

2006-2007 GRAND JURY REPORT

Moreno Valley Unified School District

Financial Independence

Background

Moreno Valley Unified School District (MVUSD) is located at 25634 Alessandro Boulevard, Moreno Valley, California. There are twenty-three (23) elementary schools, five (5) middle schools, three (3) high schools, and five (5) alternative schools within the district. Out of a total enrollment of 37,361 students, the Average Daily Attendance (ADA) is 34,665. The annual revenue was \$319.1 million for the year 2006, with expenses of \$286.9 million, and net assets of \$359 million.

The MVUSD Superintendent reports directly to the governing board. Reporting directly to the Superintendent are three Assistant Superintendents as follows: Business Services, Education Services, and Human Resources. The total number of administrative employees is 233.

The MVUSD is within the jurisdiction of the Riverside County Office of Education (RCOE). RCOE is regarded in California Law as an Administrative Agency of the State Government and operates under state laws and regulations.

The requirements for a school district to become financially independent from RCOE, as specified in the California Education Code §42647, are to either be a unified school district or have more than 10,000 students ADA, meet the requirements established by RCOE, have an independent audit conducted by an external auditing firm, and obtain final approval from California Department of Education (CDE). According to CDE, being financially independent means the school district controls issuing payments for goods, services, and payroll, functions previously performed by RCOE.

In August 2003, the MVUSD applied for financial independence from RCOE; this request was denied. MVUSD reapplied for financial independence in 2004. A requirements checklist was developed by RCOE and validated by an external audit company. In December 2004, RCOE received a certified external audit report that MVUSD complied with the requirements for financial independence. The application was approved and the recommendation forwarded to the CDE. RCOE accepted and relied on the audit report as confirmation that MVUSD

was in full compliance with the RCOE requirements. CDE approved the recommendation and effective July 1, 2005, MVUSD became a financial independent school district.

Findings

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.
 - The Director of Budget and Finance job description, dated April 2004, was never updated to reflect the new Disbursing Officer duties.
 - Key managerial personnel were not aware of the requirement or the criticality of the Disbursing Officer position.
2. MVUSD did not honor an agreement to give RCOE "view access" to certain screens of the new computer software, Quintessential School Systems (QSS).
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.
 - Policies and procedures for the Disbursing Officer were not established.
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.

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 organizational structure and many of the processes and procedures were never 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.
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.
8. The Director of Budget and Finance/Disbursing Officer, who is a supervisor of personnel, is not authorized to evaluate his/her staff.

Recommendations

Riverside County Board of Supervisors
Riverside County Office of Education
Moreno Valley Unified School District
Moreno Valley Unified School District, Board of Education

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).
 - The Superintendent prepare a detailed job description for the Disbursing Officer delineating the supervisory responsibilities and requirements specified by the RCOE.
 - The Superintendent inform key management personnel of the requirement for and criticality of the Disbursing Officer's position.

2. MVUSD honor their agreement with RCOE and provide “view access” to the requested screens of the QSS system for financial control.
3. MVUSD comply with the auditor’s report of December 15, 2004:
 - Completely define the duties of the Disbursing Officer.
 - Establish policy 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 guidelines for financial independence. If MVUSD does not fully comply, then RCOE requests CDE revoke their status for financial independence.
5. The Superintendent ensure that the Assistant Superintendent for Business Services fulfill all future agreements made 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.
7. The Superintendent of MVUSD enforces the policy for managerial staff and subordinates to receive annual evaluations, as set forth in MVUSD BP §4315.
8. The director of budget and finance/disbursing officer be authorized to evaluate subordinates annually.

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MVUSD Business Services Division Organizational Structure As Shown In Audit For Financial Independence

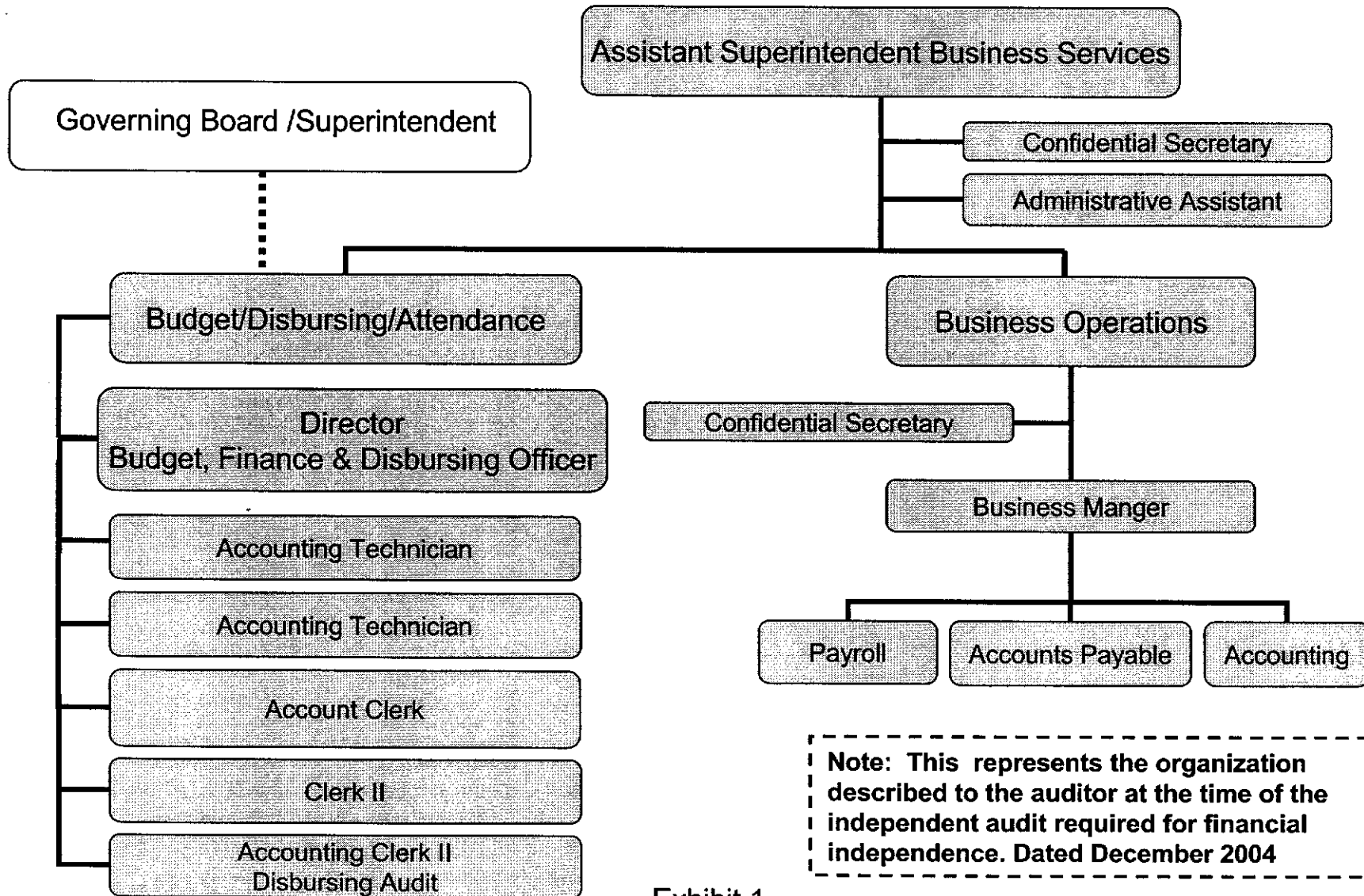


Exhibit 1

MVUSD Business Services Division Organizational Structure Before and After Financial Independence

Note: This represents the organization as it now appears in the organization chart as of February 2007. No disbursing officer position is indicated.

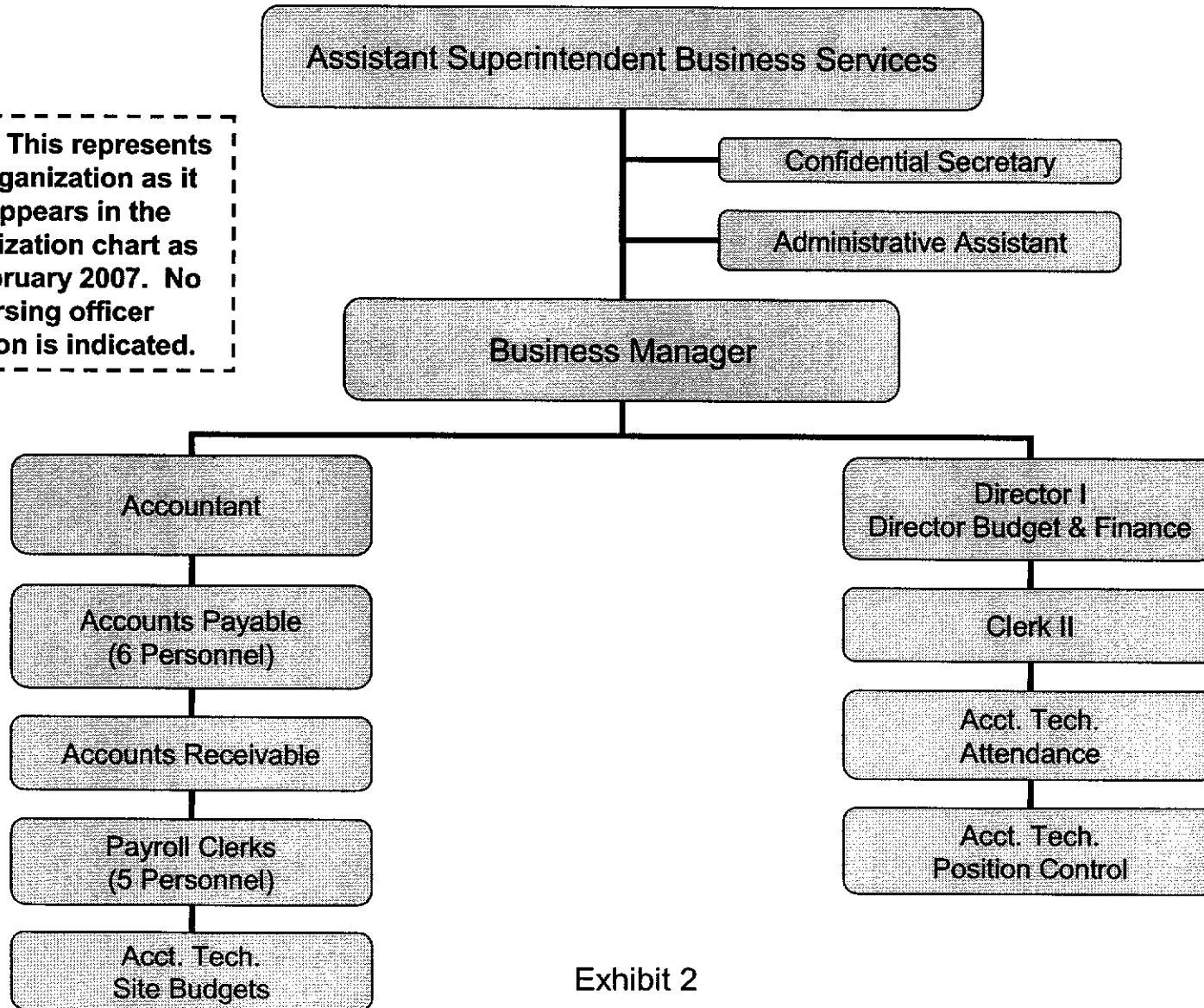


Exhibit 2