budget to the new fiscal year budget without adequate consideration of their nature. The impact of this is demonstrated in part by the approximately \$300,000 of unanticipated expenditures in 2013-14 detailed later in this report. It is not uncommon to use the most current budget as a starting point when developing a budget for the upcoming fiscal year; however, it is important to assess each area to ensure that onetime revenue sources and/or expenditures are removed and that the most recent economic planning factors are included. Key to this process is the determination of a reasonable projection of caseload. District staff acknowledges that enrollment projections have not been prepared in the past.

The study team observed that the practice of incremental budgeting without regard to detailed key assumptions appears to have changed for the better under the current administration.

Napa County Office of Education

The district utilizes both the financial software systems and services of the Business Services Division of the Napa County Office of Education for its budgeting and accounting processes. Additionally, like many small districts across the state, Howell Mountain ESD relies on the county office staff to be an extension of the district's small office staff and provide technical assistance on budget development, preparation, monitoring and reporting. While this practice and arrangement provides enormous benefit to the district, it also promotes a higher degree of dependence on the county office staff as the budget guru for the district, delegating accountability and responsibility that ultimately should be retained by the district's leadership.

Board Policy 3100, Budget, states:

The Board of Trustees recognizes its critical responsibility for adopting a sound budget for each fiscal year which is aligned with the district's vision, goals, and priorities. The district budget shall guide administrative decisions and actions throughout the year and shall serve as a tool for monitoring the fiscal health of the district.

In order to provide guidance in the development of the budget, the Board shall annually establish budget priorities based on identified district needs and goals and on realistic projections of available funds.

The Superintendent or designee shall oversee the preparation of a proposed district budget for approval by the Board and shall involve appropriate staff in the development of budget projections.”

The district’s budget development process historically has been performed by the county office of education without the benefit of a detailed budget development calendar, board goals and objectives, or substantial input from the site administrator and department heads. This does not create a sense of ownership or responsibility among all stakeholders. The board should adopt annual budget goals and objectives as part of the adoption of the LCAP. Further, the district should incorporate the knowledge and expertise of its site administrator and staff in the budget development process as early as possible.

Interviews with district staff and governing board members revealed differing points of view regarding budget development, but both perspectives ultimately point to a problem. District staff is highly dependent on the county office staff for their budget and financial information, including assumptions and suggestions for budget adjustments. Staff appreciates the high degree of expertise provided by the county office. The governing board, while recognizing the assistance county office staff provide the district, believes that county office staff have too much influence and control over the budget. In the role as budget manager, the county office staff have opinions about the district’s expenditure priorities that are insightful but likely outside of their role of providing daily technical assistance. On the other hand, the county office does have oversight responsibilities under Assembly Bill (AB) 1200 and AB 2756, which are designed to be separate and apart from their budget services.

Implementing a goal for the district staff, specifically the superintendent/principal, to be more involved in leading the budget development and reporting process requires a great deal of time and effort but should be a high priority that can be accomplished for the 2016-17 budget cycle. The county office should continue to be involved, but shift from the lead role to a supporting role. The superintendent/principal should be the one to present the district’s budget to the governing board, replacing presentations by the county office staff, with a county office representative present, if necessary, to provide technical support and help answer questions.

The county office is nearing completion of the implementation of a new financial software system, Digital Schools, which includes budgeting and financial reporting. As with any new system, some processes and many reports have changed. Interviews with staff and governing board members reflected a frustration in the lack of budget, cash and financial reporting currently available and a belief that they are operating somewhat blindly in these areas. Training for district staff is ongoing, and more training needs to be provided to the staff regarding available financial reports.

Budget Monitoring

All stakeholders should recognize that budgets are not static and continue to change throughout the fiscal year. The projected revenues, expenditures and ending fund balances will change during the year for many reasons including changes in state and federal funding levels, changes in personnel needs, subsequent negotiated collective bargaining settlements, increases or decreases in student enrollment or unanticipated operating expenditures. It is essential to maintain an operating budget that accurately reflects the current financial condition and provides decision-makers throughout the organization with the

information needed to take appropriate action to ensure program quality and fiscal stability throughout the fiscal year.

Fundamental to an effective budget development and monitoring process is a districtwide culture in which the governing board and superintendent understand critical budget components and strive to maintain programs in the context of a balanced budget. Board meetings should include periodic updates regarding budget development progress, and regular reporting during the year. These updates should be standardized in format and content, with an emphasis on changes that have occurred since the previous update. Standardized updates will allow efficient use of staff time, comparability of information over time, and in-depth understanding of the information. Written budget assumptions should be provided to the board with each reporting period, understanding that those assumptions change frequently. Board involvement in the budget development and monitoring process is crucial, and the district's budget development calendar should reflect a commitment to that goal.

The district's 2015-16 LCAP lacks specificity regarding elements of an action or service and what budgeted resources are designed to cover. Many different actions and services appear to share the same identified resource. For example, "Private Funding \$33,000," "LCFF \$39,000," and "Title II \$10,000" are listed multiple times without clarity regarding whether each reference is a duplicate of the same resource or if the amounts should be aggregated to get a total.

Given the district's deficit spending trend, the LCAP should be reviewed and revised to ensure that the district can afford each of the actions and services identified in the multiyear plan. There are not enough resources to address everything for everyone, and the board, in collaboration with the superintendent/principal, needs to set priorities that support the basic instructional objective of the district with available resources. While there may be several examples, one is the New Tech Network initiative. An investment in this program has already been made, but thoughtful deliberations must center on whether a continued involvement and investment in the program increases student achievement. If it does, then other items within the plan need the same analysis and deliberation since priorities must be established and some actions and services eliminated due to a lack of funding.

It is important to recognize that the LCAP is the state-mandated planning and accountability tool for local educational agencies. Some of the changes adopted, while necessary, in the 2015-16 first interim financial report to mitigate the budget deficit in 2016-17 and beyond appear to be inconsistent with commitments made in the adopted LCAP. An example is the amount of resources being allocated to support the New Tech Network. Alignment of the LCAP and budget is a critical element of the district's planning and accountability actions.

Furthermore, the district's position control reports and budget do not clearly support the commitments made in the LCAP, Section 3 regarding the use of funds to support unduplicated pupils, specifically English learners. The LCAP update reporting on 2014-15 acknowledges that the intervention specialist committed to English learners is serving all students.

Interviews with district staff and governing board members revealed a districtwide culture to routinely increase expenditures throughout the fiscal year regardless of their effect on the district's financial plan or fiscal position. Reacting to each request as it arises rather than assessing them proactively in conjunction with the LCAP and district goals, objectives and guiding principles as well as performance outcomes and cost effectiveness makes it difficult to address the needs of all district students equitably. More importantly, this practice makes it difficult to ensure that the operating budget reflects all expected financial activity of the district and sustains the district's financial solvency.

Prior Cleanup of Unbudgeted and Underbudgeted Items

The current superintendent/principal was appointed effective July 2013. In her first year of service the superintendent/principal was faced with numerous unbudgeted and underbudgeted items for which it was determined immediate fixes needed to be implemented. The estimated costs for these items, based on the district's list dated May 15, 2014, are summarized in the following categories:

	Onetime	Recurring
Legal Fees and Settlement Costs	\$15,441	\$10,365
Unanticipated Facility Repairs and Needs	35,154	16,500
Budget Omissions	21,550	0
Underbudgeted Items	7,000	32,278
Staffing and Teacher Stipends	0	64,950
Vacation Payout and PERS Corrections	64,911	0
Title I Encroachment	9,375	0
Employee Benefits	0	21,154
Total	\$153,431	\$145,247

This unanticipated approximately \$300,000 worth of expense (combined onetime and recurring) is reflected in the 2013-14 unaudited actuals and contributed to the \$63,864 operating deficit shown in the table below. Without this unanticipated expense, the 2013-14 fiscal year would not have experienced a deficit.

Additionally, while the recurring items also impact fiscal year 2014-15 and beyond, the prior unbudgeted and underbudgeted items were identified and recognized in the budget development process, reducing the future risk of unanticipated items.

Current Conditions

The district's 2015-16 adopted budget (adopted June 24, 2015) projects deficit spending of \$27,534 for the combined unrestricted and restricted general fund. The district deficit spent \$37,302 in 2013-14 but increased the fund balance by \$20,273 in 2014-15 with excess revenues/sources over expenses/outgoes.

The multiyear financial projections at 2015-16 budget adoption reflected deficits of \$5,679 in 2016-17 and \$77,213 in 2017-18. However, while factual, these excess and deficit spending numbers for the combined unrestricted and restricted general fund are misleading as they include transfers to the general fund from the district's special reserve fund for other than capital outlay projects (fund 17). A more accurate view of the past two years' unaudited actuals and the current year at budget adoption is as follows:

	2013-14	2014-15	2015-16
Excess/Deficit before Transfers in			
or Other Sources	(\$63,864)	(\$90,856)	(\$245,034)
Transfers in from Fund 17	26,562	111,129	217,500
Net Excess/Deficit	(\$37,302)	\$20,273	(\$27,534)

At 2015-16 budget adoption the combined general fund operating deficit was projected to grow by nearly 400% over 2013-14.

The multiyear financial projection data presented at the 2015-16 budget adoption has conflicting data for 2017-18. On a spreadsheet the deficit for 2017-18 is shown as \$77,213. However, on the official data submission form (SACS form MYP Unrestricted/Restricted) no deficit is shown, with revenues and expenditures matched. The spreadsheet deficit is likely more accurate and is consistent with the district's 2015-16 first interim financial report.

Subsequent to FCMAT's fieldwork, the district adopted its 2015-16 first interim financial report on December 8, 2015, which revised the projected deficit spending for current year and two subsequent fiscal years as follows:

2015-16	\$40,682
2016-17	\$1,825
2017-18	\$69,051

However, the combined general fund operating deficits before transfers in from fund 17 are projected at:

2015-16	\$241,805
2016-17	\$209,487
2017-18	\$202,053

The 2015-16 first interim financial report was adopted as a qualified certification since it projected that the district may not be able to meet its financial obligations for the current or two subsequent fiscal years. This qualified certification is based on the projection that fund 17 will be fully depleted prior to June 30, 2018, and that the general fund will have a negative fund balance of \$68,050 as of June 30, 2018.

The district has experienced declining enrollment over the near term. Per the 2015-16 first interim financial report, the district reported census day enrollment of 105, 96 and 96 for 2012-13, 2013-14 and 2014-15, respectively. The census day enrollment for 2015-16 was forecasted to be 96, but is reported in the district's first interim financial report as decreasing to 78. The district is basic aid funded, and while the fiscal pressures caused by declining enrollment may not be as great as for districts funded on a LCFF basis, some sources of revenue, such as special education and lottery are enrollment/ADA-based. The district is also subject to other pressures caused by declining enrollment and very small student populations. Providing high-quality programs and services for small numbers of students on school sites that were built to house many more students can be especially difficult.

The district's special education population has increased, specifically with students classified as severe. The district has fashioned a thoughtful partnership with the larger neighboring St. Helena Unified School District to serve four severe students for a fixed price plus transportation and therapy costs. While expensive, the current arrangement is likely providing a positive educational environment for the students and represents the best economic solution for the district. Enrollment assumptions used at the first interim financial report include two additional severe special day class students for 2016-17. While the arrangement with St. Helena Unified School District may represent the best economic solution for the

district for the current school year, it should be re-evaluated for 2016-17 as the number of severe students is forecasted to increase.

The district maintains essentially all of its required and excess reserves in fund 17 as opposed to its general fund. As depicted above, this practice conceals the true deficit spending amount from the casual reader of the district's budget and interim reporting statements. While the state of California recognizes the balance in fund 17 as available for general fund reserve purposes, the district's practice is not consistent with best practices that support transparency. The practice also takes more staff time to transfer cash between the two funds as needed during the year.

All costs incurred directly or indirectly for a specific program or activity should be charged to that program or activity. This approach, also known as cost centering, more accurately reflects the cost of a given program or activity and enhances the information available to make informed decisions, either programmatically or fiscally. However, the study team found a lack of cost centering in the district. An example of this is the use of para-educators to support special education services, regular education students and playground supervision. Inconsistencies between various position control reports and the adopted and revised budget make it difficult to determine with certainty, but it appears that all but one para-educator serving as a classroom aide (not as the library technician or in the after school program) are being charged to special education. Interviews with staff did not support that all but one para-educator were serving special education needs.

Similar to the lack of cost centering, the district has not charged indirect costs to most of its categorical or restricted programs in the recent past. Data indicates that when it did apply indirect costs, it did so inconsistently. This places the burden for all administrative costs on the unrestricted portion of the budget even though the categorical programs use these services. All programs should be charged for their indirect or administrative burden.

Indirect costs are agency-wide, general administrative costs (i.e., activities for the direction and control of the agency as a whole). Examples of general administrative activities are accounting, budgeting, payroll processing, personnel services, purchasing and centralized data processing. Conversely, direct costs provide measurable, direct benefits to particular programs. In general terms, an indirect cost rate is the percentage of an organization's indirect costs to its direct costs and is a standardized method of charging individual programs for their share of indirect costs. It is an efficient way to recover a share of the general administrative costs from individual programs.

Each year as part of the district's submission of unaudited financial information to the state of California, the district completes an indirect cost rate calculation. This rate is then certified by the state for use by the district in the second following fiscal year. The district's indirect cost rates for the recent past and current year are:

2011-12	2012-13	2013-14	2014-15	2015-16
4.66%	8.42%	10.27%	6.71%	10.15%

For food service programs, Education Code Section 38101(c) limits school district indirect costs to amounts derived using the lesser of a school district's indirect cost rate or the statewide average indirect cost rate. For 2015-16, the statewide average indirect cost rate is 5.11%, and thus is applicable for the district.

The missed opportunity to apply and assess indirect costs on categorical and restricted programs in the district is approximately \$6,500 in 2015-16, and \$13,500 over the last three years as shown in the table below. This does not include indirect costs for the After School Education and Safety (ASES) and NapaLearns programs for which the district provides administrative oversight. Indirect expenses associated with the management and processing of restricted program activities are real costs and burdens to a district. As a matter of policy, the district should assess its state-approved indirect cost rate on all restricted programs unless prohibited by state or federal law. There is still opportunity to assess indirect costs in 2015-16 and make the appropriate budget adjustments in the restricted programs to account for the current year charges. Consistent with the need to cost center all programs, the indirect cost rate should be applied consistently to all programs within the context of individual program regulations, including those programs that require a contribution from the general fund. For encroaching programs, the application of the indirect cost rate will increase the contribution required, but the district will have a clearer view of the true cost of the program. For the district, this is the case with food services and special education programs. For the purposes of the analysis to determine the missed opportunity costs noted above, both of these programs were excluded along with all unrestricted programs.

Resource	Program	2013-14	2014-15	2015-16
3010	Title I	\$2,861	\$2,027	\$2,674
4035	Title II	919	67	888
5810	Rural Education Achievement	0	0	1,866
6264	Educator Effectiveness	0	0	1,000
7405	Common Core State Standards	0	1,248	116
Total		\$3,780	\$3,342	\$6,544

The cafeteria fund is not self-sufficient, requiring a contribution each year from the general fund to supplement the revenue generated from food sales and federal and state meal reimbursements. Additionally, the cafeteria fund maintains no reserves, making any negative fluctuation in participation, food or labor costs a burden of the general fund. Contributions from the general fund to the cafeteria fund to support food service operations were \$10,440 in 2013-14, \$21,741 in 2014-15, and projected at \$11,189 in the 2015-16 adopted budget. The 2015-16 projected amount has been reduced slightly at the first interim financial report to \$9,302.

The district provides food service operations to its smaller, neighboring Pope Valley Union Elementary School District. This is a great example of an efficient partnership between two small local educational agencies. The partnership must be evaluated from time to time to ensure it is meeting common expectations and goals. Recently, Pope Valley Union ESD agreed to pay for part of the food service administrative costs, which will assist in closing a small portion of the program's deficit. This is a good example of the necessity of cost centering and assessing an indirect cost rate. Without these considerations, the negotiated cost sharing rate with Pope Valley Union ESD is smaller than justified, leaving Howell Mountain ESD with part of the financial burden more appropriately paid by its partner.

A goal should be established and action commenced to make the cafeteria fund self-supporting. This will be a challenge given that the district's eligibility rate in the national school lunch program for free and reduced-price meals is approximately 50%. Meal prices and program efficiencies must be evaluated, along with ensuring that the Pope Valley Union ESD agreement shares all appropriate costs. In addition to setting a goal of self-sufficiency, the cafeteria fund should also set a goal to establish a reserve of 5%. In the meantime, the annual contribution to the food service program should be recognized in the LCAP as an element supporting student achievement.

As discussed previously, the district did not budget or apply an indirect cost charge to the cafeteria fund. Recognizing such overhead costs is an industry best practice and allows the true costs of a district's food service program to be recognized. Based on the adopted budget, if in 2015-16 the cafeteria fund was self-sufficient, the district's unrestricted general fund would save the projected contribution of \$11,189 plus recover approximately \$4,500 of indirect costs.

Although outside the scope of this review, the following are all relevant questions that the district should consider regarding its special education program. Why is special education enrollment increasing when general education is decreasing? How does a district control costs? Is the district providing a higher level of service than it needs to provide?

Interviews of staff and a review of the district's position control reports suggest that an immediate question to consider and evaluate is the use of para-educators and whether the number and hours are supported by the individualized education programs (IEPs) of the students they serve. Alternatives to one-on-one aides include the use of special circumstance instructional assistance models that focus on assistance to the classroom compared to an assistant to a student. Para-educator use may exceed the requirements of IEPs, creating a potential problem for future IEPs and deviating from reasonable practice. Additionally, based on interviews of staff, contracted speech and language pathologists may have a conflict of interest in that the same personnel are used to assess, refer and then provide IEP services to the students. This practice can be self-serving to the contractor, and it is recommended that different contractors be used to assess and refer from those that provide IEP services.

In virtually all California school districts special education is not adequately funded, necessitating a local contribution from the unrestricted general fund. In the district and many other districts, food service also requires a contribution because of low participation rates. Districts with pupil transportation services have historically also required local contributions. However, it is unusual to experience encroachment from other programs, especially given limited resources.

A review of the district's financial reports indicated that several restricted programs have required contributions from the unrestricted general fund, which is not customary. Title I required a contribution of \$5,765 in 2014-15 and \$3,811 is planned for 2015-16. Likewise, Title II encroached \$370 in 2014-15, and the Rural Education Achievement Program (REAP) required a contribution of \$3,614 in 2013-14, with \$5,778 projected for 2015-16. These programs should be adjusted to live within their budgeted revenues without contributions from the unrestricted general fund. Opportunity may still exist to eliminate these contributions for 2015-16 by making program adjustments now and saving nearly \$10,000 of unrestricted resources.

Multiyear Financial Projections

As required, a multiyear financial projection (MYFP) is regularly prepared for the district. The MYFP prepared in June corresponding to the adoption of the 2015-16 budget appears to be complete and reasonable. It is based on this MYFP that concerns have been expressed about the going-concern nature of the district at the end of the forecast period in 2017-18 when accumulated deficit spending will create a negative fund balance and subject the district to more intense oversight and the potential for a loss of local governance authority if sufficient cash is not available to meet the district's financial obligations.

At the 2015-16 first interim financial report in December 2015, the district incorporated several cost reduction proposals that begin to lower the annual deficit but do not eliminate it. The following observations and recommendations are provided and total \$101,112 to \$125,812 in budget reductions to help reduce ongoing deficit spending.

- a. The district's property tax revenue projection is based on a flat 1% per annum growth rate, which is not supported by analysis or historical data. The 1% may be unreasonably conservative given recent year-over-year growth; however, careful analysis is key and is accomplished through regular conversations with the county assessor, county auditor-controller and local real estate experts, as well as city and county finance and budgeting experts performing analysis for their own budgets.

The most recent year-over-year increases in property taxes were:

2013-14	2014-15	2015-16 Budget	2015-16 1st Interim
1.252%	4.836	.838%	3.880%

The 2015-16 first interim financial report reflects a year-over-year growth in property taxes of 3.88%. Because the current forecast may be too conservative, doubling or tripling the percentage of growth for 2016-17 and 2017-18 in the forecast appears reasonable. Increased revenue: \$12,800 to \$25,500.

- b. Teacher staffing of 5.0 full time equivalents (FTEs) for regular education services for 78 students is a generous 15.6:1 student-to-teacher ratio in transitional kindergarten through grade eight. However, every grade is served through a combination class configuration. The district also has 1.4 FTEs of teacher staffing for special education, Title I support and Friday physical education/art release time. The study team conducted an analysis that looked at alternative teacher staffing configurations, including departmentalizing by subject across grades. However, a suitable alternative was not identified. Federal Title I supports .4125 FTE of teacher staffing for special education services. Title I is operating in excess of its available budget, and adjustments to the Title I plan that may impact teacher staffing are needed. No change in certificated teacher salaries.
- c. Para-educator staffing appears to be excessive given the extremely low student-to-teacher ratio and lack of evidence that special education IEPs require the level of staffing evident in the position control reports and budget. As discussed previously, other alternatives to meet student needs may be warranted. There is no need for regular education para-professional staff, particularly given the district's financial

solvency issues. Classified salary savings: \$39,000 to \$51,000 (1.0 to 1.3 FTE). This total includes statutory and health and welfare benefits costs if applicable.

- d. Playground supervision staffing appears excessive. The district's teachers have a contractual duty-free recess, and although the position control report does not specifically list playground supervision staff, interviews indicated that four of the para-educators are used for this purpose. Based on reasonable playground supervision standards recommended by many insurance risk pools, an acceptable ratio of student-to-playground/lunch supervision is 80:1. A reasonable assumption for the district is that at least two adults should be present to cover recess and lunch times; therefore, this ratio could reasonably be 80:2. In addition, the position control report reflects that all para-educators are either charged to Title I or special education. Playground supervision is not a Title I eligible cost and the use of special education funding for this purpose is also questionable. Classified salary savings: accounted for above in reduced para-educator staffing.
- e. Library technician - para-educator staffing appears to be appropriate for the size school at .25 FTE; however, given the budget constraints it is a luxury that is not affordable at this time. Classified salary savings: \$7,812. This total includes statutory benefits and health and welfare benefits costs if applicable.
- f. Other classified staffing should be reviewed given the budget constraints to ensure the positions are absolutely required (i.e., special education secretary and Friday art teacher) and that staffing supported with restricted funds (i.e., after school program) is self-sustaining. No specific changes in other classified salaries.
- g. Administrative staffing appears to be appropriate with one superintendent/principal, 2.615 FTEs of classified office staffing, .75 FTEs of custodial staffing, and 1.0 food service (cost sharing with Pope Valley Union ESD). No change in administrative salaries.

FTEs are based on Digital Schools – Position Control Summary - Active Assignments report dated November 17, 2015. Several position control reports were provided to the study team; however, not all of the reports match each other and they do not appear to be aligned to the budget. As such, some FTE citations could differ.

- h. Indirect cost recovery should commence immediately, including from programs that require a general fund contribution so that proper cost centering is performed and improved analysis can be accomplished. Decrease in unrestricted general fund expenses through indirect cost rate credit: \$6,500 depending on restricted program funding levels.
- i. Unrestricted general fund contributions to restricted federal programs should be eliminated for an immediate savings. Decreasing the contribution to food service will require efforts over several years but should begin immediately. Decrease in contributions: \$10,000.

- j. Program priorities for supplemental programs must be established and evaluated (e.g., New Tech Network). Potential decrease in expense: \$25,000.

Recommendations

The district should:

1. Develop financial projections based on the most accurate information known at the time of budget development.
2. Ensure that projections are updated frequently as new information regarding the state budget and other key economic factors becomes available, and assess the effect of any potential revisions.
3. Prepare enrollment projections by grade and student characteristic, such as English learner, foster youth, and low income family.
4. Closely monitor budget to actuals throughout the year to ensure that actuals do not exceed amounts budgeted.
5. Ensure that it makes timely budget revisions and communicates them timely with the county office so the effects of additional expenditures on its fiscal status are clearly understood before they are made, both for the current year and the multiyear forecast.
6. Take ownership of the budget development, revision and reporting process, relying on the county office of education for technical support in a supporting role and not the primary role.
7. Work with the Napa County Office of Education to create appropriate regular financial and budgeting reports from Digital Schools.
8. Prepare and adopt a local control and accountability plan with sufficient clarity as to actions/services and cost elements.
9. Prepare and adopt a local control and accountability plan that establishes priorities that live within the financial resources of the district.
10. Consistent with its local control and accountability plan, implement a set of board-approved guiding principles outlining its financial priorities for use in decision making. “No” is an appropriate answer.

11. Routinely evaluate the best economic solution for offering special education services to students, including those who are designated as severe.
12. Maintain its state-required reserves in the general fund as opposed to the special reserve fund for other than capital outlay projects. Discontinue the practice of balancing the general fund with transfers, which masks the general fund deficit spending.
13. Recognize and charge all direct and indirect expenses attributable to specific programs to those programs to more accurately reflect the cost and promote accountability and improved understanding of the program.
14. Use a position control process that is consistent, is regularly updated and is reconciled to the budget.
15. Recognize and charge the maximum allowable indirect cost rate consistently to its restricted programs and other funds each year to ensure that programs accurately reflect the true cost of operation.
16. Establish a goal and take action to make the food service program self-supporting, including its share of indirect costs.
17. Establish a goal and take action to build and maintain a 5% reserve in the cafeteria fund to eliminate impacts from revenue and cost fluctuation on the general fund.
18. Recognize the annual contribution to the food service program in its local control and accountability plan as an element supporting student achievement.
19. Contract separately for speech and language pathologists that assess and refer students from those that provide direct services to students based on the IEP.
20. Prohibit restricted programs from spending more than their dedicated revenue and creating a burden on the unrestricted general fund, except for special education.
21. Begin planning and dialogue regarding immediate budget adjustments to eliminate general fund deficit spending. Observations to assist the district in beginning this analysis are included above.

Business Operations

FCMAT has developed an extensive list of financial management standards for public school agencies. These standards address general functions such as policies and procedures; internal controls; budget development, monitoring and reporting; multiyear financial projections; accounting, purchasing and warehousing; collective bargaining; management information systems; and fiscal controls. It would benefit the district to review all the standards to ensure it is meeting them and to help develop best practices for its financial operations. The standards can be viewed on pages 20-30 of the downloadable document at:

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

Internal Controls

Internal controls are the foundation of sound financial management and allow districts to fulfill their educational mission while helping 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 that do the following:

- Prevent management from overriding internal controls.
- Ensure ongoing state and federal compliance.
- Provide assurance to management that the internal control system is sound.
- Help identify and correct inefficient processes.
- 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 of checks and balances include payroll, purchasing, accounts payable and cash receipts.
- Segregation of duties - Adequate internal accounting procedures should be implemented and changes made as needed to separate 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 to perform those duties. Inadequate cross training is often a problem even in the largest business offices.
- Asset security - Cash should be deposited daily, computer equipment should be secured, and access to items such as 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, the employee who reconciles the revolving checking account should not maintain 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.
- Inventory records - Inventory records should be maintained that identify items and quantities purchased and surplus/sold. Periodic physical inventory should be taken and reconciled with inventory records. Typical inventoried items include computer equipment, warehouse supplies, food service commodities, maintenance and transportation parts and student store goods.

A system of internal controls consists of policies and procedures designed to provide the governing board and management with reasonable assurance that the organization achieves its objectives and goals. Hard controls include separation of duties, management review and approval, and reconciliations. Soft controls include management tone, performance evaluations, training programs, and maintaining established policies, procedures and standards of conduct. The district lacks some of these elements as indicated throughout this report.

Although central office staff may have some knowledge of other job duties and business office functions, little or no cross training occurs for key functions such as California Longitudinal Pupil Achievement Data System (CALPADS) reporting, cash receipts and accounts payable. These tasks are essential to operations, and the lack of cross training could place the district at risk. The district should emphasize cross training so that for every position at least one additional employee can temporarily perform the duties in the event of an employee absence or position vacancy, thus ensuring that essential functions continue without interruption.

Desk manuals that include policies and procedures are important to help ensure proper internal controls and provide a better understanding of each position's responsibilities. These manuals can also be valuable in completing necessary functions when the employee normally assigned to a particular duty is absent or a position is vacant. The district does not have a business services policies and procedures manual that includes step-by-step procedures for each job duty.

Governance – Board Policies and Organizational Structure

Board Policies

A proper system of internal controls includes board policies and administrative regulations that are current, well communicated and monitored for consistent implementation. The district uses the California School Boards Association's (CSBA's) GAMUT Online policy subscription service and completed a mass update of its board policies and administrative regulations for business and noninstructional operations in November 2013. Since then, many policies and regulations have been revised and updated on GAMUT Online. The district would benefit from implementing a calendar that coincides with the policy updates released by GAMUT five times each year to ensure policies and regulations are reviewed and revised as necessary.

Organizational Structure

A school district's organizational structure should establish the framework for leadership and the delegation of duties and responsibilities. As a district's enrollment increases or declines, the organizational structure should adapt to the changes. The district 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 purpose of any organizational structure is to help a district's management 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 district's goals and objectives. Authority in a public school district originates with the elected governing board, which hires a superintendent to oversee the district. Through the superintendent, authority and responsibility are delegated to the district's administration and staff.

The district's five-member governing board is composed of both new and veteran members, at least one of whom has served on the board for more than 12 years, but some board members have limited experience, training and knowledge of school district governance. Interviews indicated that the county office has provided governance training, and the superintendent/principal is learning to guide board members in differentiating the roles and responsibilities of the board from those of the district's administration. However, some members involve themselves in daily operations that should be the responsibility of district administrative staff. More essential training should be provided, for example CSBA's Masters in Governance, to foster a clear understanding of the board's roles and responsibilities in the areas of governance and communication with staff and the community.

The Howell Mountain ESD central office support staff includes a business and operations manager, a school/district executive secretary, and a part-time office support technician. The office is located beside the school, and these staff members provide school site and district office support services.

The district's organizational chart includes the categories of confidential staff and classified staff rather than each of the central office position titles and the name of the employee that occupies each position. The chart indicates that food services, classified, and custodial staff report to confidential staff. However, interviews with staff indicated that the superintendent/principal is responsible for evaluating all of these positions. Without the inclusion of job titles, it is impossible to determine who is responsible to oversee each position and ensure that the chain of command principles are followed and clear lines of authority are established. Organizational charts should show all authorized positions, their titles and the relationship between positions including lines of authority and responsibility.

Business and Operations Manager

The business and operation manager's duties include maintaining computer systems and the network; preparing board meeting agendas, packets and minutes; updating board policies and administrative regulations; maintaining and reporting CALPADS information; and student testing coordination.

The job description indicates that this is a confidential supervisory position supervised by the site administrator. The job description includes a board approval date of March 5, 2014, has an extensive list of required skills and qualifications, and contains a specific requirement for training that states, "The District will send the Business and Operations Manager to the annual conference of the California Association of School Business Officials each year." It is uncommon for job descriptions to include this

type of requirement for district-provided training; this type of provision is more often contained in employment contracts.

School/District Executive Secretary

The school/district executive secretary's duties include calling substitutes as needed; preparing payroll records for submission to the county office; tracking employee leaves; processing purchase requisitions and accounts payable transactions; student attendance state reporting; preparing invoices and deposits; and maintaining student cumulative and employee personnel files.

The job description indicates that this is a supervisory confidential position supervised by the site administrator and includes a board approval date of November 1, 2001. The job description is outdated and lists the role of secretary to the superintendent/principal and the board of trustees as part of the position's primary function. However, interviews with staff indicated that these are no longer part of the executive secretary's duties. The job description includes "Salary Range: 8," which is not on the district's classified or confidential salary schedules.

Office Support Technician

The office support technician's duties include serving as the receptionist; student attendance accounting; receiving all deliveries and distributing items to the appropriate staff members; and various clerical tasks.

The job description indicates that this is a classified position supervised by the site administrator and district confidential staff and includes a board approval date of March 5, 2014. Assigning more than one supervisor to a position violates the chain of command principles. To eliminate the potential for an employee to receive conflicting direction and instruction from a variety of supervisors, each employee should be accountable to only one supervisor.

Some of the above job descriptions do not include minimum weight-lifting and repetitive duty requirements necessary for compliance with the Americans with Disabilities Act (ADA) and do not list essential job functions. As currently written, the district could not use some of its job descriptions as evidence of essential duties in accommodation cases, nor should it use them when making employment decisions related to an applicant's ability to perform essential duties. Reviewing and revising job descriptions to ensure that duties are correctly identified as essential will help protect the district from disability discrimination claims by applicants and/or employees who may be eligible for reasonable accommodations under the ADA.

Interviews indicated that central office support staff experience numerous interruptions throughout the workday, and some staff members routinely work additional hours each week to complete their duties. For example, central office staff are assigned to substitute for playground supervisors, and employees and board members frequently come to the central office to discuss issues with support staff that should be discussed with the superintendent/principal. Unnecessary interruptions should be minimized to better enable central office support staff to complete their duties within the work day.

To obtain a clearer understanding of the amount of time required for the tasks assigned to each position and ensure tasks are equitably distributed, the district should assign each staff member to complete a time analysis of his or her duties each day for one month. This could be accomplished in just a few minutes prior to the end of each workday.

It is unclear whether or not the district's two classified confidential supervisory positions are overtime exempt. Interviews indicated that overtime is not routinely compensated; however, the September and October 2015 payroll timesheets provided to the study team included one timesheet for overtime for the business and operations manager position.

Classified employees are entitled to overtime compensation as designated in the Fair Labor Standards Act and Education Code Sections 45127, 45128 and 45131 for time worked beyond eight hours per day or 40 hours per week. Some exemptions are applied for certain employees in executive, managerial, or supervisory positions as explained on the United States Department of Labor website at:

<http://www.dol.gov/general/topic/wages/overtimepay>

Depending on a position's job description and assigned duties, a confidential employee may not be an overtime-exempt employee. Government Code Section 3513 (f) states that, "Confidential employee means any employee who is required to develop or present management positions with respect to employer-employee relations or whose duties normally require access to confidential information contributing significantly to the development of management positions." Therefore, the designation of a position as confidential does not automatically qualify an employee to be overtime exempt. The position must qualify for exemption as outlined in federal and state law.

Central office staff members need to regularly receive training to understand and perform their jobs. Interviews with staff indicated that minimal training has been provided in key operational areas such as student attendance accounting, account coding, accounts payable and payroll.

The district contracts with the county office for assistance with some of its accounting and business functions including deposit, cash reconciliation, payroll and employee benefit services. These services will be discussed in further detail later in this report. Because the district is small, it has a minimal number of central office staff assigned with a wide range of responsibilities that can make it difficult to have a high level of expertise in each of the assigned areas. The services performed by the county office are essential in providing for proper internal controls and separation of duties.

Payroll

Internal control policies and procedures should be adequate to ensure that all transactions are properly authorized, duties are separated, payroll records and documentation are properly designed and maintained, access to assets and records is controlled, and payroll data is compared with the underlying items it represents. The efficient management of payroll systems also requires a sufficient number of properly trained staff to perform their duties without compromising controls over district assets.

Approximately three years ago, the county office was engaged to provide payroll processing services for the district after errors were discovered in the reporting of state retirement system contributions.

The school/district executive secretary is responsible for entering employee demographic data in the Digital Schools software system, including new hire information, and sending forms such as the federal Form W-4 to the county office. The executive secretary also collects and analyzes employee timesheets and sends them electronically to the county office.

The county office payroll staff is responsible for entering employee benefit and retirement contribution information in the payroll system, auditing timesheets and processing contract and timesheet payroll in the financial system. After payroll processing is complete, the county office electronically sends the payroll register and authorization form to the district. The executive secretary prints the documents, provides them to the superintendent/principal for approval, and electronically forwards the approved documents to the county office.

The district has one payroll cycle per month that includes both contract and timesheet pay, which is processed for payment on the last working day of the month. If an error is discovered in an employee's pay, the district may request that the county office process a warrant before the next payroll period.

After the county office processes and issues payroll warrants, the county courier returns them to the district or the executive secretary collects them at the county office. The executive secretary distributes the warrants; those with direct deposit are placed in employee mailboxes and the remaining warrants are available for pick up at the central office. Payroll warrants that are not picked up are mailed to employees. Proper internal controls and separation of duties would prevent an employee who has a role in authorizing or producing payroll warrants from distributing them to employees.

The district does not have a process to ensure that all warrants processed by the county office are received at the central office, and does not require employees to sign for their payroll warrants. To provide for proper internal controls, documents received by the district should be matched to the final payroll register to ensure that a warrant, or pay stub for those with direct deposit, was received for each employee. A preprinted signature page that includes each employee's name and a corresponding signature and date line should also be used. This would improve internal controls by allowing staff to quickly ensure that warrants picked up at the central office have been signed for, indicate those that are distributed in employee mailboxes and those that are mailed to employees.

When an individual is hired for a position, an email is sent by the executive secretary to the county office staff notifying them of the new hire. To increase efficiency and provide for proper internal controls, the district should develop and implement a standardized personnel action form that is used for all payroll changes and new hires. Each completed form should be approved, signed and dated by the superintendent/principal; include the date of governing board action for approval of the new hire and, if applicable, payroll changes; be sent to county office staff to inform them of the change; and be filed in the employee's payroll file.

The district uses a manual employee timesheet for substitutes and items such as stipends, extra time and overtime. The cutoff date for employee timesheet submittal is the 10th of each month. The executive secretary electronically sends the timesheets to the county office on the same day they are due to the central office. Interviews indicated that this process does not allow time for staff to review the timesheets for accuracy and ensure they were signed by the employee's supervisor before they are sent to the county office; therefore, changes are often necessary after the timesheets have been submitted to the county office. This necessitates numerous communications between the county office and district staff to ensure the corrections are made before the payroll is finalized. To improve efficiency and internal controls, sufficient time needs to be built into the payroll schedule to allow for timesheet review and approval before they are submitted to the county office for processing.

The district does not keep employee payroll files; rather, payroll documents and forms are sent to the county office and/or filed in employees' official personnel files. Employee leave documents are placed in a binder that is separated by employee name. The district should create individual employee payroll files that include all payroll and benefit information separate from the employee's official personnel file to ensure that all information that affects an employee's pay is located in a place accessible to payroll staff and to help make certain that official personnel files are not unnecessarily accessed.

Accounts Payable

Board Policy 3314, Payment for Goods and Services, states, “The Board of Trustees recognizes the importance of developing a system of internal control procedures in order to help fulfill its obligation to monitor and safeguard district resources. To facilitate warrant processing, the Superintendent or designee shall ensure that purchasing, receiving, and payment functions are kept separate.”

The school/district executive secretary is responsible for processing purchase requisitions, purchase orders and accounts payable transactions. To initiate a purchase, the employee requesting items such as supplies, services or equipment submits an email to the executive secretary who reviews the account code for accuracy and generates a requisition in the Digital Schools software system. If funds for the purchase are insufficient, Digital Schools has a hard stop, which requires a budget transfer to be completed before the requisition is processed. Interviews with staff indicated that the county office completes budget transfers. The requisition is electronically routed to the superintendent/principal for approval. Once approved, the executive secretary forwards the purchase order electronically or by mail to the vendor.

The office support technician receives deliveries and forwards the receiver documentation to the executive secretary. The executive secretary receives all invoices, matches the receiver document to the invoice and purchase order, and electronically forwards the invoices and back-up documentation to the superintendent/principal for approval. The executive secretary then finalizes the batch in Digital Schools and electronically forwards it to the county office for auditing.

The county office processes the district’s accounts payable warrants and sends them to the district office weekly by courier. The executive secretary receives the warrants and processes them for mailing. Effective internal controls and separation of duties would prevent the same person from initiating, processing and mailing transactions. The district should review its warrant distribution process and make adjustments such as reassigning warrant processing for mail or distribution to an employee other than the executive secretary.

Interviews with staff and documentation provided to the study team indicated that purchases are often made without an authorized purchase order. Invoices are then paid using the direct pay process; documents provided to the study team show that this process has caused delays in vendor payments. This method allows payments to be made even if sufficient funds are not available in an account and does not provide for proper internal controls.

Education Code Sections 17604 and 17605 provide the governing board or its designated representative the authority to contract in the name of the district. The governing board can delegate the authority to contract on its behalf, and authority may be limited as to time, money or subject matter; however, “no contract made pursuant to the delegation and authorization shall be valid or constitute an enforceable obligation against the district unless and until the same shall have been approved or ratified by the governing board.” The board must review the transactions of the officer or employee at least every 60 days.

The June 24, 2015 board meeting minutes include approval of resolutions 2015-1, 2015-2 and 2015-3 that provide the superintendent/principal, business and operations manager, and school/district executive secretary with the authority to sign specific documents on behalf of the board. A review of the January through June 2015 minutes showed that payroll and warrant expenditures are presented to and ratified by the governing board at its regular board meetings. The best practice would also provide that purchase orders be presented to the board for approval.

Interviews with staff indicated that the business and operations manager and the executive secretary have change access to the vendor demographic screens in the financial system. Proper internal controls would prohibit the employee who processes accounts payable transactions from having change access to vendor demographic screens. Therefore, an employee who is not assigned to process accounts payable transactions should be assigned to add new vendors and make any necessary changes to existing vendors' demographic information in the financial system.

Revolving Cash Fund

As provided by Education Code Section 42800, the district maintains a revolving cash fund from which it can make immediate payments. School districts most commonly use their revolving cash accounts when a payment must be made immediately and there is not enough time to process the payment through the normal accounts payable or payroll process.

Interviews indicated that the executive secretary processes revolving fund checks, replenishes the fund through the accounts payable process, and reconciles the bank statements as time permits. The revolving fund checks require dual signatures, and the superintendent/principal, business and operations manager, and school/district executive secretary are authorized signers on the account. To provide for proper internal controls, one individual should not be assigned to process revolving fund checks, be a signatory on the account, replenish the account and reconcile the bank statements for that account.

Travel Expenses

The district uses a Request for Travel and Conference Expense form for employees who want to attend conferences and workshops. The district's Board Policy 3350, Travel Expenses, states, "Meal costs shall be reimbursed based on documented actual expenses within the maximum amounts established by the Superintendent or designee and based on the time of day that travel for district business begins and ends. Any expense that exceeds the maximum rate of reimbursement established by the district shall be reimbursed only with the approval of the Superintendent or designee."

Documentation provided to the study team did not indicate maximum amounts for breakfast, lunch and dinner meal expense reimbursements or the time of day for travel that qualifies for reimbursement. Written procedures and/or an administrative regulation should be developed and approved for these items.

Cash Deposits

A sound internal control structure requires job duties to be segregated to properly protect the district's assets. No single employee should control the cash collection process from authorization to collection to recording transactions in the financial system. A well-functioning system includes separation of duties among those who prepare deposits, deposit cash receipts, post cash receipts to the financial system, review the receivables aging trial balance, authorize write-offs of delinquent accounts and investigate discrepancies or issues related to revenue.

The school/district executive secretary is responsible for collecting cash and checks, preparing deposits and completing a deposit authorization form at least weekly. Deposits are placed into a locked bag and sent to the county office weekly via the county courier. County office staff are responsible for verifying the deposit, entering deposit transactions in the Digital Schools financial system, and depositing the funds in the county treasury.

Interviews with staff indicated that the office support technician opens the mail and gives any checks received to the executive secretary. The food service supervisor counts food services cash and check collections and brings the deposit to the executive secretary weekly. The two then count the deposit together, match it to the food services point-of-sale system report, and the executive secretary provides a receipt to the food service supervisor. Cash collections from other entities, for example fundraising events, are dropped off at the central office without being counted in the presence of the executive secretary and often do not include back-up documentation on the amount collected.

The district lacks complete procedures to provide appropriate segregation of duties for the receipt and recording of cash. One way to increase the segregation of duties is assigning the office support technician who collects the funds via mail to make a control list of all receipts and mark all checks received “for deposit only” to help prevent unauthorized endorsement of checks prior to deposit before giving them to the executive secretary to process and send to the county office. A different employee could also compare the deposit slips to the control list to ensure that all funds were deposited.

Procedures should also require two individuals to count collections together and compare them to back-up documentation such as a cash register tape or receipts provided to the payee to ensure that all funds are accounted for. An example of this is the process used by the district for food service cash collections. This type of process should be used for all cash and check collections, including fundraisers.

A district employee should compare the deposit slips to the transactions entered in Digital Schools by county office staff to ensure that all funds were deposited with the county treasury and posted correctly in the financial system.

The executive secretary is also responsible for preparing invoices. To provide proper internal controls, the employee who receives cash and checks should not also prepare invoices nor should he or she be able to mark the invoices as paid in the financial system. Combining these duties would allow one employee to generate an invoice, receive the funds, mark the invoice as paid and use the payment received for his or her own purposes.

Recommendations

The district should:

1. Review FCMAT’s list of standards for financial management functions and ensure that it meets them.
2. Implement effective internal control processes and cross-train employees in all key areas of responsibility.
3. Develop individual desk manuals for each position in the central office and ensure that each employee includes the step-by-step procedures for all assigned duties.
4. Ensure that board policies and administrative regulations are reviewed and revised as necessary.
5. Provide the board with additional training regarding the roles and responsibilities of board members.

6. Revise its organizational chart to include each authorized position, its title and the relationship between positions including lines of authority and responsibility.
7. Review and update job descriptions as necessary to ensure they are current, include one supervisor for each position, list the correct duties of the position, comply with all legal requirements inclusive of the ADA, and do not include requirements for district-provided training.
8. Minimize the unnecessary interruptions experienced by central office support staff.
9. Assign each staff member to complete a time analysis of the duties her or she performs each day for one month.
10. Review the overtime exemptions as outlined by the United States Department of Labor and consult with legal counsel to determine if each position that has been designated as confidential supervisory is overtime exempt.
11. To provide for proper internal controls and separation of duties, continue to contract with the county office for payroll, deposit, and cash reconciliation services.
12. Ensure that the county office staff member who processes payroll has view-only access to employee demographic screens.
13. Ensure that an employee who has a role in authorizing or producing payroll warrants is prohibited from distributing them to employees.
14. Match payroll documents received from the county office to the final payroll register to ensure that a warrant or pay stub is received for each employee.
15. Use a preprinted signature page that includes each employee's name and a corresponding signature and date line; require the employees who pick up their payroll warrants to sign for them and indicate how the remaining items were disbursed by central office staff.
16. Develop and implement a standardized personnel action form that is used for all payroll changes and new hires.
17. Work with the county office to ensure that sufficient time is built into the payroll schedule to allow for timesheet review and approval before submission to the county office.
18. Create individual employee payroll files that include all payroll and benefit information separate from the employee's official personnel file.
19. Separate the duties for processing purchase requisitions and purchase orders from those duties associated with processing accounts payable transactions.
20. Ensure that the staff member who processes accounts payable warrants does not have access to the warrants when they are received from the county office.

21. Require that purchase orders be approved and issued for all purchases, except in limited situations such as emergencies, and minimize the use of the direct pay process.
22. Consider including a purchase order list on board meeting agendas for approval.
23. Ensure that the employee who processes accounts payable transactions has view-only rather than change access to vendor demographic screens in the financial system, and assign another employee to add vendors and change vendor demographic information in the financial system.
24. Ensure that any one individual is not assigned to process revolving fund checks, be a signatory on the account, replenish the account, and reconcile the bank statements for that account.
25. Ensure that revolving cash fund bank statements are reconciled monthly and that a second employee is assigned to review the reconciliation. Both individuals should sign and date the reconciliation when the assigned duty is complete.
26. Develop and adopt written procedures and/or an administrative regulation for meal expense reimbursements that includes the maximum amount per meal and time of day for travel that qualifies for reimbursement.
27. Implement procedures to provide appropriate segregation of duties for the receipt, deposit and recording of cash and checks.
28. Ensure that two individuals count cash and check collections together and compare it to back-up documentation.
29. Assign a district employee to compare deposit slips to the transactions entered by county office staff in the financial system.
30. Ensure that the employee responsible for preparing invoices is not assigned to receive cash and checks.

This management letter contains the study team's findings and recommendations.

FCMAT appreciates the opportunity to serve the Napa County Office of Education and the Howell Mountain Elementary School District and extends thanks to its staff for their cooperation and assistance during this review.

Sincerely,



Diane Branham
Chief Management Analyst

C: Barbara Nemko, Superintendent, Napa County Office of Education