

**CALIFORNIA COMMUNITY COLLEGES
SYSTEM OFFICE**

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FS 07-06

TO: Chief Business Officers

FROM: Frederick E. Harris, Assistant Vice Chancellor
College Finance & Facilities Planning

SUBJECT: Accounting Advisory: Fiscal Independence

I. Synopsis:

For Community College Districts seeking fiscal independence pursuant to Education Code (E.C.), Section 85266.5, the Board of Governors is required to prescribe standards for an independent survey of the applicant district's accounting controls and has final authority to approve the applicant district's application for fiscal independence. This accounting advisory provides those standards expressed in broad terms, a checklist incorporating those standards for use by the independent auditors as part of their overall assessment of the district's internal controls, and the fiscal independence application form.

II. Background:

Under E.C., Section 85266.5, fiscal independence is granted by the Board of Governors, based largely on the recommendation from the community college district's applicable county offices and results of the independent Certified Public Accountant survey of the district's accounting controls. Fiscal independence gives districts broad authority to issue warrants without review or approval of the County Office of Education or County Auditor.

Conversely, under E.C., Section 85266, districts may currently negotiate with their COE to attain fiscal accountability status, which entitles the district to issue most of their own warrants. Fiscal accountability status is subject to ongoing approval by the county, with no involvement by the Board of Governors.

Application for District Fiscal Independence

The process for an applicant district to have its application approved by the Board of Governors pursuant to E.C. 85266.5 is reiterated as follows:

- In order to obtain the approval of the board of governors, a community college district shall file a written application with the county superintendent of schools (*Attachment A*).
- Upon receipt of the application, the county superintendent of schools shall cause a survey to be made of the district's accounting controls by an independent certified public accountant or public accountant in accordance with standards prescribed by the board of governors (*Section III. and Attachment B*).
- The certified public accountant or public accountant shall report his or her findings and recommendations to the county superintendent, county auditor, and to the applicant district.
- The county superintendent shall forward the district's application, together with his or her other recommendations and the recommendations of the county auditor and a report of the survey, to the board of governors for approval or disapproval of the application.
- The board of governors shall approve the application only if it finds that the accounting controls of the district are adequate. If the board of governors determines that these controls are inadequate, it shall disapprove the application.
- The county superintendent of schools shall be reimbursed for all costs incident to the accounting controls survey made pursuant to the district's application, from the district's funds.
- When approved by the board of governors, the issuance of warrants pursuant to this section shall be effective at the beginning of the fiscal year if the approval had been made prior to the preceding first day in January.
- In the event that the issuance of warrant has been disapproved, the board of governors shall state the specific steps which must be taken by the district in order to receive approval.
- If at any time the county superintendent of schools determines that the accounting controls of the district have become inadequate, he or she may recommend to the board of governors that the approval be revoked, to be effective on the first day of the next following fiscal year.

III. Standards for Board of Governors Approval of District Applications for Fiscal Independence

The following four standards are intended to be broad and general guidelines for evaluating a district's ability to issue warrants directly on the county treasury without review and approval of the county auditor and county superintendent of schools. Generally, scrutiny of the legality and propriety of district accounting transactions has been performed by the county superintendent of schools. Under fiscal independence, the chief financial officer and the accounting staff of the district must provide that scrutiny.

Standard 1: **Adequate Fund Balances** - The district has avoided deficit balances in its funds and has maintained a prudent reserve in its unrestricted general fund over the preceding five fiscal years.

Standard 2: **Statute and Governing Board** - The district makes only lawful and appropriate expenditures in carrying out the programs authorized by statute and by the governing board.

Standard 3: **Adequate Internal Controls** - The staff of the accounting, budgeting, contracts, management information systems, internal audits, personnel, and procurement departments are adequate in numbers and skill level to administer administrative programs independent of detailed review by the county office of education and to provide an internal audit function that assures adequate internal controls.

Standard 4: **Legality and Propriety of Transactions** - The staff of the accounting, budgeting, contracts, management information systems, internal audits, personnel, and procurement departments exercise independent judgment to assure the legality and propriety of transactions.

**California Community Colleges
District Application for Fiscal Independence**

To: [enter County Superintendent of Schools name and title]
[enter System Office Chancellor's name and title]

The [enter district name] Community College District hereby applies for fiscal independence in issuing its own warrants under the provisions of Education Code Section 85266.5. The district superintendent and chief financial officer acknowledge that fiscal independence for the district is predicated on the continuing adherence to the following Board of Governors standards:

Standard 1: Adequate Fund Balances: The district has avoided deficit balances in its governmental funds and has maintained a prudent reserve in its unrestricted general fund over the preceding five fiscal years.

Standard 2: Statute and Governing Board: The district makes only lawful and appropriate expenditures in carrying out the programs authorized by statute and by the governing board.

Standard 3: Adequate Internal Controls: The staff of the accounting, budgeting, contracts, management information systems, internal audits, personnel, and procurement departments are adequate in numbers and skill level to conduct administrative programs independent of detailed review by the county office of education and to provide an internal audit function that assures adequate internal controls

Standard 4: Legality and Propriety of Transactions: The staff of the accounting, budgeting, contracts, management information systems, internal audits, personnel, and procurement departments exercise independent judgment to assure the legality and propriety of transactions.

President of Governing Board

Date: _____

Chief Executive Officer

Date: _____

District Financial Officer

Date: _____

Certified Public Accountant

Date: _____

California Community Colleges District Application for Fiscal Independence

This questionnaire has been developed by the California Community Colleges, System Office through the consultation process. It is intended for use by the independent auditors in conjunction with the independent auditors' internal control questionnaire.

This checklist focuses on points of specific interest to the County Office of Education and the System Office in reviewing the District's application. The internal control questionnaire used by the independent auditors will focus on the district's accounting and administrative controls over the district's operations.

	Yes/Met Consistently	Met Partially	No/Not Met
1. Adequate Fund Balances			
The district has avoided deficit balances in its funds and has maintained a prudent reserve in its unrestricted general fund over the preceding five fiscal years.			
a. For the past five fiscal years the district has maintained fund balances in its unrestricted general fund at or above the minimum established by the California Community Colleges, System Office.	_____	_____	_____
b. The district has avoided deficit fund balances in its funds for the past five fiscal years.	_____	_____	_____
c. Appropriation balances are checked before orders are forwarded.	_____	_____	_____
d. Procedures are established to assure sufficient funds are in the county treasury before issuing/requesting warrants.	_____	_____	_____
e. Provision is made early in the fiscal year to assure adequate cash to operate the district until receipt of local taxes and state subventions.	_____	_____	_____
f. Purchase orders are verified for availability of funds, within budget limits authorized for division, campus, or program.	_____	_____	_____
2. Statute and Governing Board			
The district makes only lawful and appropriate expenditures in carrying out the programs authorized by statute and by the governing board.			
a. All funds are established in accordance with applicable statutory requirements in the Education Code, the Government Code, and the California Code of Regulations (Title 5).	_____	_____	_____
b. The board has adopted a conflict of interest policy consistent with the Government Code, beginning at Section 87300, and has ensured wide distribution to all staff and contractors.	_____	_____	_____
c. Payments, loans, and advances to employees from undeposited receipts are prohibited.	_____	_____	_____
d. State regulations on adoption of the district budget are followed.	_____	_____	_____
e. The accounting system is established and maintained in accordance with the Community Colleges Budget and Accounting Manual (BAM).	_____	_____	_____
f. Debt records are centrally maintained.	_____	_____	_____
g. If the district maintains a revolving fund, it is established in accordance with the Community Colleges BAM.	_____	_____	_____
h. Controls are established over advances to and receivables from employees.	_____	_____	_____

California Community Colleges District Application for Fiscal Independence

	Yes/Met Consistently	Met Partially	No/Not Met
i. The local board authorizes all sales of real or major personal property.			
j. The required notice is given before major sale of equipment or real estate.			
k. Sales of district property to board members and district employees are prohibited (Government Code, Section 1090).			
l. Each purchase order is verified for legality before issuance.			
m. Procedures are in place to preclude unallowable costs and expenditures on State and Federal grants.			
n. Additional authorizations and signatures are required on major purchases.			
o. Bids are solicited as required by Public Contract Code, Section 52011.			
p. Safeguards are in place to prevent conflict of interest by board members and employees.			
q. Controls are established to assure that payroll costs charged to grants are in compliance with agreements.			
r. The board has adopted a conflict of interest policy consistent with the Government Code and has ensured wide distribution to all staff and contractors.			
s. The district has a written policy that clearly prohibits use of the revenues or expenditures of the student body funds for the district's operations.			
t. All internal and external audit exceptions and recommendations are promptly reported to the campus president, district superintendent, and board.			
u. All internal and external audit recommendations have been reviewed, acted upon and resolved in a timely manner.			

3. Adequate Internal Controls

The staff of the accounting, budgeting, contracts, management information systems, internal audits, personnel, and procurement departments are adequate in numbers and skill level to conduct administrative programs independent of detailed review by the county office of education and to provide an internal audit function that assures adequate internal controls.

a. A plan of organization that provides segregation of duties appropriate for the safeguarding of district assets.			
b. Procedures are established to monitor compliance with:			
• Financial reporting requirements			
• Use of funds and other grant terms			
• Timely billing of amounts due under grants			
b. For entitlements and apportionments, comparisons are made of the amount anticipated and the amount received – variances are investigated and resolved.			
c. A responsible official reviews statistical and data reports before they are submitted.			
d. Controls are in place to assure adequate follow-up on unmatched invoices, purchase orders, and requisitions.			

California Community Colleges District Application for Fiscal Independence

	<u>Yes/Met Consistently</u>	<u>Met Partially</u>	<u>No/Not Met</u>
e. Purchases have been centralized in the business office under an employee designated by the board.	_____	_____	_____
f. The person responsible for signing warrants is bonded in an amount fixed by the governing board.	_____	_____	_____
g. The district maintains security (control) over payroll and commercial warrants at all times in the process (i.e. from raw stock to mailing of warrants including security over signature plates and/or software embedded signatures).	_____	_____	_____
h. The IRS 1099 requirements are met.	_____	_____	_____
i. The procedures are adequate for placing personnel on the proper salary schedule.	_____	_____	_____
j. The personnel information, current and historical, is available to meet all reasonable district requirements.	_____	_____	_____
k. For open, on-line systems of procurement and budget reports, adequate controls of access to files and security of data are maintained.	_____	_____	_____
l. There are adequate controls over the distribution of reports.	_____	_____	_____
m. There is adequate follow-up on unmatched transactions between master record and transaction records.	_____	_____	_____
n. Controls over master files are adequate.	_____	_____	_____
o. Copies of important programs, records and files are kept in separate fireproof storage.	_____	_____	_____
p. Documentation is kept up to date and record keeping practices are adequate to support transactions (for audit trail purposes).	_____	_____	_____
q. Safeguards are adequate to prevent unauthorized entry of program changes and/or data.	_____	_____	_____
r. There are systems and procedures manuals for the administrative activities of the district.	_____	_____	_____
s. The district has adequate business continuation plan to ensure that the district could continue to process payments in case of a disaster that destroys the district's computer facilities.	_____	_____	_____
t. The external auditors report on the lack of or weak internal control procedures and make recommendations to management.	_____	_____	_____

4. Legality and Propriety of Transactions

The staff of the accounting, budgeting, contracts, management information systems, internal audits, personnel, and procurement departments exercise independent judgment to assure the legality and propriety of transactions.

a. The <i>accounting office staff</i> exercise independent judgment on the legality and propriety of accounting transactions.	_____	_____	_____
b. The <i>fiscal officer</i> exercises independent judgment on the legality and propriety of accounting transactions.	_____	_____	_____
c. The <i>person signing warrants</i> exercises independent judgment on the legality and propriety of all district expenditures.	_____	_____	_____

California Community Colleges District Application for Fiscal Independence

	<u>Yes/Met Consistently</u>	<u>Met Partially</u>	<u>No/Not Met</u>
d. The <i>purchasing agent</i> exercises independent judgment in the legality and propriety of purchases made on behalf of the district.	_____	_____	_____
e. The district has a separate independent receiving division to handle receipt of all materials and equipment.	_____	_____	_____
f. The warrants are audited by someone other than the person responsible for warrant payments to ensure sufficient oversight to support the legality and issuance of warrants.	_____	_____	_____
g. The custodian of the inventory is independent of the purchasing and receiving departments.	_____	_____	_____
h. The personnel office exercises independent judgment in assuring the legality and propriety of personnel transactions.	_____	_____	_____
i. The district performs accurate and timely STRS, PERS, FICA, Worker's Compensation, and Unemployment Insurance reports as well as Federal/State Withholding Tax reports.	_____	_____	_____
j. The staff of the management information systems department exercises independent judgment in assuring the legality and propriety of data processing activities.	_____	_____	_____
k. The management information systems department is independent of all operating units it serves.	_____	_____	_____
l. An independent internal audit function is performed to determine compliance with policies, laws, regulations and accounting procedures.	_____	_____	_____
m. Adequate safeguards have been established to maintain the independence and integrity of the accounting function.	_____	_____	_____
n. If the district is too small for a separate receiving department, controls are in place to assure receipt of items before invoice is paid; staff is identified to verify quantity and quality of items received and to match receiving documents against purchase orders.	_____	_____	_____