

REPORT BY THE  
AUDITOR GENERAL  
OF CALIFORNIA

---

**A REVIEW OF THE FINANCIAL STATUS OF  
THE MADERA COUNTY SUPERINTENDENT  
OF SCHOOLS**

---

REPORT BY THE  
OFFICE OF THE AUDITOR GENERAL

P-457

A REVIEW OF THE FINANCIAL STATUS  
OF THE MADERA COUNTY SUPERINTENDENT OF SCHOOLS

DECEMBER 1984



Telephone:  
(916) 445-0255

Thomas W. Hayes  
Auditor General

STATE OF CALIFORNIA  
**Office of the Auditor General**

660 J STREET, SUITE 300  
SACRAMENTO, CA 95814

December 17, 1984

P-457

Honorable Art Agnos, Chairman  
Members, Joint Legislative  
Audit Committee  
State Capitol, Room 3151  
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the financial condition of the Madera County Superintendent of Schools. The report indicates that the Madera County Superintendent of Schools (MCSS) has budgeted expenditures for fiscal year 1984-85 that are greater than its budgeted income and thus projects that its fund balance will be reduced. Should the MCSS' budget projections for fiscal year 1984-85 come true, the MCSS will have to take steps to ensure that in subsequent years its expenditures do not exceed its income to the extent that its fund balance is depleted, making the MCSS vulnerable to economic uncertainties. The report also indicates that the MCSS used the proper funds to finance its computer operations and that it followed the requirements of the Education Code when it purchased computer equipment.

Respectfully submitted,

for THOMAS W. HAYES  
Auditor General

## TABLE OF CONTENTS

	<u>Page</u>
<b>SUMMARY</b>	<b>i</b>
<b>INTRODUCTION</b>	<b>1</b>
<b>ANALYSIS</b>	
I THE MADERA COUNTY SUPERINTENDENT OF SCHOOLS' BUDGET FOR FISCAL YEAR 1984-85 SHOWS THAT ITS EXPENDITURES WILL EXCEED ITS INCOME	5
CONCLUSION	15
II THE MADERA COUNTY SUPERINTENDENT OF SCHOOLS USED THE PROPER SOURCES OF FUNDS TO FINANCE ITS COMPUTER OPERATIONS, AND IT PROPERLY PURCHASED COMPUTER EQUIPMENT	17
CONCLUSION	23
<b>RESPONSE TO THE AUDITOR GENERAL'S REPORT</b>	
State Department of Education	25
Madera County Department of Education	27
<b>APPENDIX</b>	
MADERA COUNTY SUPERINTENDENT OF SCHOOLS INCOME, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGETED AND ACTUAL FISCAL YEARS 1980-81 THROUGH 1984-85	A-1

## SUMMARY

The Madera County Superintendent of Schools (MCSS) has budgeted expenditures for fiscal year 1984-85 that are \$531,903 greater than its budgeted income. The MCSS will finance the deficit in its budget by using the reserves that it accumulated during previous fiscal years. The MCSS expects to reduce its June 30, 1984, fund balance of \$708,092 to \$176,189 on June 30, 1985. We reviewed the financial records pertaining to the MCSS' computer services and determined that the MCSS properly accounted for these services.

### Fund Balance

The MCSS has classified reserves within the fund balance as either special purpose reserves or general purpose reserves. The MCSS uses special purpose reserves only for specific projects, such as the Job Training Partnership Act program. The MCSS uses general purpose reserves for its general operations.

The MCSS reported a fund balance of \$708,092 on June 30, 1984, of this amount, \$341,834 was restricted for special purposes. Approximately \$254,000 of this total will be used to acquire facilities. The MCSS projects that, during fiscal year 1984-85, its special purpose expenditures will exceed its special purpose income by \$293,471, thus reducing the special purpose reserves in the fund balance to \$48,363.

The June 30, 1984, fund balance also includes \$366,258 designated for general purposes. For fiscal year 1984-85, the MCSS projects that its general purpose expenditures will exceed its general purpose income by \$238,432, thus reducing the general purpose reserves in the fund balance to \$127,826. Should the MCSS' budget projections for fiscal year 1984-85 come true, the MCSS will have to take steps to ensure its general purpose expenditures do not exceed its general

purpose income to the extent that it depletes its fund balance and thus becomes vulnerable to economic uncertainties.

We reviewed the audited financial statements of the MCSS for fiscal years 1980-81, 1981-82, and 1982-83. The certified public accounting firms that audited these statements concluded that the statements present fairly the financial position of the MCSS except that the statements do not include general fixed assets. At the time of our review, the MCSS had engaged a certified public accounting firm to conduct a financial audit of its fiscal year 1983-84 financial statements.

### Computer Services

The MCSS uses its computer system for tasks such as preparing financial statements and payrolls for itself and for the 12 school districts within the county. To ensure that it can meet the demand for computer services in the future, the MCSS periodically compares the current and expected computer workload with the computer's capacity and then makes the necessary additions to its computer equipment. The MCSS currently has excess computer capacity, which it sells to other Madera County offices such as the Elections Department of the Madera County Clerk. The MCSS charges a fee to the county offices for which it provides computer services. During fiscal year 1983-84, the MCSS received \$40,117 from other Madera County offices, and it projects that it will receive \$101,143 during fiscal year 1984-85.

The MCSS' financial records pertaining to its computer operations for fiscal year 1983-84 show that the MCSS properly accounted for its computer services and that the MCSS used the proper sources of funds to finance the operations of its computer services. During fiscal year 1983-84, the MCSS spent \$416,699 for computer operations: \$308,389 for operating expenditures and \$108,310 for the purchase of computer equipment. In its budget for fiscal year 1984-85,

the MCSS projects that it will spend \$465,423 for computer services. The MCSS will spend \$352,545 for computer operations and \$112,878 to purchase computer equipment.

Finally, in purchasing computer equipment during fiscal years 1981-82, 1982-83, and 1983-84, the MCSS followed the provisions of the Education Code. During these three fiscal years, the MCSS spent \$463,779 to purchase computer equipment.

## INTRODUCTION

The Madera County Superintendent of Schools (MCSS) operates in accordance with policies approved by the seven-member Madera County Board of Education. The superintendent of schools and the board members are elected officials serving four-year terms. To assist in carrying out the programs of the MCSS, the superintendent has established a management team consisting of an assistant superintendent for business and personnel, an assistant superintendent for curriculum and instruction, a director for business services, and a director for data processing.

The MCSS operates juvenile hall schools and county community schools, and it provides educational services to the 12 school districts within Madera County. In addition, the MCSS operates a countywide transportation program for handicapped students, and it provides data processing services to Madera County school districts and to other Madera County offices. The MCSS also operates special education programs and such federal projects as the Elementary and Secondary Education Act program and the Job Training Partnership Act program.

### The MCSS' Budget

During fiscal year 1983-84, the MCSS reportedly incurred \$5,980,694 in expenditures, received \$6,152,839 in income, and it ended

the fiscal year with a fund balance of \$708,092.\* This fund balance represents an excess of assets over liabilities at the end of the fiscal year. For 1984-85, the MCSS projects that its expenditures will be \$7,007,113 and its income will be \$6,475,210; it also projects that its fund balance will be reduced from \$708,092 to \$176,189.

The MCSS' accounting system separates income and expenditures into two categories, general purpose and special purpose. General purpose income is used for general operating purposes including the operations of the special education programs. Special purpose income can only be used for specific projects, such as administering the Job Training Partnership Act program or acquiring a new facility. The MCSS establishes budgets and records actual income and expenditures for each of the various programs within the general purpose and the special purpose categories.

### Computer Services

During 1983-84, the MCSS spent \$416,699 to provide various computer services; of this amount, the MCSS spent \$108,310 to purchase computer equipment. The MCSS expects to spend \$465,423 for computer services in 1984-85, including \$112,878 to purchase computer equipment.

---

\*Unless otherwise noted, all references to years in this report are to fiscal years.

The MCSS uses its computer system for tasks such as preparing financial statements and payrolls for itself and for the 12 school districts within Madera County. When the MCSS has excess computer capacity, the MCSS sells it to other Madera County offices for a fee. During 1983-84, the MCSS received \$40,117 from other Madera County offices, and it projects that it will receive \$101,143 during 1984-85.

#### SCOPE AND METHODOLOGY

The purpose of our audit was to determine whether the Madera County Superintendent of Schools budgets and expends money in excess of its available resources, whether the MCSS used the proper sources of funds to finance its computer operations, and whether the MCSS followed the provisions of the Education Code when purchasing computer equipment.

We examined the audited financial statements of the MCSS for fiscal years 1980-81, 1981-82, and 1982-83. The certified public accounting firms that audited these statements concluded that the statements presented fairly the financial position of the MCSS except that the statements did not include general fixed assets. We also examined the MCSS' unaudited financial statements for 1983-84 and its budget for 1984-85. In addition, we reviewed the budget and financial reports that the MCSS submitted to the State Department of Education to compare the MCSS' budget to its actual expenditures for fiscal years 1980-81 through 1984-85. Further, we reviewed the MCSS' budget

preparation process, and we reviewed the minutes of the Madera County Board of Education for fiscal years 1981-82 through 1984-85.

We reviewed the financial records related to the computer services that the MCSS provides for itself, the 12 school districts within Madera County, and the other Madera County offices for 1981-82, 1982-83, and 1983-84. We examined the sources of funds that the MCSS used to finance its computer operations, and we examined the records related to purchases of computer equipment. We did not assess the MCSS' need for the computer equipment that it purchased.

Finally, we met with the Madera County Superintendent of Schools and his staff, and we interviewed officials at the State Department of Education.

Because the procedures cited above were not sufficient to constitute an examination of the financial statements made in accordance with generally accepted auditing standards, we do not express an opinion on the MCSS' financial condition or results of operations. At the time of our review, the MCSS had engaged a certified public accounting firm to conduct a financial audit of its 1983-84 financial statements as required by Section 41020 of the Education Code. Therefore, to avoid duplication, we did not conduct a similar financial audit.

## ANALYSIS

### I

#### THE MADERA COUNTY SUPERINTENDENT OF SCHOOLS' BUDGET FOR FISCAL YEAR 1984-85 SHOWS THAT ITS EXPENDITURES WILL EXCEED ITS INCOME

For 1984-85, the Madera County Superintendent of Schools (MCSS) prepared a deficit budget with plans to finance the deficit using reserves that the MCSS accumulated over previous years. On June 30, 1984, the MCSS reported a fund balance of \$708,092. The MCSS projects that its total income for 1984-85 will be \$6,475,210 while its expenditures will be \$7,007,113. Therefore, the MCSS projects that it will spend \$531,903 more than it receives, thus reducing the fund balance to \$176,189 at the end of the current fiscal year.

The \$531,903 excess of expenditures over income includes expenditures of \$293,471 for special purpose projects and \$238,432 for general purposes. Within the projected fund balance of \$176,189 at June 30, 1985, the MCSS expects that the balance for general purpose operations will be \$127,826, and the balance for special purpose operations will be \$48,363. Should the MCSS' projections for 1984-85 come true, the MCSS will have to take steps to assure that general purpose expenditures, in years subsequent to 1984-85, do not exceed its general purpose income to the extent that it depletes its fund balance.

## Fund Balance

Article 16, Section 18, of the Constitution of the State of California prohibits a board of education from incurring any indebtedness or liability that exceeds its income in any year unless the board obtains the consent of the voters. We found that the MCSS did not incur any indebtedness or liability that exceeded its available resources.

The MCSS reported ending 1983-84 with a fund balance of \$708,092. Amounts within the fund balance are designated for general purposes and restricted for special purposes. General purpose reserves accounted for \$366,258 of this fund balance; these reserves can be used for general operating purposes. The remaining \$341,834 constituted special purpose reserves that can be used only for specific projects such as administering the Job Training Partnership Act program or acquiring a new facility.

## Budget for Fiscal Year 1984-85

In its budget for 1984-85, the MCSS projects that it will spend \$531,903 more than it receives. The MCSS will finance the deficit in its budget from reserves in the fund balance that were accumulated during previous fiscal years. The MCSS projects that its fund balance will be reduced from \$708,092 on June 30, 1984, to \$176,189 on June 30, 1985. For 1984-85, the MCSS expects its total expenditures

to be \$7,007,113 and its total income to be \$6,475,210. Table 1 below shows the actual income, expenditures, and changes in fund balance that the MCSS reported for 1983-84 and its budget for 1984-85.

**TABLE 1**  
**MADERA COUNTY SUPERINTENDENT OF SCHOOLS**  
**INCOME, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**FISCAL YEARS 1983-84 AND 1984-85**

	<u>1983-84</u> <u>(Actual)</u>	<u>1984-85</u> <u>(Budget)</u>
Beginning Fund Balance	<u>\$ 535,947</u>	<u>\$ 708,092</u>
Income	6,152,839	6,475,210
Expenditures	<u>5,980,694</u>	<u>7,007,113</u>
Income Over (Under) Expenditures	<u>172,145</u>	<u>(531,903)</u>
Ending Fund Balance	<u><u>\$ 708,092</u></u>	<u><u>\$ 176,189</u></u>

Source: Unaudited financial statements of the Madera County Superintendent of Schools.

The MCSS projects that during 1984-85 its general purpose income will be \$4,339,000 and its general purpose expenditures will be \$4,577,432. Therefore, it will spend \$238,432 more than it receives for general purposes, and the general purpose reserves in the fund balance will be reduced from \$366,258 on June 30, 1984, to \$127,826 on June 30, 1985. Further, for 1984-85, the MCSS projects that its special purpose income will be \$2,136,210 and that its special purpose expenditures will be \$2,429,681. Therefore, it will spend \$293,471 more than it receives for special purposes, and the special purpose

reserves in the fund balance will be reduced from \$341,834 on June 30, 1984, to \$48,363 on June 30, 1985.

As mentioned earlier, special purpose income can be used only for the specific projects for which the income was received. These projects may be funded with federal, state, or private monies. For example, the MCSS projects that it will receive approximately \$1.1 million from the federal government for the Job Training Partnership Act program during 1984-85. Income received for specific purposes will be used for one-time expenditures unless the funding is renewed during subsequent years. Therefore, the budgeted excess of special purpose expenditures over income for 1984-85, totaling \$293,471, involves reserves already set aside for specific projects. Approximately \$254,000 of the 1984-85 deficit budget was restricted at June 30, 1984, for the acquisition of new facilities. Table 2 on the following page shows the actual income, expenditures, and changes in reserves that the MCSS reported for general purpose and special purpose operations for 1983-84 and the budgeted amounts for 1984-85.

TABLE 2

**MADERA COUNTY SUPERINTENDENT OF SCHOOLS  
INCOME, EXPENDITURES, AND CHANGES IN RESERVES  
FOR GENERAL PURPOSE AND SPECIAL PURPOSE OPERATIONS  
FISCAL YEARS 1983-84 AND 1984-85**

	<u>1983-84 (Actual)</u>	<u>1984-85 (Budget)</u>
<u>General Purpose Operations</u>		
Beginning Reserves	<u>\$ 238,919</u>	<u>\$ 366,258</u>
Income	4,110,490	4,339,000
Expenditures	<u>3,983,151</u>	<u>4,577,432</u>
Income Over (Under) Expenditures	<u>127,339</u>	<u>(238,432)</u>
Ending Reserves	<u>\$ 366,258</u>	<u>\$ 127,826</u>
<u>Special Purpose Operations</u>		
Beginning Reserves	<u>\$ 297,028</u>	<u>\$ 341,834</u>
Income	2,042,349	2,136,210
Expenditures	<u>1,997,543</u>	<u>2,429,681</u>
Income Over (Under) Expenditures	<u>44,806</u>	<u>(293,471)</u>
Ending Reserves	<u>\$ 341,834</u>	<u>\$ 48,363</u>

Source: Unaudited financial statements of the Madera County Superintendent of Schools.

We do not know what the MCSS' actual income and expenditures will be for 1984-85 and there were many uncertainties at the time the MCSS prepared its budget. For example, the superintendent said that the 1984-85 budget did not contain \$30,000 of unexpected income that the MCSS already received during 1984-85. As discussed in the next

section, actual income and expenditures may differ significantly from projected amounts. However, many of the MCSS' general purpose expenditures, such as salaries and supplies, are of a recurring nature. Thus, the MCSS could exhaust its general purpose reserves in the fund balance if its projections for 1984-85 come true and if it were to expend at the same level in subsequent fiscal years. The superintendent said that the 1984-85 budget contains expenditures of \$60,000 that will not recur during 1985-86: \$30,000 represents the last payment on four school buses, and \$30,000 represents payments for equipment purchases and the rental of a mobile classroom. Nevertheless, should the MCSS' projections for 1984-85 come true, the MCSS will have to take steps in years subsequent to 1984-85 to ensure that its general purpose expenditures do not exceed its general purpose income to the extent that it depletes its fund balance and thus becomes vulnerable to economic uncertainties.

#### Comparison of Past Budgets With Actual Income and Expenditures

The MCSS has a history of projecting that its expenditures will exceed its income and that its fund balance will be reduced. However, its expenditures do not always exceed its income, and its fund balance is not always reduced at the end of a fiscal year. For 1983-84, the MCSS projected that it would spend \$6,275,133 and that it would receive \$5,786,858, thus reducing its fund balance from \$509,734 to \$21,459. Instead, the MCSS reported spending \$5,980,694 and receiving \$6,152,839. Therefore, instead of reducing its fund balance

by \$488,275, the MCSS increased its fund balance by \$172,145. Furthermore, the MCSS reported an actual beginning fund balance on July 1, 1983, of \$535,947 instead of the projected \$509,734. Therefore, the MCSS ended 1983-84 with a fund balance of \$708,092 rather than \$21,459.

Moreover, even when the MCSS correctly projects that its expenditures will exceed its income, the difference is not always as large as projected. For 1980-81, the MCSS projected that it would spend \$659,283 more than it received; however, its expenditures actually exceeded its income by only \$6,953. Similarly, in 1981-82, the MCSS budgeted \$742,304 more in expenditures than income. However, the MCSS' actual expenditures exceeded income by \$384,789 for the fiscal year. (Appendix A shows budgeted and actual income and expenditures as well as the changes in fund balance from 1980-81 through 1983-84. The appendix also shows the MCSS' budget for 1984-85.)

#### Transportation Expenditures and Reimbursements

The superintendent said that the reduction in the general purpose reserves within the fund balance occurs largely because the State Department of Education (department) does not reimburse the MCSS for the cost of operating a countywide special education transportation program during the fiscal year in which the MCSS incurs the expenditures. The special education transportation program generally

serves school-age children who have severe mental or physical handicaps. The department funds this special education transportation program retroactively; that is, the department reimburses a county in one fiscal year for expenditures that the county incurred in the previous fiscal year.

At the close of a fiscal year, each school district and county superintendent of schools submits to the department a report showing total transportation expenditures for the fiscal year. After the department receives these reports from the school districts and the county superintendents of schools in the State, it reviews the expenditures and approves those that are in accordance with department policy. If the Legislature does not appropriate enough money during one fiscal year to cover all the transportation expenditures of the previous fiscal year, the department reimburses each school district and county superintendent of schools a proportionate amount of the monies appropriated for the special education transportation program. When they do not receive their full funding, school districts and county superintendents of schools must make up the difference to maintain the required special education transportation program.

Because the MCSS has not been reimbursed until the following fiscal year for transportation expenditures incurred during a previous fiscal year and because its expenditures have not always been fully reimbursed, the MCSS has partially financed its special education transportation program from its general purpose income. During

1981-82, for example, the MCSS incurred \$43,693 in approved transportation expenditures that will not be reimbursed at all. This amount represents the MCSS' share of the statewide reduction in funding of the special education transportation program. Further, the MCSS' approved transportation expenditures for 1982-83 were \$176,920, of which \$44,844 was not reimbursed until August 1984. Finally, during 1983-84, the MCSS reported spending \$262,882 to transport handicapped children, but it received only \$132,076 from the department. This reimbursement was for expenditures that the MCSS had incurred during 1982-83. In total, as of June 30, 1984, the department had not reimbursed the MCSS for \$221,761 that it had spent for the special education transportation program.

At the time of our review, the MCSS did not know what its actual reimbursement would be for transportation expenditures incurred during 1983-84; the MCSS' 1984-85 budget projects that expenditures will exceed reimbursements by \$132,768. The department will calculate the actual reimbursement in December 1984, at which time the department will adjust its estimated reimbursement of \$169,388 for 1983-84 expenditures. Table 3 on the following page shows the differences between the MCSS' transportation expenditures and its reimbursements for 1981-82 through 1984-85.

TABLE 3

**MADERA COUNTY SUPERINTENDENT OF SCHOOLS  
SPECIAL EDUCATION TRANSPORTATION PROGRAM  
EXPENDITURES AND REIMBURSEMENTS  
FISCAL YEARS 1981-82 THROUGH 1984-85**

	<u>Expenditures</u>	<u>Reimbursements*</u>	<u>Difference</u>
1981-82	\$151,484	\$129,658	\$ 21,826
1982-83	176,920	107,791	69,129
1983-84	<u>262,882</u>	<u>132,076</u>	<u>130,806</u>
Subtotal	591,286	369,525	221,761
1984-85	<u>347,000**</u>	<u>214,232***</u>	<u>132,768</u>
Total	<u>\$938,286</u>	<u>\$583,757</u>	<u>\$354,529</u>

\*These reimbursements were made during the fiscal year shown but were reimbursements for expenditures actually incurred during the previous fiscal year.

\*\*Budgeted

\*\*\*The Legislature decided to reimburse 100 percent of the 1982-83 expenditures. The difference between the 1982-83 expenditures of \$176,920 and the reimbursement of \$132,076, \$44,844, was reimbursed during August 1984. Also included is \$169,388 in reimbursements that the department estimated for 1983-84. The department will determine the actual reimbursement in December 1984.

The superintendent stressed the importance of maintaining an adequate level of transportation so that the MCSS will continue to comply with federal law that requires the school districts or the county superintendent of schools to provide a transportation program for handicapped students.

## CONCLUSION

The Madera County Superintendent of Schools projects that it will spend \$531,903 more than it receives during fiscal year 1984-85. The MCSS will finance the deficit in its budget using reserves that the MCSS accumulated in previous fiscal years. The MCSS expects to reduce its June 30, 1984, fund balance of \$708,092 to \$176,189 on June 30, 1985. Of this expected reduction of \$531,903, the MCSS projects that \$293,471 will represent expenditures restricted for special purposes. The MCSS projects that it will have a balance of \$48,363 in special purpose reserves on June 30, 1985. The MCSS will use \$238,432 of its general purpose reserves to finance the remainder of the expected reduction in its fund balance. The MCSS projects that it will end fiscal year 1984-85 with a balance in the fund of \$127,826 that is designated for general purposes. Should the MCSS' budget projections for 1984-85 come true, the MCSS will have to take steps to ensure that, in years subsequent to 1984-85, its general purpose expenditures do not exceed its general purpose income to the extent that it depletes its fund balance and thus becomes vulnerable to economic uncertainties.

## II

### THE MADERA COUNTY SUPERINTENDENT OF SCHOOLS USED THE PROPER SOURCES OF FUNDS TO FINANCE ITS COMPUTER OPERATIONS, AND IT PROPERLY PURCHASED COMPUTER EQUIPMENT

The Madera County Superintendent of Schools properly accounted for the computer services that it provides for itself, the 12 school districts within Madera County, and other Madera County offices. The services that the MCSS provides include preparing payrolls and financial statements for itself and the 12 school districts within the county. The MCSS used the proper sources of funds to finance its computer services, and it followed the provisions of the Education Code when it purchased computer equipment.

To ensure that it can meet the demand for computer services in the future, the MCSS periodically compares the current and expected computer workload with the computer's capacity and makes the necessary additions to its computer equipment. The MCSS found that, between January 1983 and November 1983, its computer use during peak periods exceeded the manufacturer's recommended usage, and the MCSS subsequently expanded its computer system. Currently, the MCSS has excess computer capacity that it sells to other Madera County offices, such as the Elections Department of the Madera County Clerk. The MCSS charges a fee to the county offices for which it provides computer services.

Section 1940 of the Education Code authorizes a county superintendent of schools to use its funds to provide administrative services to itself. Further, Section 42650 of the Education Code authorizes a county superintendent of schools to provide fiscal, budgetary, and data processing services to the school districts within the county.

During 1983-84, the MCSS spent \$416,699 for its computer operations. Of this total, the MCSS spent \$308,389 for operating expenditures and \$108,310 to purchase computer equipment. For 1984-85, the MCSS projects that it will spend \$465,423 for computer services; \$112,878 of this amount will be for the purchase of computer equipment. Table 4 on the following page shows the sources and uses of funds for the MCSS' computer services for fiscal year 1983-84 and the budgeted amounts for 1984-85.

TABLE 4

**MADERA COUNTY SUPERINTENDENT OF SCHOOLS  
SOURCES AND USES OF FUNDS  
FOR COMPUTER SERVICES  
FISCAL YEARS 1983-84 AND 1984-85**

	<u>1983-84</u> <u>(Actual)</u>	<u>1984-85</u> <u>(Budget)</u>
<u>Sources of Funds for</u> <u>Computer Services</u>		
General Purpose Monies	\$376,582	\$364,280
Other Madera County Offices	<u>40,117</u>	<u>101,143</u>
Total	<u>\$416,699</u>	<u>\$465,423</u>
 <u>Uses of Funds for</u> <u>Computer Services</u>		
Operating Expenditures		
Salaries and Benefits	\$176,519	\$205,595
Supplies	23,516	33,750
Software Maintenance and Licenses	85,024	43,300
Repairs and Other	<u>23,330</u>	<u>69,900</u>
Total Operating Expenditures	308,389	352,545
Purchase of Computer Equipment	<u>108,310</u>	<u>112,878</u>
Total	<u>\$416,699</u>	<u>\$465,423</u>

In our review, we found that the MCSS used the proper sources of funds to finance its computer operations for 1983-84. The MCSS used \$376,582 of its general purpose monies as well as \$40,117 that it received from other Madera County offices for the computer services it provided during 1983-84. For 1984-85, the MCSS projects that it will receive \$101,143 for the computer services that it will provide to

other Madera County offices. We also reviewed a sample of the MCSS' operating expenditures for computer services during 1983-84 and found that the expenditures were properly related to computer services.

#### Purchase of Computer Equipment

In purchasing computer equipment during 1981-82, 1982-83, and 1983-84, the MCSS followed the provisions of the Education Code. During these fiscal years, the MCSS spent a total of \$463,779 to purchase computer equipment. The MCSS projects that it will spend \$112,878 for computer equipment in 1984-85. In addition, during 1985-86 and 1986-87, the MCSS expects to make payments totaling \$125,905 for equipment that it purchased in previous fiscal years. Table 5 on the following page summarizes the MCSS' expenditures for computer equipment from 1981-82 through 1984-85.

TABLE 5

**MADERA COUNTY SUPERINTENDENT OF SCHOOLS  
EXPENDITURES FOR COMPUTER EQUIPMENT  
FISCAL YEARS 1981-82 THROUGH 1984-85**

	<u>Expenditures for Computer Equipment</u>
1981-82	\$169,335
1982-83	186,134
1983-84	<u>108,310</u>
Subtotal	463,779
1984-85*	<u>112,878</u>
Total	<u>\$576,657</u>

\*Budgeted

Section 1276 of the Education Code authorizes a county superintendent of schools to contract with one of the three lowest responsible bidders for the lease, purchase, or maintenance of electronic data processing systems and supporting software. When the MCSS purchased its main computer system in 1975, it requested bids from three vendors of computer equipment and contracted with the only bidder. The MCSS has not obtained bids for purchasing computer equipment since 1979 because the Madera County Counsel stated in an opinion that the MCSS is exempt from competitive bidding requirements for computer equipment as long as it is modifying and not replacing its existing computer system. The opinion holds that computer equipment manufactured by various vendors is not always interchangeable, and it

would be costly for the MCSS to modify its computer system to use equipment manufactured by other vendors.

We asked the Legislative Counsel to address the validity of the Madera County Counsel's 1979 opinion because the Statutes of 1982 amended one of the Education Code sections upon which the opinion is based and codified the other section into the provisions of the Public Contract Code. The Legislative Counsel's opinion supports the opinion of the Madera County Counsel. During October 1984, the attorneys for the MCSS also reviewed the Madera County Counsel's opinion and agreed that the MCSS is exempt from obtaining competitive bids when it modifies its computer system.

During the past three fiscal years, the MCSS spent \$463,779 to purchase computer equipment. We reviewed 85 percent of these expenditures (\$393,037) and found that the MCSS purchased 78 percent of its equipment from the vendor to whom it awarded the contract for the main computer system in 1975. In addition, the MCSS purchased some software and accompanying equipment from other vendors whose software is compatible with the MCSS' computer system. The assistant superintendent said that the software was purchased from other vendors because their prices were lower than the prices of the vendor who provided the main computer system.

Section 1623 of the Education Code requires a county board of education to approve the budget of the county superintendent of schools after holding a public hearing. The minutes of the Madera County Board of Education show that the board approved the MCSS' budgets for the purchase of the computer equipment for the past three fiscal years.

CONCLUSION

The MCSS properly accounted for its computer operations. The MCSS used the proper sources of funds to finance its computer operations, and it followed the provisions of the Education Code when it purchased computer equipment.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,

  
\_\_\_\_\_  
for THOMAS W. HAYES  
Auditor General

Date: December 10, 1984

Staff: Thomas A. Britting, Audit Manager  
Ann Reicherter, CPA  
John Billington



December 6, 1984

Thomas W. Hayes, Auditor General  
Office of the Auditor General  
660 J Street, Suite 300  
Sacramento, CA 95814

Attention: Ms. Mary P. Noble, Assistant Auditor General

Dear Mr. Hayes:

The State Department of Education has reviewed the Auditor General's report P-457, entitled, "A Review of the Financial Status of the Madera County Superintendent of Schools", dated December 1984. We appreciate this opportunity to respond to your findings and conclusions on the Madera County Superintendent of Schools (MCSS) budgets and computer operations.

This report shows that the annual expenditures of MCSS have exceeded the annual income for three out of the past four fiscal years. The Department of Education is offering MCSS the services of the Local Assistance Bureau and the School District Management Assistance Team to assist in the development of a plan of action for resolving this problem of funding imbalances.

We confirm to the best of our knowledge and belief that your audit report is accurate and is a fair representation of their financial position. We would also like to commend the Madera County Superintendent of Schools for properly accounting for the financial operations of its computer services as defined within this audit.

Sincerely,

  
William D. Dawson  
Executive Deputy Superintendent  
of Public Instruction

WDW:CEB:vp



# Madera County Department of Education

28123 AVENUE 14, MADERA, CALIFORNIA 93638

(209) 673-6051

Norman M. Gould, Superintendent

December 5, 1984

Ann Reicherter  
Office of the Auditor General  
660 J Street, Suite 300  
Sacramento, CA 95814

Dear Ms. Reicherter:

The Madera County Department of Education (M.C.D.E.) has reviewed the draft copy of the Audit by the Office of the Auditor General and finds that it fairly represents the financial situation examined by the audit team. All conclusions presented in the draft audit were expected by the M.C.D.E. at the outset and validate the Management Team's own analysis of the financial situation.

The M.C.D.E. commends the Auditor General's Office and its staff for its thorough study and review of the financial situation of the Madera County Department of Education.

Sincerely,

Norman M. Gould  
Madera County Superintendent of Schools

NMG:cal

**MADERA COUNTY SUPERINTENDENT OF SCHOOLS  
INCOME, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGETED AND ACTUAL  
FISCAL YEARS 1980-81 THROUGH 1984-85**

	1980-81		1981-82		1982-83		1983-84		1984-85	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Beginning fund balance*	\$ 848,318	\$ 807,257	\$ 800,304	\$ 1,059,023	\$ 674,234	\$ 995,729	\$ 509,734	\$ 535,947	\$ 708,092	
Income										
Federal	701,279	773,580	70,000	1,301,677	471,580	1,279,492	1,118,394	1,198,971	1,324,393	
State	1,659,463	961,751	1,572,733	2,436,876	2,369,268	2,341,635	2,266,655	2,805,846	2,750,505	
County, local, and other	1,135,367	1,592,807	1,555,963	1,455,625	1,531,138	1,532,233	2,401,809	2,148,022	2,400,312	
Total	3,495,909	3,328,138	3,199,696	5,194,178	4,371,986	5,153,360	5,786,858	6,152,839	6,475,210	
Expenditures										
Salaries and benefits	2,735,890	2,660,368	2,559,000	3,422,380	3,229,941	3,657,329	3,811,612	3,687,856	4,222,040	
Books and supplies	195,552	170,670	227,000	264,322	286,256	217,432	314,874	242,558	315,996	
Contracted services and other operating expenditures	430,673	378,118	541,000	879,010	736,492	1,212,972	1,794,042	1,631,928	1,869,202	
Capital outlay	793,077	125,935	615,000	922,506	457,018	495,736	294,605	354,532	536,055	
Other				90,749		55,886	60,000	63,820	63,820	
Total	4,155,192	3,335,091	3,942,000	5,178,967	4,709,707	5,639,355	6,275,133	5,980,694	7,007,113	
Income over (under) expenditures	(659,283)	(6,953)	(742,304)	(384,789)	(337,721)	(485,995)	(488,275)	172,145	(531,903)	
Ending fund balance	\$ 189,035	\$ 800,304	\$ 58,000	\$ 674,234	\$ 336,513	\$ 509,734	\$ 21,459	\$ 708,092	\$ 176,189	

\*The beginning actual fund balance does not agree with the ending actual fund balance for the previous fiscal year because of adjustments to amounts the MCSS should receive and amounts the MCSS is obligated to pay.

Source: Madera County Superintendent of School's Budget and Financial Reports submitted to the State Department of Education.

cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
State Controller  
Legislative Analyst  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
Capitol Press Corps