PROCEDURES FOR DISBURSEMENT OF SCHOOL DISTRICT FUNDS

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Joint Legislative Audit Committee

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The Honorable Speaker of the Assembly
The Honorable President of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members:

Transmitted herewith is the Auditor General's report on procedures for disbursement of school district funds and the related financial controls of school districts, county superintendents of schools, and county auditors.

As a result of existing Education Code provisions, school districts' accounting records, audits, and credential files are being duplicated by county superintendents of schools. On the basis of the Auditor General's review of 16 school districts located in Los Angeles, Orange, Sacramento, San Diego, and Santa Clara counties, these duplicate functions are being performed statewide by an estimated 197 full-time employees of county superintendents of schools at an unnecessary cost of $3.5 million annually.

The Auditor General has recommended (1) that the Legislature amend the Education Code to place sole responsibility for the administration of school district financial affairs upon the governing boards of local school districts and remove such responsibility from the county superintendents of schools in order to preclude the above noted duplication and (2) that the 197 full-time positions involved in this duplication be immediately deleted.

While 1967 legislation provides that qualified school districts may issue their own warrants for payment of school district expenditures without prior review and approval by the county superintendents of schools and county auditors, only three of 344 qualifying districts issue their own warrants.

The State Department of Finance, county superintendents of schools, and county auditors have not provided school districts sufficient information to determine if it would be economically advantageous to the school districts to issue their own warrants without prior review and approval by the county superintendents of schools and county auditors. When school districts apply for approval to issue their own warrants, a survey must be made of the school districts' accounting controls by an independent public accountant in accordance with standards prescribed by the Department of Finance. To date, the Department of Finance has not issued such standards some three and a half years after the requirements to do so became effective. Until these standards are issued, school districts cannot be certain as to the costs pertaining to the accounting control surveys.

Some of the county superintendents of schools and county auditors have not issued policy statements regarding county services to be provided and costs to be assessed school districts which receive approval to issue their own warrants. Until all counties formulate such policy statements, school districts are unable to make a proper cost analysis regarding the issuance of their own warrants.

The Auditor General has recommended that, pending implementation of the above stated recommendations, the Department of Finance expedite the issuance of the required standards for accounting control surveys and that the county superintendents of schools and county auditors issue the appropriate policy statements.

Respectfully submitted,

Vincent Thomas

VINCENT THOMAS, Chairman
Joint Legislative Audit Committee

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INTRODUCTION

In response to a legislative request, we have reviewed the procedures for the disbursement of school district funds and the related financial controls of school districts, county superintendents of schools and county auditors. Our review was to determine the efficiency and effectiveness of the procedures and compliance with legislation.

We reviewed the disbursement procedures and related financial controls of sixteen selected school districts and of corresponding county superintendents of schools and county auditors in five selected counties as follows:

Counties	School Districts
Los Angeles	Los Angeles Community College Norwalk-La Mirada Unified Pomona Unified Whittier Union High
Orange	Fullerton Joint Union High Garden Grove Unified Newport-Mesa Unified
Sacramento	Folsom-Cordova Unified Los Rios Community College Sacramento City Unified
San Diego	La Mesa-Spring Valley City Elementary San Diego City Unified Sweetwater Community College
Santa Clara	Foothill Junior College Freeman Union High San Jose Unified.

The selected counties administer school districts for 57 percent of the kindergarten through second year community college students in California, including adult education.

School districts are typically supported from 62 percent local funds, 31 percent state funds, and 7 percent federal funds. The financial service units of the county superintendents of schools and the county auditors are primarily funded by county property (ad valorem) taxes.

FINDINGS

SCHOOL DISTRICTS' ACCOUNTING RECORDS, AUDITS AND CREDENTIAL FILES ARE BEING DUPLICATED BY COUNTY SUPERINTENDENTS OF SCHOOLS RESULTING IN UNNECESSARY COSTS OF $3.5 MILLION ANNUALLY

County superintendents of schools are performing financial reviews and maintaining records which duplicate those of school districts. Such reviews and records maintenance provide little, if any, additional assurance that district funds are properly administered.

In the five counties audited, these duplicate reviews and records maintenance are performed by the equivalent of 112 full-time employees at an annual cost of over $2 million. If the same ratio of costs to students exists statewide as in our 57 percent sample, these duplicate reviews are being performed by 197 full-time employees at an unnecessary cost to county taxpayers of $3.5 million annually.

Duplication of Accounting Records

The governing board of each school district is responsible for keeping an accurate accounting of the district's receipts and expenditures, and for keeping such records open for public inspection. The governing board must also make an annual financial report to the county superintendent of schools in a manner prescribed by the State Superintendent of Public

Instruction. Legislation enacted in 1953 requires that each school district be audited annually by a certified public accountant or a public accountant.

Various Education Code sections in the aggregate also provide that the county superintendents of schools are responsible for maintaining accounting and budgetary control records for school districts. Many of these provisions were originally enacted 50 to 100 years ago. School districts have since grown in size and complexity, and have developed better internal financial controls.

In order to fulfill their responsibilities, county superintendents of schools maintain accounting records in varying degrees of detail for all school districts. The accounting records maintained by the county superintendents duplicate the records required to be maintained by the school districts themselves and provide little, if any, additional control.

In the five counties we reviewed, records of the county superintendents of schools were maintained on the basis of cash received and cash expended. The school districts generally encumber, or commit, funds at the time an obligation is incurred, instead of waiting until it is paid. The governing board must have a record of these encumbrances to keep them from over-expending district funds. The cash-basis records of school district funds maintained by the county superintendent provide no assurance that sufficient district funds will be available to pay for all district obligations.

The five county superintendents of schools we reviewed devoted a total of 37 full-time employees to accounting for school district funds.

The annual cost of this function in the five counties for fiscal year 1972-73 was approximately $1,053,000. Extending such costs statewide, 65 full-time employees would be utilized by county superintendents to account for school district funds at an unnecessary annual cost of $1.8 million.

Duplication of Audits

The governing board of each school district is liable for all debts and contracts of the district. In addition, disbursement of school district funds must be approved by a majority of the governing board of the district or its authorized representative. Each of the 16 school districts we reviewed made a complete and satisfactory audit of claims for payment of vendors prior to approval of the claims by the governing board and preparing warrants for payment of the claims.

The Education Code provides that county superintendents of schools are responsible for administering all constitutional and statutory limitations on how money derived from particular sources may be expended by school districts. The county superintendents of schools are also required to determine if "it appears that" expenditures are legal, and that sufficient district funds are available.

Another audit agency, the county auditor, is also required to examine and approve each requisition on school district funds. In the five selected counties, the reviews and approvals of school district warrants by the county superintendents of schools and the county auditors are combined in the office of the county superintendents of schools. This has been accomplished by deputizing employees of the county superintendents of schools to act for both offices.

The extent of the audits of school district payments to vendors, made by the county superintendents of schools and the county auditors, varies between counties and with the size of the school districts. However, all claims for payments to vendors were audited to some extent by each of the counties reviewed.

In order to audit school district claims, the county superintendents of schools obtain copies of some, but not all, supporting documents from the school districts and maintain duplicate files of school district documents. The county superintendents of schools then duplicate part of the audit made by the school districts.

The county superintendents of schools cannot adequately audit vendor payments because they lack school districts' purchase orders, receiving reports, and records of obligations encumbered. Therefore, little assurance as to the propriety of the expenditures is provided by the county audits.

Of the school district warrants we reviewed, the county superintendents of schools' audits of vendor payments disclosed few errors. Less than one fourth of one percent of all fiscal year 1972-73 warrants for payment of vendors by the districts we audited were disapproved by the five county offices. The errors disclosed and the resulting change in dollars expended were negligible.

The five county superintendents of schools we reviewed devoted a total of 48 full-time employees to auditing payments by school districts to vendors. The annual cost of this function in the five counties for fiscal year 1972-73 was approximately $640,000. Extending such costs statewide,

84 full-time employees would be utilized annually to audit school district payments to vendors at an unnecessary annual cost of $1.1 million.

Duplication of Credential Files

Information on credentials held by school district employees is maintained by the districts for personnel management. This data is also used to make required annual reports to the county superintendents of schools, including an affidavit that all employees in positions requiring certification qualifications were properly certificated for the work performed.

The school districts we reviewed maintained sufficient data and systems to assure that their employees possessed proper credentials.

All of the five county superintendents of schools we reviewed also maintain files of credentials held by school district employees. Some of the county superintendents of schools use these files to enable the county board of education to recommend school district employees for life credentials, and some use them to determine that each school district employee has the proper credential for the position held and that district payroll expenditures are legal.

Legislation which became effective July 1, 1973, amended the Education Code to provide that each county may maintain credentials of school district employees, and deleted the previous requirement that the county board of education pass resolutions recommending district employees for life credentials.

The maintenance of duplicate credential files and the reviews by the county superintendents of schools provide little additional assurance that employees possess proper credentials. If some review of credentials in addition to that of the school districts is deemed necessary, it could be included as part of the annual audit required of each school district.

The five county superintendents of schools we reviewed devoted a total of 27 full-time employees to maintaining credentials and determining that school district employees being paid had the proper credentials. The annual cost of this function in the five counties for fiscal year 1972-73 was approximately $345,000. Extending these costs statewide, 48 full-time employees would be utilized by county superintendents of schools to maintain credentials at an unnecessary annual cost of $600,000.

We conclude that sections of the Education Code which provide that responsibility for the financial management of school district funds be shared by the school districts and the county superintendents of schools are outdated, and have caused duplication of accounting records, audits and credential files by county superintendents of schools at an estimated unnecessary cost to county taxpayers of $3.5 million annually.

RECOMMENDATIONS

We recommend that the Legislature amend the Education Code to place sole responsibility for the administration of school district financial affairs upon the governing boards of local school districts, and remove such responsibility from the county superintendents

of schools in order to preclude duplication of accounting records, audits and credential files.

We further recommend that immediately upon such amendment of the Education Code, county superintendents of schools cease such activities resulting in this duplication of financial activities of school districts and that the 197 full-time positions responsible for performing such activities be deleted.

SAVINGS

Proper implementation of these recommendations will result in reduced expenditures of $3.5 million annually for county taxpayers.

THE STATE DEPARTMENT OF FINANCE, COUNTY SUPERINTENDENTS OF SCHOOLS AND COUNTY AUDITORS HAVE NOT PROVIDED SCHOOL DISTRICTS SUFFICIENT INFORMATION TO DETERMINE IF IT WOULD BE ECONOMICALLY ADVANTAGEOUS FOR THE DISTRICTS TO ISSUE THEIR OWN WARRANTS WITHOUT PRIOR REVIEW AND APPROVAL BY THE COUNTY SUPERINTENDENTS OF SCHOOLS AND THE COUNTY AUDITORS

In 1967, legislation was enacted which provided a means for qualifying school districts to issue their own warrants for payment of district expenditures without prior review and approval by the county superintendents of schools and the county auditors. Of the state's 1,135 school districts, 344 meet the organizational and size qualifications specified in the 1967 legislation. However, only three school districts have implemented the provisions of this legislation.

Costs Pertaining to Accounting Control Surveys Are Uncertain

Before a qualifying school district may issue its own warrants without prior review and approval by the county superintendents of schools and the county auditors, the district must obtain the approval of the State Superintendent of Public Instruction. Such approval is to be based on the recommendations of the county superintendent of schools and the county auditor.

When a school district applies for approval to issue its own warrants, the county superintendent of schools is to initiate a survey by an independent public accountant of the school district's accounting controls. The Education Code was amended in 1970 to require that this survey be in accordance with standards prescribed by the Department of Finance. The costs

of this survey of accounting controls are to be reimbursed to the county superintendent of schools by the applying school district.

To date, the Department of Finance has issued no standards for accounting control surveys of school districts. However, the department has stated that it plans to do so about July 1, 1974, approximately three and a half years after the requirement for such standards became effective.

In the absence of standards approved by the Department of Finance, some county superintendents of schools have instructed public accountants making surveys of districts' accounting controls to use as a guide standards previously prepared by a group of six southern California counties. The state Departments of Education and Finance have instructed at least one county to use these standards.

The standards of the group of six southern California counties contain 47 pages of control questions. Many controls and business practices to be questioned have very remote relationships to issuing warrants. Some of the recommended accounting controls would exceed those currently required of the school districts and provided by the counties' review and approval of school district warrants before they are issued. Consequently, the costs of such surveys and resulting recommended accounting controls may be higher than necessary.

The estimated costs for the surveys of two school districts which recently applied to implement this legislation are $7,500 each. However, it is uncertain if these survey costs are typical.

Until the standards for accounting control surveys are issued by the Department of Finance, school districts cannot be certain as to (1) how much the survey would cost, and (2) how much the implementation of the survey's resulting recommended accounting controls would cost. Such costs should be known in order for school districts to determine the feasibility of issuing their own warrants.

Potential Additional Costs for School Districts Which Issue Their Own Warrants

The Education Code provides that those school districts which obtain approval to issue their own warrants shall bear the cost of printing the warrants. Further, if the districts were to issue their own warrants, county auditors may charge them the cost of all fiscal services provided by the counties, except for assessing and tax collecting.

In four of the five counties we reviewed, the preparation of payroll warrants and related reports for school districts is provided by the financial service unit of the county superintendent of schools at no direct cost to the school districts. The fifth county provides payroll services to school districts at substantially less than the county's actual costs. If districts were to issue their own warrants, they may be required to perform their own payroll services or to pay the county superintendents of schools for the services they provide.

Several of the county superintendents of schools and county auditors we reviewed have not issued policy statements regarding county services to be provided and costs to be assessed school districts which receive approval

to issue their own warrants. Thus, many districts are unable to estimate their costs or savings related to issuing their own warrants.

However, one county included in our review advised a school district to anticipate charges of $21,000 to $24,000 per year for services currently provided by the county auditor if the district were to issue its own warrants. The county also advised the district to budget $15,000 to $20,000 per year for warrants and other materials, plus an appropriate sum for personnel needed to assume the additional responsibilities. These services and costs are currently provided and supported by taxpayers of the school districts through the levy of county-wide taxes. This is a disincentive for districts to issue their own warrants since it will cost them more to do so.

Until all counties formulate policy regarding services to be provided and costs to be assessed, as such policy pertains to the issuance of warrants by the school districts themselves, school districts are unable to make a proper cost analysis regarding the issuance of their own warrants.

In our judgment, the failure of the Department of Finance to expeditiously develop standards for school districts' accounting control surveys and the uncertainties concerning increased costs to school districts have deterred broad implementation of legislation authorizing school districts to issue their own warrants for payment of district expenses without prior review and approval by the county superintendents of schools and the county auditors.

Prior to implementation of the recommendations below, it is unknown as to whether or not it would be economically advantageous for school districts to issue their own warrants.

Implementation of the recommendations on pages 10 and 11 of this report would provide authority to school districts to issue their own warrants without prior review and approval by the county superintendents of schools and county auditors. Pending implementation of those recommendations the following recommendations have been made.

RECOMMENDATIONS

We recommend that the Department of Finance expedite the issuance, to school districts and county superintendents of schools, of standards for accounting control surveys of school districts applying for approval to issue their own warrants.

We also recommend that the various county superintendents of schools and county auditors issue to school districts policy statements regarding county services to be provided and costs to be assessed school districts which receive approval to issue their own warrants.

SUMMARY OF COMMENTS OF COUNTY SUPERINTENDENTS OF SCHOOLS AND THEIR STAFFS

1. The school districts reviewed by the Auditor General are large and relatively efficient. Some of the other districts not reviewed do not have as competent a staff and may not be as capable as those districts reviewed.

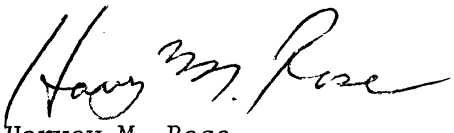
2. Some of the county superintendents' personnel making audits of school districts' payments to vendors sometimes advise district personnel of potential problems before the commitment of district funds, thus having a preventive effect which would not be evident from the Auditor General's review of errors disclosed by county personnel. Staff of other county superintendents acknowledged that little benefit results from their duplicate audit of vendor payments for most school districts.

   If the county superintendents' audits of districts' vendor claims were eliminated, the costs of the districts' annual audits by public accountants would increase.

   Before the audits of districts' vendor claims by the county superintendents can be discontinued, the superintendents must be relieved of their statutory responsibilities for administering constitutional and statutory limitations on district expenditures.

3. There is a need for a centralized source, such as the county superintendent of schools, to forward teacher credential data to the state Commission for Teacher Preparation and Licensing.

4. Few school districts have expressed any interest in issuing their own warrants. Therefore, the counties have not developed policies in this regard.



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June 20, 1974

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