



MORENO VALLEY UNIFIED SCHOOL DISTRICT

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Board of Education: Jacqueline L. Ashe • Victoria Baca • Richard Coz • Jesus M. Hoquin • Rick Sayre
Superintendent of Schools: Rowena T. Lagrosa

August 28, 2007

Mr. John B. Todd, Foreperson
Riverside County Grand Jury
P.O. Box 829
Riverside, California 92502

Re: Response to Grand Jury Report – Financial Independence

Dear Mr. Todd:

The Moreno Valley Unified School District has received the 2006-2007 Grand Jury Report regarding District "Financial Independence." This is the District's response to the Report. It should be clear that the District respects the function of the Grand Jury to investigate and report on the operations of local government agencies. The District has fully cooperated with Grand Jury requests, including production of documents and testimony of witnesses. The Grand Jury plays an important role as a check and a balance against abuses of authority and misuses of public funds. In this case, however, it appears that the Grand Jury's findings and recommendations suffer from factual and legal errors. Further, other findings are so unspecific or unsupported by fact as to have little meaning or relevance. Our response to the Report is set out below.

1. Critical elements of the MVUSD implementation plan for financial independence were never implemented:

- **Disbursing Officer does not currently report to the Superintendent or governing board (Exhibit 2). This reporting relationship was required by RCOE and is critical to establishing independence and integrity from other financial functions such as accounting, purchasing, and to avoid conflict of interest.**

Response

The District disagrees partially with this finding.

This finding is inaccurate and misleading. In December 2004, the District described to the independent auditor, engaged to evaluate the District's request to become independent, an organizational structure intended to facilitate financial independence. This is generally depicted in Exhibit 1 to the Grand Jury report. There is a dotted line from the Disbursing Officer to the Governing Board/Superintendent. The District intended the dotted line to indicate that the Disbursing Officer would have a direct line of communication to the Superintendent/Board to ensure independent action when acting as the District's internal auditor. It was not intended to indicate that the Disbursing Officer would be subject to the day to day supervision of the Superintendent. Rather, the solid line connecting the Disbursing Officer to the Assistant Superintendent was intended to indicate the day to day operational structure. The District never understood the independent auditor, Riverside County Office of Education (RCOE) or the

California Department of Education to require that the Superintendent/Board perform direct, day-to-day supervision of the Disbursing Officer.

The references to "accounting" and "purchasing" in Finding #1 are misplaced, as the Disbursing Officer does not approve payments, sign contracts, perform accounting or purchasing functions. Further, "conflict of interest" is a term of art – having a very specific meaning under the Political Reform Act and Government Code section 1090 *et seq.* – not applicable here. Nevertheless, the District believes that the guarantee of direct access to the Superintendent is sufficient to ensure autonomy of the Disbursing Officer.

- **The Director of Budget and Finance job description, dated April 2004, was never updated to reflect the new Disbursing Officer duties.**

Response

The District disagrees partially with this finding.

The District prepared and implemented a 32-point description of "District Disbursing Officer Duties." These job duties could be added to the existing job description – although that would result in a six page job description, rather than the customary one or two page document. The District will consider how the duties of the Disbursing Officer may be integrated into the existing job description.

- **Key managerial personnel were not aware of the requirement of the criticality of the Disbursing Officer position.**

Response

The District disagrees wholly with this finding.

This statement is so unspecific and unsupported by factual allegations as to be meaningless. Regardless of the impressions of unspecified "key managerial personnel," the Disbursing Officer is functioning as contemplated in the Implementation Plan submitted to the independent auditor (and eventually RCOE and CDE). However, the District represents that employees involved in financial processes understand well the critical function performed by the Disbursing Officer.

2. **MVUSD did not honor an agreement to give RCOE "view access" to certain screens of the new computer software, Quintessential School Systems (QSS).**

Response

The District disagrees wholly with this finding.

The District has offered to provide RCOE with "view access" to certain screens of the QSS computer software. QSS is a copyrighted software program, which is utilized by educational agencies under license agreements with the copyright holder. At the District's request, the vendor has provided RCOE with a license agreement that will allow RCOE full view and print access to the District's system, while at the same time protecting the QSS intellectual property,

including programming techniques, routines, screen handling, etc. The District has been informed that RCOE has executed the agreement to gain "view access" to QSS.

It should be noted that, in the interim, RCOE has received monthly financial detail reports and copies of every warrant issued by the District.

3. The auditor's report of December 15, 2004, stated that MVUSD did not yet fully comply with the RCOE requirements as follows:

- **The duties of the Disbursing Officer were never fully defined.**

Response

The District disagrees wholly with this finding.

This statement is misleading and inaccurate. The duties of the Disbursing Officer were submitted to the District Board of Education on August 19, 2003. Further, the duties, as defined, were obviously sufficient to obtain the recommendation from the auditor and RCOE that the CDE approve the District's request for financial independence.

The District submitted a 32-point "District Disbursing Officer Duties" exhibit along with the Implementation Plan provided to the auditor on December 1, 2004. The auditor's report incorporates those duties and responsibilities on pages 9 and 10. There is no indication in the auditor's report that the duties of the Disbursing Officer are ill-defined. For example, on page 10 of the auditor's report, the auditor concludes that the District "has established and adopted policies and procedures by which there are clear District processes for cash receipts and accounts receivable. . . . As such, no impediments to the District's pursuit of fiscal independence are noted in this area." The auditor further concluded that disbursement functions would be primarily performed by the Disbursing Officer. Referring back to the duties described on pages 9 and 10 of the report, the auditor found that the "primary responsibility for the Disbursing Officer is to determine compliance with relevant policies, laws, internal controls, and accounting procedures." At page 4 of the auditor's report, it states: "The critical position of Disbursing Officer/Internal Auditor, along with his support staff, has been filled and incorporated into the District's organizational structure." The Grand Jury's finding is simply inaccurate.

- **Policies and procedures for the Disbursing Officer were not established.**

Response

The District disagrees wholly with this finding.

Again, this statement is misleading and inaccurate. A complete set of procedures was presented to the Board of Education on August 19, 2003. Such procedures were sufficient to obtain the recommendation from the auditor and RCOE that the CDE approve the District's request for financial independence. On page 4 of the auditor's report, it states: "In general, written standardized policies, procedures, personnel, and most of the equipment are in place, but still require review under operational conditions." Relevant procedures are described

throughout the "Findings & Observations" section of the auditor's report, pages 4 through 15. The Grand Jury's finding is simply inaccurate.

- 4. RCOE did not follow-up on items not completed in the auditor's report before forwarding it to the state for approval, even after being granted permission to inspect by MVUSD.**

Response

The District disagrees wholly with this finding.

Although this finding pertains to RCOE, it is inaccurate. There were four items that RCOE was to follow-up on and all of them were addressed by the District and RCOE. They were as follows:

1. The District must demonstrate the capability to generate both commercial and payroll warrants based on live data in a realistic environment. A complete review of financial management and accounting controls must then take place with a resulting satisfactory assessment by [the auditor].

This was accomplished, viewed by the auditors, and approved by them.

2. A detailed plan for transfer of responsibilities from RCOE, including interface with RCOE as well as the County Treasurer and Auditor Controller must be developed and implemented. The transfer of responsibilities will include warrant management, cash balancing, reconciliation of agency funds, and internal audit procedures. RCOE performs many payroll functions that the District will need to assume fiduciary responsibility for upon conversion. These functions include, but are not limited to garnishments, direct deposit, W-2 production, and payroll taxes.

This was accomplished. The District worked closely with the Treasurer, the Auditor Controller, and the County to transfer cash balances, and file the necessary reports. The District has successfully assumed the responsibilities listed above.

3. A plan for converting financial data from the RCOE financial system (Galaxy) to the District's financial system must be developed.

This was done and all data was successfully transferred.

4. A staffing plan for additional accounting and payroll staff, including the financial impact of additional staffing and operating cost, is necessary.

The District ultimately determined, and it resulted, that financial independence and use of the new financial software programs would create greater efficiency within the District. As a result no "additional accounting and payroll staff" were needed.

5. **The Assistant Superintendent for Business Services provided the external auditor with an organization chart (Exhibit #1), and processes and procedures necessary to meet RCOE's requirements for financial independence. However, the organization structure and many of the processes and procedures were never implemented.**

Response

The District disagrees partially with this finding.

This statement is misleading and inaccurate. See discussion of organizational chart in response to Finding #1, above. All of the processes and procedures outlined to the Board of Education, and ultimately to RCOE and their appointed auditors, were fully implemented.

6. **There is no requirement for the annual independent auditor to review the operations of the Disbursing Officer or functions relating to financial independence.**

Response

The District disagrees wholly with this Finding.

This statement is so vague and unspecific that it is difficult to discern what the Grand Jury intended to convey. However, it should be noted that the District's annual audit performed by an independent audit company reviews the operations of, not only the Disbursing Officer, but all functions of the Business Office. The audit report presented to the Board of Education for the fiscal year ending June 30, 2006, was "clean." The auditors specifically noted that District internal controls and procedures were reviewed and no adverse findings were made.

7. **Some managers and subordinate personnel of MVUSD have not received an annual performance evaluation in over two years as required by Business Policy BP 4315§.**

Response

The District agrees with this finding.

The link between this finding and "Financial Independence" is not apparent. Nevertheless, the District acknowledges that some managers and subordinate personnel have not received scheduled evaluations.

8. **The Director of Budget and Finance/Disbursing Officer, who is a supervisor of personnel, is not authorized to evaluate his/her staff.**

Response

The District disagrees partially with this finding.

This statement is misleading and inaccurate. The Director of Budget and Finance/Disbursing Officer currently does not supervise any staff. If/when subordinate employees are assigned to the Disbursing Officer's supervision, the Disbursing Office will be responsible for evaluation his/her own staff.

Recommendations

1. The Superintendent, in order to eliminate any conflict of interest:

- **Implement the functional organization, in accordance with the organization chart, as presented to the auditors, showing the position of the Disbursing Officer reporting directly to the MVUSD Superintendent or governing board (Exhibit #1).**

Response

The recommendation will not be implemented because it is not warranted or is not reasonable.

The District organizational chart can be amended to add a dotted line from the Disbursing Officer to the Superintendent/Board, as indicated in Exhibit 1. However, the District intends day to day operations to continue as described in the response to Finding #1, above. Direct supervision by the Superintendent/Board was never intended and would not be practical. The Disbursing Officer duties of the Director of Budget and Finance/Disbursing Officer are a very small portion of his overall job duties. The vast majority of his duties pertain to Business Office operations and should properly be reported to the Business Manager.

- **The Superintendent prepare a detailed job description for the Disbursing Officer delineating the supervisory responsibilities and requirements specified by the RCOE.**

Response

The recommendation will not be implemented because it is not warranted or is not reasonable.

The Disbursing Officer duties have been set forth in great detail and were approved by all parties involved including the auditors. The District will continue to require that the Disbursing Officer perform these duties and will consider whether to amend the current job description.

- **The Superintendent inform key management personnel of the requirement for and criticality of the Disbursing Officer's position.**

Response

The recommendation will not be implemented because it is not warranted or is not reasonable.

As explained above, this statement is so unspecific and unsupported by factual allegations as to be meaningless. Employees involved in financial processes understand well the critical function

performed by the Disbursing Officer. The District will continue to ensure that District personnel continue to understand the important function of the Disbursing Officer.

2. **MVUSD honor their agreement with RCOE and provide "view access" to the requested screens of the QSS system for financial control.**

Response

The recommendation has been implemented.

The District will continue to offer RCOE "view access" to the District's financial system, subject to execution of an appropriate licensing agreement related to the proprietary software.

3. **MVUSD comply with the auditor's report of December 15, 2004:**

- **Completely define the duties of the Disbursing Officer.**

Response

The recommendation will not be implemented because it is not warranted or is not reasonable.

The duties of the Disbursing Officer have already been completely defined. These duties were accepted by RCOE and the RCOE appointed auditors. The District will continue to require that the Disbursing Officer fulfill such duties.

- **Establish policy and procedures for the Disbursing Officer.**

Response

The recommendation will not be implemented because it is not warranted or is not reasonable.

Policies and procedures for the Disbursing Officer have been established. These were accepted by RCOE and the RCOE-appointed auditors. The District will continue to require compliance with established policies and procedures for the Disbursing Officer.

4. **RCOE conduct an onsite inspection of MVUSD policies and procedures for the Disbursing Officer to ensure they meet the guide lines for financial independence. If MVUSD does not fully comply, then RCOE requests CDE revoke their status for financial independence.**

Response

Although this recommendation is directed to RCOE, it should be made clear that RCOE has never requested an onsite inspection of the District's policies and procedures, nor has the District ever prevented RCOE from performing such an onsite inspection. RCOE has requested, on a random basis, documentation of warrants issued, since the District sends electronic files of every warrant issued, both bill warrants and payroll, to RCOE on the date the warrants are issued.

Further, as noted above, the District independent financial audit has shown the District's financial procedures to be free from material non-compliance with pertinent laws, regulations and accounting practices. The Grand Jury recommendation that RCOE request CDE to "revoke" the District's status as financially independent in the event that the District "does not fully comply" with unidentified "guidelines for financial independence" is strange and likely reveals a bias on the part of the Grand Jury to find any basis upon which to recommend revocation of such status. The District believes that its policies and procedures will withstand scrutiny.

5. The Superintendent ensure that the Assistant Superintendent for Business Services fulfill all future agreements made with RCOE.

Response

This recommendation has been implemented.

This finding implies that the District has not fulfilled agreements with RCOE. The District has fulfilled, and will continue to fulfill its agreements with RCOE.

6. RCOE and MVUSD require the annual external auditors to include an evaluation of the organization, job descriptions, and policies and procedures specifically required for complying with financial independence.

Response

The recommendation has been implemented.

RCOE may contract with external auditors of its choice to evaluate any aspect of the District's financial independence. The District's annual external auditing firm currently looks at all procedures, internal controls, and financial reporting, and issues an annual report to the Board of Education, RCOE, and the State of California. There have been no adverse findings or comments regarding District internal controls or financial independence status.

7. The Superintendent of MVUSD enforces the policy for managerial staff and subordinates to receive annual evaluations as set forth in MVUSD BP § 4315.

Response

The recommendation has been partially implemented, with further implementation forthcoming.

The District recognizes the need to abide by its own policies regarding evaluation of staff. The Superintendent has directed all administrators to perform required staff evaluations. Within the next 60 days, the Superintendent will issue a written directive to top administrators of each department requiring them to provide a schedule by which they will conduct required evaluations of managerial staff and subordinates, and dates on which the Superintendent will require proof that they are complying with such directive.

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8. **The Director of Budget and Finance/Disbursing Officer be authorized to evaluate subordinates annually.**


Response

The recommendation will not be implemented because it is not warranted or is not reasonable.

If/when the Director of Budget and Finance/Disbursing Officer is assigned subordinate staff, he/she will be authorized to evaluate such staff according to applicable timelines.

If you have any questions or need additional clarification, please feel free to contact me at (951) 571-7500 extension 17202.

Sincerely,



Rowena Lagrosa
Superintendent

RL/ds

- c: Honorable Richard Fields, Riverside Superior Court
Kenneth M. Mohr, Assistant County Executive Officer
Christopher Keeler, Fagen Friedman, & Fulfrost