

**RESPONSE OF
KENNETH M. YOUNG
RIVERSIDE COUNTY
SUPERINTENDENT OF SCHOOLS**

BY

**PAUL C. JESSUP
DEPUTY SUPERINTENDENT**

**ON BEHALF OF
RIVERSIDE COUNTY OFFICE OF
EDUCATION
TO THE
2006-2007 GRAND JURY REPORT
CONCERNING THE
FINANCIAL INDEPENDENCE
OF
MORENO VALLEY UNIFIED
SCHOOL DISTRICT**

SEPTEMBER 11, 2007

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Introduction

On June 12, 2007, the Riverside County Grand Jury submitted a report concerning the financial independence, under Education Code section 42647, of the Moreno Valley Unified School District (MVUSD). A copy of the final report was submitted to the Riverside County Office of Education (RCOE) for a response concerning the findings and recommendations.

Background

In California, a governing board of a school district that meets the criteria, under Education Code section 42647, may cause to have all warrants drawn on the county treasurer against all the funds, except debt service, of the school district in the county treasury in the payment of the expenses of the school district. Such status for a school district is often referred to as "fiscal independence". A school district that is not fiscally independent depends upon the County Office of Education to authorize issuance of all warrants against the funds of the school district in the county treasury.

To become fiscally independent, a school district must receive approval from the County Office of Education and the Superintendent of Public Instruction. Education Code section 42647. The approval process begins with an application from the school district to the County Office of Education. Id. Upon receipt of the application, the County Office of Education causes a survey to be made of the accounting controls of the school district. Id. The survey is conducted by an independent certified public accountant or public accountant in accordance with the standards prescribed by the Controller. Id. Upon completion of the

survey, the certified public accountant or public accountant shall report the findings and recommendations to the County Superintendent, County Auditor and school district. Id.

Thereafter, the County Superintendent of Schools forwards the application from the school district, along with his or her recommendations, the recommendations of the County Auditor and the report from the auditor, to the Superintendent of Public Instruction for approval or disapproval of the application. Education Code section 42647. The application can only be approved if the Superintendent of Public Instruction finds that the accounting controls of the district are adequate. Id. If the application is approved prior to January 1, the school district shall become fiscally independent, for the purpose of issuing warrants, effective at the beginning of the new fiscal year. Id.

A school district that is fiscally independent must provide the County Superintendent of Schools with the data necessary to make retirement reports and other reports required by law. Education Code section 42647. This data must be provided by the school district in the form prescribed by the County Superintendent of Schools. Id. In addition, a listing of the warrants issued by the school district shall be forwarded to the County Superintendent of Schools on the same day the warrants are issued. Id. The listing must be furnished to the County Auditor upon his or her request. Id. A school district must also furnish to the County Superintendent of Schools, on a monthly basis, a statement showing for the current fiscal year to date, for each required expenditure classification, the amount budgeted, actual expenditures, encumbrances and unencumbered balances. Id. The statement must be provided to the County Auditor upon his or her request. Id.

After a school district has received approval to become fiscally independent, the County Superintendent of Schools may recommend to the Superintendent of Public Instruction that the approval be revoked if he or she determines that the accounting controls of the school district have become inadequate. Education Code section 42647. If the approval is revoked, it shall be effective on the first day of the following fiscal year. Id.

RCOE Practices and Procedures Concerning Application for Fiscal Independence

Ordinarily, the development of budgets, issuance of warrants and expenditure of funds by school districts is supervised and monitored by County Offices of Education. As such, this diversification of responsibilities for the processing and handling of fiscal matters provides checks and balances to ensure the utmost stewardship and accountability in these areas. When a school district assumes greater control over its fiscal matters, it also assumes greater levels of accountability and liability in these areas. Therefore, school districts must carefully consider the impact of the fiscal and legal consequences that is associated with fiscal independence under California law.

In an effort to set forth these elements and processes for assumption of these obligations, the RCOE developed and published a manual to assist school districts in evaluating the advantages and disadvantages of becoming fiscally independent, and detailing the process for determining whether the school district has met the legal requirements for such status. See

Requirements for Fiscal Independence for School Districts of Riverside County identified as Exhibit A; hereinafter referred to as Exhibit A.

In the manual, the RCOE has identified the factors that a school district must consider in determining whether to apply for fiscal independence. These factors include (1) the additional costs resulting from the decision to assume fiscal independence, (2) the availability of competent personnel, (3) the additional legal responsibility of the governing board and school administration, (4) the assumption of the additional reporting responsibilities required by law, (5) the independence, which must be maintained by the disbursing officer, and (6) the advantages and disadvantages accruing to the school district from fiscal independence. See p. 3 of Exhibit A.

The RCOE also identifies the steps that a school district must follow to receive approval of its application for fiscal independence. These steps include (a) a preliminary study of the current accounting procedures utilized by the school district, (b) consultation by the school district staff, the certified public accountant and county officials concerning the preliminary study, (c) a written proposal from the school district describing implementation of the requirements for fiscal independence, (d) an application from the governing board of the school district, and (e) implementation of the required elements for fiscal independence. See pp. 3-4 of Exhibit A. The manual describes each of these steps and provides specific information about the requirements for completion of each step. Even after approval of the application for fiscal independence and assumption of the obligations, the RCOE continues to interface with school districts for the data and reports required by law, and to determine that the school district continues to maintain its accounting controls.

The assistance provided by RCOE to school districts applying for fiscal independence is not simply limited to the publication of the manual. In addition, RCOE staff is involved every step of the way with school district officials to ensure that they understand the requirements for fiscal independence and to provide assistance in determining what additional actions must be undertaken by the school district to ensure approval of its application. The RCOE also consults with the County Auditor and the certified public accountant to accurately evaluate compliance with the requirements, and facilitates transition of responsibilities that a school district will assume greater control over upon approval and operation of fiscal independence.

The RCOE currently monitors and approves issuance of warrants and expenditure of funds for twenty-one (21) school districts. There are only two (2) out of the twenty-three (23) school districts in the County of Riverside whose applications have been approved by the Superintendent of Public Instruction, and function as fiscally independent from the RCOE.

Application and Approval of MVUSD for Fiscal Independence

MVUSD first applied for fiscal independence in August 2003. See letter from Robert Crank dated August 14, 2003 and attachments identified as Exhibit B; hereinafter referred to as Exhibit B. On December 8, 2003, Dr. David Long, Riverside County Superintendent of Schools forwarded the application of MVUSD, along with his recommendations, the recommendation of Robert Byrd, Riverside County Auditor-Controller, and a copy of the

report from the Auditor, Varinek, Trine, Day & Co., LLP, to the Superintendent of Public Instruction for review. See letter from Dr. David Long dated December 8, 2003 and attachment identified as Exhibit C; hereinafter referred to as Exhibit C. In his correspondence, Dr. Long recommended that MVUSD address and resolve the findings identified in the report from the Auditor, including the procurement and implementation of the new automated financial system, prior to approval of the application by the Superintendent of Public Instruction. Mr. Byrd concurred with Dr. Long's recommendations. See Exhibit C. On January 21, 2004, the California Department of Education disapproved the application for fiscal independence of MVUSD. See letter from Scott Hannan dated January 21, 2004 identified as Exhibit D; hereinafter referred to as Exhibit D.

On July 16, 2004, the RCOE and Auditor met with MVUSD to discuss its intention to apply for fiscal independence to commence with the 2005-06 fiscal year. A subsequent meeting was convened on July 28, 2004 between MVUSD and RCOE to discuss necessary actions for review of its application. See letter from Rollin Edmunds dated August 31, 2004 identified as Exhibit E; hereinafter referred to as Exhibit E. On August 31, 2004, Rollin Edmunds, Chief Business Official for the RCOE, sent a letter to Bob Crank, Assistant Superintendent of Business Services for MVUSD, summarizing the actions discussed at the July 28th meeting and inquiring about the progress concerning those actions. See Exhibit E. In the letter, Mr. Edmunds committed to working with MVUSD and providing support to meet its goal of becoming fiscally independent by the next fiscal year. See Exhibit E. On September 7, 2004, Mr. Crank responded to Mr. Edmunds' letter and summarized the actions that MVUSD would undertake to meet the requirements for fiscal independence. See letter from Robert Crank dated September 7, 2004 identified as Exhibit F; hereinafter referred to as Exhibit F.

On December 14, 2004, the RCOE, the Riverside Auditor-Controller and MVUSD met with the Auditor to review the report concerning implementation of the management and accounting controls for fiscal independence. In the report, the Auditor concluded that MVUSD had been successful in "building a system capable of achieving Fiscal Independence status." See p. 16 of *Moreno Valley Unified School District: Procedures Applied to Management and Accounting Controls for Fiscal Independence EC42647 (Phase 2)* dated December 15, 2004 identified as Exhibit G; hereinafter referred to as Exhibit G. The Auditor also concluded that MVUSD had "not yet attained full operational level of its new automated financial management system". See p. 16 of Exhibit G. Nonetheless, the Auditor stated that MVUSD appeared "to be in a position to accomplishing its goal of fiscal independence." See p. 16 of Exhibit G. The report also stated that while "an observation of the financial management and accounting controls" could not be completed until the automated financial management system was implemented, "there are no apparent impedances from the continued endeavor [of MVUSD] towards fiscal independence." See p. 16 of Exhibit G. Moreover, the report concluded that the Disbursing Officer was critical to the financial and accounting controls of MVUSD, and that "those duties have been established, but now require practical development by [MVUSD]." See p. 16 of Exhibit G.

On December 16, 2004, Dr. Long and Mr. Byrd forwarded a joint letter to the California Department of Education reporting the findings of the Auditor concerning MVUSD progress

towards achieving the accounting controls for fiscal independence. See letter from Dr. David Long and Robert Byrd dated December 16, 2004 identified as Exhibit H; hereinafter referred to as Exhibit H. In their letter, Dr. Long and Mr. Byrd summarized the conclusions of the Auditor, and identified several key tasks that required additional effort from the MVUSD including (a) the capability by MVUSD to generate both commercial and payroll warrants based on live data in a realistic operating environment, (b) a detailed plan for transfer of responsibilities from RCOE, (c) a plan for converting financial data from the RCOE financial system to the MVUSD financial system, and (d) a staffing plan for additional accounting and payroll staff. See Exhibit H. Based on these conditions and their satisfactory completion, Dr. Long and Mr. Byrd recommended that the Superintendent of Public Instruction approve the application for fiscal independence for MVUSD. See Exhibit H. On December 30, 2004, the California Department of Education approved the application of MVUSD for fiscal independence provided the conditions, as identified by Dr. Long and Mr. Byrd, were satisfactorily met by June 1, 2005. See letter from Scott Hannan dated December 30, 2004 identified as Exhibit I; hereinafter referred to as Exhibit I.

Over the next six months, the RCOE met with staff from MVUSD to review its progress towards satisfying the conditions required by the California Department of Education. See Progress Meetings Concerning Fiscal Independence of Moreno Valley Unified School District between January 1, 2005 to June 30, 2005 identified as Exhibit J and Meeting Notes from March 1, 2005 Updated on April 29, 2005 identified as Exhibit K; hereinafter referred to as Exhibit J and Exhibit K. These meetings often included the Auditor, the Riverside Auditor-Controller and representatives of the vendor for the automated financial system. See Exhibit J. On February 22, 2005, Mr. Crank sent a letter to Mr. Edmunds detailing the actions and steps of MVUSD towards completion of the conditions. See letter from Robert Crank dated February 22, 2005 and attachments identified as Exhibit L; hereinafter referred to as Exhibit L.

On May 27, 2005, the Auditor reported that MVUSD appeared "to be in a position to take on the responsibility of fiscal independence, as of July 1, 2005." See letter from P. James Balsano dated May 27, 2005 identified as Exhibit M; hereinafter referred to as Exhibit M. The Auditor stated that "[f]inancial and [b]udgetary management and accounting controls appear to be in place or will be in place prior to [July 1, 2005]." See Exhibit M. Additionally, the Auditor stated that "[t]he Disbursing Officer and supporting staff positions appear to be properly manned, with significant development of policies and procedures." See Exhibit M. The Auditor also noted that observations of the MVUSD financial management and accounting controls, in real-time, was performed in April and May 2005. See Exhibit M. The Auditor reported that, while only minor issues needed to be resolved, the results of the tests reflected a successful conversion of data from the RCOE system to the new system. See Exhibit M. Based on this report and the progress meetings, the RCOE and the Riverside Auditor-Controller determined that MVUSD had met the conditions required by the California Department of Education for fiscal independence, and, as such, MVUSD began the 2005-06 fiscal year as fiscally independent in accord with Education Code section 42647.

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.**

Response: The RCOE wholly disagrees.

The RCOE did not require the Disbursing Officer to report directly to the Superintendent or governing board. It did, however, require the MVUSD to implement an organizational structure and a reporting relationship for the Disbursing Officer that ensured independence and integrity from other financial functions. Based on the reports from the Auditor, the RCOE concluded that the MVUSD had established and implemented the position of the Disbursing Officer in accordance with the requirements for Fiscal Independence.

In its manual for fiscal independence, the RCOE states that assumption of responsibilities exercised by the County Superintendent of school by a fiscally independent school district "requires the disbursing officer to have a significant degree of independence in the process of approving or disapproving warrants" and the disbursing officer "must be independent from operational responsibilities." See p. 22 of Exhibit A. Therefore, the disbursing officer should report within the administrative hierarchy of a school district in such a manner that his or her independence is maintained with no conflict of interest. See p. 22 of Exhibit A. The primary concern of a disbursing officer should be related to legality, accuracy, and budget and cash sufficiency for the issuance of each warrant. See p. 22 of Exhibit A. Additional duties for the disbursing officer are permissible, but should be reviewed to determine that good internal controls are not compromised. See p. 22 of Exhibit A.

On December 15, 2004, the Auditor reported finding that "[t]he critical position of Disbursing Officer/Internal Auditor, along with his support staff, has been filled and incorporated into the District's organizational structure. As such, the District is currently in the process of developing an in-house commercial and payroll warrant generation system and associated controls and procedures – specifically managed by the Disbursing Officer. See p. 4 of Exhibit G. In another finding, the Auditor found that the organizational chart proposed by MVUSD demonstrated "segregation of duties and attendant delegations of authority appear to be properly controlled. Duties have been divided so that persons authorizing or initiating a transaction are separated from those

recording it . . . The Disbursing Officer (acting as an internal auditor) does report directly to the District Superintendent or to the Governing Board.” See p. 8 of Exhibit G. Later in the report, the Auditor also found that “[t]he primary responsibility for the Disbursing Officer is to determine compliance with the relevant policies, laws, internal controls, and accounting procedures.” See p. 11 of Exhibit G. Based on these findings, the Auditor concluded that “the District has been successful in building a system capable of achieving Fiscal Independence status.” See p. 16 of Exhibit G.

On May 27, 2005, the Auditor concluded in a report that “[t]he Disbursing Officer and supporting staff positions appear to be properly manned, with significant development of policies and procedures.” See Exhibit M.

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

Response: The RCOE wholly disagrees.

The RCOE did not require the job description of the Director of Budget and Finance to be updated with the Disbursing Officer duties. It did, however, require the governing board of the MVUSD to specifically acknowledge the duties and responsibilities of the Disbursing Officer, the independence of the disbursing officer, and the relationship of the disbursing officer to operational units and to the governing board, so as to clearly identify areas of responsibility and accountability. The MVUSD prepared a thirty-two (32) point description of the duties of the Disbursing Officer and submitted it to the Auditor on December 1, 2004 as part of the Implementation Plan. See Appendix 1 of Exhibit L. In its response to the Grand Jury Report dated July 20, 2007, MVUSD stated that while it did not add the duties of the Disbursing Officer to the job description of the Director of Budget and Finance, it would consider integrating those duties into the existing job description.

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

Response: The RCOE wholly disagrees.

See response to first bullet above.

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 RCOE agrees; however, MVUSD and the RCOE are coordinating to provide full access by October 2007.

On March 1, 2005, MVUSD agreed to arrange direct access to QSS for RCOE. See p. 7 of Exhibit K. This commitment was reiterated by MVUSD at a meeting with RCOE on May 25, 2005. See letter from Rollin Edmunds and attachment dated January 19, 2006 identified as Exhibit N; hereinafter referred to as Exhibit N. The RCOE requires access to QSS to monitor financial transactions of MVUSD and to print monthly reports including the general ledger, historical cashflow and financial summary. See Exhibit N.

On December 16, 2005, Mr. Crank sent a letter to Mr. Edmunds expressing concern about granting RCOE full access to QSS. See Exhibit N. In particular, Mr. Crank suggested that the concerns centered on RCOE staff adopting some of the QSS features for its system without paying licensing or royalty fees. See Exhibit N. Additionally, Mr. Crank expressed concerns about disparate treatment with respect to accessing QSS between MVUSD and Corona-Norco Unified School District, which was also fiscally independent and used QSS. See Exhibit N. In his letter, Mr. Crank implied that MVUSD would not be providing QSS access to RCOE. See Exhibit N.

On January 19, 2006, Mr. Edmunds responded to Mr. Crank by reiterating the requirement of providing view access to RCOE for QSS. See Exhibit N. RCOE offered to enter into a disclosure agreement assuring QSS that it would not incorporate any QSS features into its own system. See Exhibit N. Mr. Crank responded, on January 23, 2006, to Mr. Edmunds and stated that MVUSD would not agree to let RCOE have full access to QSS. See letter from Robert Crank dated January 23, 2006 identified as Exhibit O; hereinafter referred to as Exhibit O. In fact, Mr. Crank suggested that RCOE was acting in an arbitrary and capricious manner towards MVUSD as a result of its decision concerning access to QSS. See Exhibit O.

Mr. Edmunds requested QSS access on three different occasions between December 6, 2006 and May 31, 2007. See letter from Rollin Edmunds dated December 6, 2006 identified as Exhibit P, memorandum from Rollin Edmunds dated April 25, 2007 identified as Exhibit Q and memorandum from Rollin Edmunds dated May 31, 2007 identified as Exhibit R; hereinafter referred to as Exhibit P, Exhibit Q and Exhibit R. On June 5, 2007, Mr. Crank informed Mr. Edmunds that QSS would send a Limited and Restricted Use Software License Agreement to RCOE for the purpose of accessing the required financial data from MVUSD. See letter from Robert Crank dated June 5, 2007 identified as Exhibit S; hereinafter referred to as Exhibit S. Upon execution of the agreement, the RCOE would have full access to QSS.

In July 2007, the RCOE executed the agreement from QSS. Currently, the RCOE has established access to the QSS system. The RCOE and MVUSD are coordinating full access to QSS and all necessary financial reports, and it should be fully operational as of October 2007.

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.**

Response: The RCOE wholly disagrees.

On December 15, 2004, the Auditor reported finding that “[t]he critical position of Disbursing Officer/Internal Auditor, along with his support staff, has been filled and incorporated into the District’s organizational structure. As such, the District is currently in the process of developing an in-house commercial and payroll warrant generation system and associated controls and procedures – specifically managed by the Disbursing Officer. See p. 4 of Exhibit G. In another finding, the Auditor found that the organizational chart proposed by MVUSD demonstrated “segregation of duties and attendant delegations of authority appear to be properly controlled. Duties have been divided so that persons authorizing or initiating a transaction are separated from those recording it . . . The Disbursing Officer (acting as an internal auditor) does report directly to the District Superintendent or to the Governing Board.” See p. 8 of Exhibit G. Later in the report, the Auditor also found that “[t]he primary responsibility for the Disbursing Officer is to determine compliance with the relevant policies, laws, internal controls, and accounting procedures.” See p. 11 of Exhibit G. Based on these findings, the Auditor concluded that “the District has been successful in building a system capable of achieving Fiscal Independence status.” See p. 16 of Exhibit G.

On May 27, 2005, the Auditor concluded in a report that “[t]he Disbursing Officer and supporting staff positions appear to be properly manned, with significant development of policies and procedures.” See Exhibit M.

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 RCOE wholly disagrees.

After the December 15, 2004 report from the Auditor and approval of the MVUSD application for fiscal independence, the RCOE met with staff from MVUSD, on five different occasions, to review its progress towards satisfying the conditions required by the California Department of Education. See Exhibit J. These meeting often included the Auditor, the Riverside Auditor-Controller and representatives of the vendor for the automated financial system. See Exhibit J. At each of these meetings, Action/Notes were prepared to review and document the progress of MVUSD in satisfactorily meeting the conditions for approval. See Exhibit K.

On May 27, 2005, the Auditor reported that MVUSD appeared “to be in a position to take on the responsibility of fiscal independence, as of July 1, 2005.” See Exhibit M. The Auditor stated that “[f]inancial and [b]udgetary management and accounting controls appear to be in place or will be in place prior to [July 1, 2005].” See Exhibit M. Additionally, the Auditor stated that “[t]he Disbursing Officer and supporting staff positions appear to be properly manned, with significant development of policies and procedures.” See Exhibit M. The Auditor also noted that observations of the MVUSD financial management and accounting controls, in real-time, was performed in April and May 2005. The Auditor reported that, while only minor issues needed to be resolved, the results of the tests reflected a successful conversion of data from the RCOE system to the new system. Exhibit M. Based on this report and the progress meetings, the RCOE and the Riverside Auditor-Controller determined that MVUSD had met the conditions required by the California Department of Education for fiscal independence.

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.**

Response: The RCOE wholly disagrees.

On December 15, 2004, the Auditor reported finding that “[t]he critical position of Disbursing Officer/Internal Auditor, along with his support staff, has been filled and incorporated into the District’s organizational structure. As such, the District is currently in the process of developing an in-house commercial and payroll warrant generation system and associated controls and procedures – specifically managed by the Disbursing Officer. See p. 4 of Exhibit G. In another finding, the Auditor found that the organizational chart proposed by MVUSD demonstrated “segregation of duties and attendant delegations of authority appear to be properly controlled. Duties have been divided so that persons authorizing or initiating a transaction are separated from those recording it . . . The Disbursing Officer (acting as an internal auditor) does report directly to the District Superintendent or to the Governing Board.” See p. 8 of Exhibit G. Later in the report, the Auditor also found that “[t]he primary responsibility for the Disbursing Officer is to determine compliance with the relevant policies, laws, internal controls, and accounting procedures.” See p. 11 of Exhibit G. Based on these findings, the Auditor concluded that “the District has been successful in building a system capable of achieving Fiscal Independence status.” See p. 16 of Exhibit G.

On May 27, 2005, the Auditor reported that MVUSD appeared “to be in a position to take on the responsibility of fiscal independence, as of July 1, 2005.” See Exhibit M. The Auditor stated that “[f]inancial and [b]udgetary management and accounting controls appear to be in place or will be in place prior to [July 1, 2005].” See Exhibit M. Additionally, the Auditor stated that “[t]he Disbursing Officer and supporting staff positions appear to be properly manned, with significant development of policies and procedures.” See Exhibit M. The Auditor also noted that observations of the MVUSD

financial management and accounting controls, in real-time, was performed in April and May 2005. The Auditor reported that, while only minor issues needed to be resolved, the results of the tests reflected a successful conversion of data from the RCOE system to the new system. Exhibit M. Based on this report and the progress meetings, the RCOE and the Riverside Auditor-Controller determined that MVUSD had met the conditions required by the California Department of Education for fiscal independence.

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 RCOE agrees.

Annual audits of California school districts are governed by the requirements adopted by the State Board of Education and the State Comptroller. These requirements do not specifically require an annual review of the operations of the Disbursing Officer. Nonetheless, the scope and breath of an annual audit for school districts will detect deficiencies in the disbursement of funds, and in the operation of the Disbursing Officer for fiscally independent school districts, to the extent they exist.

More importantly, the RCOE is authorized, under Education Code section 42647, to continually monitor the accounting controls of fiscally independent school districts. In fulfilling these responsibilities, the RCOE regularly monitors financial transactions and monthly reports, including the general ledger, historical cashflow and financial summary, of financially independent school districts. These responsibilities are also designed to monitor the operations of the Disbursing Officer of financial independent schools districts. The RCOE intends to fulfill such obligations with respect to MVUSD.

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 RCOE does not have sufficient information to determine whether it agrees or disagrees with the Finding. Please refer to response from MVUSD.

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 RCOE does not have sufficient information to determine whether it agrees or disagrees with the Finding. Please refer to response from MVUSD.

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).**
- **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.**

Response: The recommendation requires further analysis.

The RCOE will collaborate with MVUSD, over the next six months, on implementation of this recommendation to the extent it impacts the fiscal independence of the school district. To date, the RCOE is satisfied that MVUSD has implemented the position of Disbursing Officer and the proposed organizational structure consistent with the implementation plan developed by the school district.

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.

In July 2007, the RCOE executed the agreement from QSS. Currently, the RCOE has established access to the QSS system. The RCOE and MVUSD are coordinating full access to QSS and all necessary financial reports, and it should be fully operational as of October 2007.

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.**

Response: The recommendation has been implemented.

Based on the reports prepared by the Auditor of December 15, 2004 and May 27, 2005, MVUSD has established and implemented the position of the Disbursing Officer in accordance with the requirements for Fiscal Independence. See Exhibit G and Exhibit M, respectively.

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.**

Response: This recommendation concerning an onsite inspection of MVUSD will be implemented as determined by the RCOE and consistent with Education Code section 42647.

The RCOE is authorized, under Education Code section 42647, to monitor the accounting controls of fiscally independent school districts, including MVUSD. In fulfilling these responsibilities, the RCOE regularly reviews financial transactions and monthly reports, including the general ledger, historical cashflow and financial summary, of financially independent school districts. If at any time the RCOE determines that the accounting controls, including the policies and procedures of the Disbursing Officer, of MVUSD have become inadequate, it may recommend to the Superintendent of Public Instruction that approval be revoked. If warranted, the RCOE will exercise its statutory authority to monitor and review MVUSD accounting controls, which may include an on-site inspection.

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

Response: The recommendation has been implemented.

In July 2007, the RCOE executed the agreement from QSS. Currently, the RCOE has established access to the QSS system. The RCOE and MVUSD are coordinating full access to QSS and all necessary financial reports, and it should be fully operational as of October 2007.

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: This recommendation will not be implemented because it is not warranted.

Annual audits of California school districts are governed by the requirements adopted by the State Board of Education and the State Comptroller. These requirements do not specifically require an annual review of the operations of the Disbursing Officer. Nonetheless, the scope and breath of an annual audit for school districts will detect deficiencies in the disbursement of funds, and in the operation of the Disbursing Officer for fiscally independent school districts, to the extent they exist.

The RCOE is authorized, under Education Code section 42647, to continually monitor

the accounting controls of fiscally independent school districts, including MVUSD. In fulfilling these responsibilities, the RCOE regularly monitors financial transactions and monthly reports, including the general ledger, historical cashflow and financial summary, of financially independent school districts. If at any time the RCOE determines that the accounting controls, including the policies and procedures of the Disbursing Officer, of MVUSD have become inadequate, it may recommend to the Superintendent of Public Instruction that approval be revoked.

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 RCOE has no authority to implement the recommendation, and takes no position on its merits.

8. **The director of budget and finance/disbursing officer be authorized to evaluate subordinates annually.**

Response: The RCOE has no authority to implement the recommendation, and takes no position on its merits.

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5.	Letter from Scott Hannan dated January 21, 2004	Exhibit D
6.	Letter from Rollin Edmunds dated August 31, 2004.....	Exhibit E
7.	Letter from Robert Crank dated September 7, 2004	Exhibit F
8.	<i>Moreno Valley Unified School District: Procedures Applied to Management and Accounting Controls for Fiscal Independence EC42647 (Phase 2)</i> dated December 15, 2004.....	Exhibit G
9.	Letter from Dr. David Long and Robert Byrd dated December 16, 2004.....	Exhibit H
10.	Letter from Scott Hannan dated December 30, 2004	Exhibit I
11.	Progress Meetings Concerning Fiscal Independence of Moreno Valley Unified School District between January 1, 2005 to June 30, 2005	Exhibit J
12.	Meeting Notes from March 1, 2005 Updated on April 29, 2005	Exhibit K
13.	Letter from Robert Crank dated February 22, 2005 and attachments	Exhibit L
14.	Letter from P. James Balsano dated May 27, 2005	Exhibit M
15.	Letter from Rollin Edmunds and attachment dated January 19, 2006	Exhibit N
16.	Letter from Robert Crank dated January 23, 2006	Exhibit O
17.	Letter from Rollin Edmunds dated December 6, 2006.....	Exhibit P
18.	Memorandum from Rollin Edmunds dated April 25, 2007.....	Exhibit Q
19.	Memorandum from Rollin Edmunds dated May 31, 2007.....	Exhibit R
20.	Letter from Robert Crank dated June 5, 2007	Exhibit S