

Annual Financial Report FY 2015-16

Schedule of Findings and Questioned Costs



Board Meeting

January 18, 2017

Presented by Fernando Cubias, Director of Fiscal Services

SOLEDAD UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

The following findings represent significant deficiencies related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

DISTRICT OFFICE

2016-001 30000

Internal Controls - Purchasing

Criteria

Good internal control dictates that District purchases be authorized prior to expenditures being made. All purchases, including credit card purchases, should be supported with documentation to show approvals were obtained, amounts paid to vendors are accurate, the purpose is appropriate, and the coding is correct. All of this documentation should be on file at the district office.

Condition

During our audit of the District's disbursement and credit card procedures, we found that many purchases were made without prior approval and many lacked proper supporting documentation on file.

Effect

This condition leaves the District with uncertainty as to the legitimacy of purchases and whether the District's budgets can support such purchases.

Cause

Due to management and employee turnover in the District and periods of time without a business manager or CBO, proper procedures over purchasing have not been implemented or followed, and management override of any controls in place may have played a key role in the condition.

Recommendation

The District should take the necessary steps required to comply with Board policies that govern purchases which include prior authorizations and maintenance of proper supporting documentation for all disbursements.

SOLEDAD UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Corrective Action Plan

The District's Chief Business Official (CBO) agrees with VTD's Internal Control finding regarding past "Purchasing" practices and procedures as this subject was also audited and outlined as a "Finding" in the *AB-139 Extraordinary Audit Report* published by the Fiscal Crisis Management and Assistance Team, also known as FCMAT, on May 24, 2016.

Since the announcement of the *AB-139 Extraordinary Audit Report*, the District's Chief Business Official, in collaboration with the Monterey County Office of Education, has developed a comprehensive FCMAT Action Plan that addresses the report's findings and introduces a strategic plan to improve the District's business (i.e., Purchasing) and Human Resource practices.

Furthermore, the Chief Business Official has developed a "Business Department Manual" that addresses topics like: 1) how to create requisitions in Escape (the District Financial System); 2) How to process a Purchase Order, or PO; 3) how to code materials and supplies in Escape; 4) instructions on how to pay invoices; 5) how to use District credit cards when attending conferences; and 5) and other topics related to Public Contract Code. Additionally, the CBO is currently working on updating the District's Travel and Conference Policy, and in collaboration with our legal team, the CBO is developing use of credit card policies and procedures.

In conclusion, our "Purchasing" practices and procedures have significantly improved since the start of FY 2015-16. All Business Department staff members (accountants, accounts payable, accounts receivable, payroll) have received training related to their job classification by organizations like CASBO, ACSA, SSC, and MCOE to name a few. Next year, this area of weakness should be an area of strength as we keep building our knowledge base.

2016-002

30000

Internal Controls – Receipting Procedures

Criteria

Good internal control dictates that all collections received by the District office be receipted and or logged at the time of receipt in a pre-numbered receipt book or log. All collections, including cash and checks, should then be placed in a safe until it is time to prepare and make a deposit.

Condition

During our audit, we found that the District is using as many as eight receipt books in which the business services staff record collections. Upon collection, all cash is placed into a safe, but all checks are placed into an unlocked cabinet. When deposits are prepared, there is no reconciliation back to all of these receipt books to ensure that all collections made since the last deposit are included in the current deposit, thus, we were unable to determine if deposits were intact and timely. We also found a segregation of duties issue in that the District Accountant can issue receipts, prepares and makes the deposits and county transmittals, and reconciles the bank account.

SOLEDAD UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Effect

The conditions noted increase the risk that collections could be misplaced or stolen, and without proper reconciliation of deposits to supporting receipt books or logs, the District would be unaware of the problem.

Cause

Due to management and employee turnover in the District and periods of time without a business manager or CBO, proper procedures over collections have not been implemented or followed.

Recommendation

The District should implement procedures to ensure that all collections are receipted/logged properly, securely stored, and that deposits are reconciled with receipting documentation. The process should include segregation of duties so that one individual is not performing each task in the process.

Corrective Action Plan

The District's Chief Business Official (CBO) agrees with VTD's Internal Control finding regarding "Receipting Procedures" as this subject was also audited and outline as a "Finding" in the *AB-139 Extraordinary Audit Report* published by the Fiscal Crisis Management and Assistance Team, also known as FCMAT, on May 24, 2016.

Since the announcement of the *AB-139 Extraordinary Audit Report*, the District's Chief Business Official, in collaboration with the Monterey County Office of Education, has developed a comprehensive FCMAT Action Plan that addresses the report's findings and introduces a strategic plan to improve the District's business (i.e., Cash Handling, Receipts, and Segregation of Duties) and Human Resource practices.

Furthermore, the Chief Business Official has segregated the accounts receivable duties so that separate employees receive the cash, post to the general ledger, and make deposits. To enhance our knowledge base, the Business Department has partaken in many official events, seminars, and trainings related to accounts receivable and payable to ensure proper internal controls are in place to avoid cash mismanagement.

In conclusion, this finding has been addressed as recommended by FCMAT, and now VTD, and it shouldn't be an area of concern anymore.

SOLEDAD UNIFIED SCHOOL DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

The following findings represent significant deficiencies and material weakness of noncompliance including questioned costs that are required to be reported by the Uniform Guidance. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
50000	Federal Compliance

2016-003 50000

Federal Program Affected

Program Name: Child Nutrition Cluster CFDA Number:
10.553, 10.555, 10.559
Pass-Through Entity: California Department of Education
Federal Agency: U.S. Department of Agriculture

Criteria

To receive reimbursement payments for meals the School Food Authority (Soledad Unified School District) must submit claims for reimbursement to its administering agency (California Department of Education). The claims must be supported by accurate meal counts by category and type taken at the point of service or developed through an approved alternative procedure (7 CFR Sections 210.7, 210.8, 215.8, 215.10, 220.9, and 220.11)

Condition

The meal counts are not accurately claimed for reimbursement by the District for the period of August 2015 through January 2016. The District has two Provision 2 school sites in which the approved alternative method is used. The meal counts for those Provision 2 school sites were not applied to the monthly percentages established in the sites first year of the Provision 2 program. All meal counts were claimed as free meals for reimbursement. No paid and reduced meals were claimed.

Effect

The District is out of compliance with Codes 7 CFR Sections 210.7, 210.8, 215.8, 215.10, 220.9, and 220.11.

Cause

The Soledad Unified School District utilizes the California Department of Education's web based system, Child Nutrition Information & Payment System (CNIPS), for submitting claims for reimbursement. CNIPS will automatically apply the monthly percentages established for the Provision 2 sites when the meal counts are entered. However, for the period of August 2015 through January 2016, the CNIPS system did not apply those percentages and the District did not follow up with the California Department of Education regarding the system error.

SOLEDAD UNIFIED SCHOOL DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

Questioned Costs

The questioned cost is \$7,931.

Recommendation

The District should contact the California Department of Education regarding the system error and submit revised claims for reimbursement for the period of August 2015 through January 2016. The District should also implement control procedures that ensure compliance with Provision 2 reporting requirement in future years.

Corrective Action Plan

The District's Chief Business Official (CBO) agrees with VTD's findings related to the District's Child Nutrition Program - Federal Meal Reimbursement Claiming Issues.

The District has contacted the California Department of Education and has revised the claims for reimbursement for the months affected.

To avoid future claiming issues, the Chief Business Official is directly overseeing the District's Food Services Program where as before it was under the Director of MOTF. Further, the Chief Business Official has provided: 1) training and development to the existing Food Services Manager; and 2) a Secretary has been hired to process applications and meal claims on a monthly basis. Additionally, the District's Accountant monitors all revenues/expenditures and provides monthly reports to the CBO to ensure we meet all federal/state compliance regulations.

2016-004 50000

Federal Program Affected

Program Name: Child

Nutrition Cluster CFDA Number:

10.553, 10.555, 10.559

Pass-Through Entity: California Department of Education

Federal Agency: U.S. Department of Agriculture

Criteria

In order to be compliant with Codes 42 USC 1760(p); 7 CFR Sections 210.14(a) and 210.14(e), a school food authority (SFA) participating in the National School Lunch Program (NSLP) is required to ensure that sufficient funds are provided to its school food service accounts from lunches served to students not eligible for free or reduced priced meals. The SFA can meet this requirement by (a) raising the prices charged for paid lunches; or (b) through contributions from other non-federal sources.

SOLEDAD UNIFIED SCHOOL DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

Condition

During our audit of the paid lunch equity, we noted that the District's average paid lunch price of \$1.90 was less than 2015-16 weighted average price requirement of \$2.13. A difference of \$0.23 per paid lunch meals. Additionally, no contribution was made from non-federal resources for the difference noted.

Effect

The District is out of compliance with Codes 42 USC 1760(p); 7 CFR Sections 210.14(a) and 210.14(e).

Cause

The District did not raise its paid lunch prices or make a contribution from non-federal sources to ensure compliance with Codes 42 USC 1760(p); 7 CFR Sections 210.14(a) and 210.14(e).

Questioned Costs

The questioned cost associated with the condition noted above is \$12,770 (56,634 paid meals at \$0.23). However, the question cost could increase due to a condition noted regarding the District's incorrect reporting of paid lunches for Provision 2 school sites.

Recommendation

The District will need to determine the correct amount of paid lunches during the 2015-2016 year and apply that to the \$0.23 paid lunch equity difference. A contribution from non-federal resources should be made in the 2016-2017 year for the amount calculated. The District should also implement control procedures that ensure compliance with this requirement in future years.

Corrective Action Plan

The District's Chief Business Official (CBO) agrees with VTD's findings related to the District's average paid lunches. To address the problem, the District, by resolution, will adopt the recommended National School Lunch Program fee scheduled for 2016-2017.

The District will determine the correct amount of paid lunches during 2015-2016 and apply the \$0.23 difference.

The District will update its paid breakfast/lunch schedule on a yearly basis to adhere to the National School Lunch Program recommended fees.

SOLEDAD UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
40000	State Compliance
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials

2016-005 61000

Classroom Teacher Salaries

Criteria

Education Code Section 41372 requires that the payment of classroom teacher salaries and benefits meet or exceed 55 percent (for unified districts) of total expenditures of the District.

Condition

The District spent 53.32 percent of their current expense of education (\$46,822,321) on classroom teacher salaries and benefits.

Questioned Costs

The deficiency was calculated to be \$786,615.

Effect

The deficiency amount was determined to be \$786,615; therefore, the District is out of compliance with *Education Code* Section 41372.

Recommendation

We recommend the District continue to work on this requirement and apply for a waiver of the requirement from the Monterey County Office of Education.

Corrective Action Plan

The District's Chief Business Official (CBO) agrees with VTD's findings related to *Education Code* Section 41372 and has submitted an Application for Exemption from the Required Expenditures for Classroom Teachers' Salaries to the County Superintendent for FY 2015-2016.

SOLEDAD UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

2016-006 40000

Administrator to Teacher Ratio

Criteria

Education Code Section 41402 requires that the number of administrators per hundred teachers does not exceed the allowable ratio.

Condition

During our audit of the District's Administrator to Teacher Ratio, we found that the District exceeded the allowable number of administrators per 100 teachers by four administrators.

Effect

The penalty for the excess number of administrators was calculated to be \$307,717.

Cause

The District exceeded the number of administrators allowed per 100 teachers; therefore, the District is out of compliance with *Education Code* Section 41402.

Recommendation

We recommend the District comply with the state requirements for Administrator to Teacher Ratio and reduce the number of administrators per 100 teachers.

Corrective Action Plan

The District's Chief Business Official (CBO) agrees with VTD's findings related to *Education Code* Section 41402 – Administrator to Teacher Ratio.

The Superintendent and Chief Business Official are working on a plan to ensure compliance with this section of the law.

2016-007 70000

Instructional Materials Funding Realignment Program

Criteria

According to Standards and Procedures for Audits of California K-12 Local Educational Agencies 2015-2016, prescribed in the *California Code of Regulations* and published by the Education Audit Appeals Panel, the school district must hold a public hearing on or before the eight week from the first day pupils attended school for that year and make a determination through a resolution as the sufficiency of textbooks or other instructional materials [*Education Code* Section 60119].

SOLEDAD UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

Condition

During our audit of the District's School Instructional Materials Funding Realignment Program, we found that the District did not hold the public hearing on or before the eighth week of school from the first day pupils attended school for that year.

Effect

There is no questioned cost.

Cause

The District did not hold the public hearing on or before the eighth week of school from the first day pupils attended school for that year.

Recommendation

The District needs to comply with the state requirements for instructional materials funding realignment program and hold the public hearing on or before the eight week of school from the first day pupils attended for the year.

Corrective Action Plan

The District's Chief Business Official (CBO) agrees with VTD's findings related to *Education Code Section 60119 – Instructional Materials Funding Realignment Program*.

For this finding, the District offers the following responses:

- Publishers held on to textbook orders until they were paid.
- Soledad High School kept adding students to classes even though they were supposed to limit the number of students so additional books needed to be ordered at the last minute and because of the changes they did to the master schedule.
- Former Superintendent, Dr. Rupi Boyd let Soledad High School administration staff add classes at the last minute.

2016-008

40000

Educator Effectiveness

Criteria

Senate Bill 103, Section 8 (Chapter 324, Statutes of 2015) and Assembly Bill 104, Section 58 (Chapter 13, Statues of 2015) requires that the District develop and adopt a plan delineating how the Educator Effectiveness funds will be spent and whether the plan was explained in a public meeting of the governing board of the school district, county board of education, or governing body of the charter school, before its adoption in a subsequent public meeting.

SOLEDAD UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

Condition

The District spent \$11,220.28 of Education Effectiveness funds without developing or adopting a plan to delineate how the funds will be spent.

Questioned Costs

The questioned cost was calculated to be \$11,220.28.

Effect

The questioned cost amount was determined to be \$11,220.28; therefore, the District is out of compliance with *Senate Bill 103, Section 8 (Chapter 324, Statutes of 2015)* and *Assembly Bill 104, Section 58 (Chapter 13, Statues of 2015)*.

Recommendation

We recommend the District return the funds for Educator Effectiveness or develop and adopt a plan as required.

Corrective Action Plan

The District's Chief Business Official (CBO) agrees with VTD's findings related to *Senate Bill 103, Section 8 (Chapter 324, Statutes of 2015)* and *Assembly Bill 104, Section 58 (Chapter 13, Statues of 2015)*.

2016-009

The District has created and adopted an expenditure plan that meets the guidelines set forth in *SB-103, Section 8; and AB-104, Sec. 58*.

Local Control and Accountability Plan (LCAP)

Criteria

Education Code Section 52062(a)(1), (2), (3) or 52068(a)(1), (2), and (3) requires school districts to present the LCAP to the parent advisory and English learner parent advisory committees, provide public notification, and hold a public hearing before the governing board or county board of education. The district governing board of education must then adopt the LCAP at a public meeting held after the public hearing.

Condition

The District did not present the LCAP to the parent advisory and English learner parent advisory committees and did not provide public notification regarding specific actions and expenditures proposed to be included in the LCAP.

SOLEDAD UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

Questioned Costs

There is no questioned costs.

Effect

The District not presenting the LCAP to the parent advisory and English learner parent advisory committees and not providing public notification regarding specific actions and expenditures proposed indicates that the District is out of compliance with *Education Code* Section 52062(a)(1), (2), (3) or 52068(a)(1), (2), and (3).

Recommendation

The District should take the necessary steps to present the LCAP or approved annual update to the parent advisory committee and to the English learner parent advisory committee and also notify members of the public of the opportunity to submit comments regarding specific actions and proposed expenditures in accordance with Education Code Section 52062(a)(1), (2), (3) or 52068(a)(1), (2), and (3).

Corrective Action Plan

The District will follow VTD's recommendation of presenting the District's Local Control Accountability Plan, or LCAP, and any approved annual update to all District stakeholders, including, but not limited to, Parent Advisory Committee, English Learner Parent Advisory Committee.

SOLEDAD UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

There were no audit findings reported in the prior year's schedule of financial statement findings.



Governing Board
Soledad Unified School District
Soledad, California

In planning and performing our audit of the financial statements of Soledad Unified School District, for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 15, 2016, on the government-wide financial statements of the District.

SOLEDAD HIGH SCHOOL - ASSOCIATED STUDENT BODY (ASB)

Cash Disbursements

Observation

During our audit of cash disbursement procedures, we determined that internal controls over the disbursement process are not operating as designed. We found that 12 out of 18 requisitions/ reimbursement requests tested were dated after the date on the invoice. This would indicate that items are being purchased prior to their approval. We also found that none of the approval signatures were dated by the signers, we had to rely on the date noted on the top of the requisition. Three of the requisition forms did not include a date of request.

Recommendation

All purchases must be preapproved by a board-designated official, a student organization representative, and the certificated employee who is the student organization advisor. Each approving signature should be dated by the signer. In order to provide proper controls over spending, the site should take the necessary steps to ensure that expenditures are approved prior to the item being purchased.

Ticket Sales

Observation

A "Report of Ticket Sales" form is prepared and submitted with the remaining ticket roll and cash collections to the bookkeeper. However, the majority of the form is being completed by the ASB bookkeeper rather than the individual who sold the tickets. The "Report of Ticket Sales" form supplies an element of control through a segregation of duties. If one individual is completing all aspects of the form, the segregation of duties is never implemented and the internal controls do not exist.

Recommendation

The ASB bookkeeper should only complete the portions of the ticket sales necessary, such as the beginning ticket number. At the conclusion of the event, the individual in custody of the ticket sales should report on the form, the total number of tickets sold by ticket type, total amount of cash collected, and any differences between actual cash collected and total ticket sales should be explained. The form should then be submitted to the ASB bookkeeper with the remaining tickets and cash collected for review.

Student Store

Finding

During our audit of the cash receipts, we found that the student store sales are not being reconciled to the ending inventory on a regular basis. Student store sales should be reconciled everyday it is opened to ensure that all items purchased for resale have been sold or accounted for. Also, copies of student store sub-receipts or cash register tapes must be submitted with deposits to the ASB bookkeeper in order to determine timeliness of deposits.

Recommendation

According to the policies and procedures outlined in the "Accounting Procedures for Student Body Organizations", prepared by the California Department of Education, a physical inventory should be taken quarterly under supervision of the student store advisor. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity, profits, and to determine if merchandise has been lost or stolen. The June 30 inventory report would also be used in the preparation of the financial statements prepared for the Associated Student Body of the site.

MAIN STREET MIDDLE SCHOOL - ASSOCIATED STUDENT BODY (ASB)

Ticket Sales

Observation

During our audit we found that ticket takers at athletic events are not using a Ticket Recap Form to reconcile cash collected to the number of tickets sold at the completion of the event. We also found two of the events tested, took place in September but were not turned in until March of the next year.

Recommendation

At the completion of the athletic event, the total number of tickets issued should be counted and recorded on a Ticket Recap Form. The amount of cash collected should be compared to the Ticket Recap Form. If the number of tickets sold does not equal the amount of cash collected the ticket taker should determine the reason for the cash overage or shortage. All money collected and a completed Ticket Recap Form should be turned in within a day after the event.

Concession Stand Inventory

Observation

During our audit, we noted that a reconciliation of inventory to sales was not performed for concession stand sales.

Recommendation

Without taking inventory the site is unable to determine if merchandise has been misplaced or that all money collected was subsequently deposited. An inventory before and after the sales event should be completed and reconciled to the sales revenue.

Cash Receipts

Observation

During the audit of the cash receipts system, we discovered the ASB bookkeeper is not consistently using receipts to document immediately when funds are being turned in, how much, and by which teacher or advisor. Without this supporting documentation, we cannot determine if deposits are intact or timely.

Recommendation

Pre-numbered receipts should be utilized immediately for all collections by the ASB bookkeeper which would include a specific description of the source of the funds. The receipts by the bookkeeper should be totaled and reconciled to the current bank deposit.

GABILAN ELEMENTARY SCHOOL - ASSOCIATED STUDENT BODY (ASB)

Cash Receipts

Observation

While auditing the cash receipts system, we found that teachers are not using sub-receipt books or a class roster correctly to document when money is being turned in, the amount of money, and by which students. Teachers share one receipt book and track the monies turned in on a spreadsheet, but it does not document when the funds were received. Without this supporting documentation we cannot determine if deposits are intact or if the teachers are forwarding money to the ASB bookkeeper in a timely manner. Since there are no sub-receipts attached to the monies turned in, the bookkeeper cannot reconcile the money back to any documentation to determine the accuracy of the cash count sheet and the actual money turned in.

Recommendation

Pre-numbered receipts should be issued for all cash collections by teachers which would include a specific description of the source of the funds. A carbon of the receipts issued by the teachers and advisors should be forwarded with the cash to the bookkeeper as documentation that all monies collected have been turned in. A system to mark the last receipt which corresponds to a deposit must be started in order to know which receipts are related to the current deposit.

Questions?