PRESENTED TO THE BOARD OF GOVERNORS
DATE: November 17-18, 2014

SUBJECT: Fiscal Independence Request

BACKGROUND:
Fiscal independence gives districts broad authority to issue warrants without review or approval of the County Office of Education or County Auditor. Under Education Code 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 an independent Certified Public Accountant survey of the district’s accounting controls. A total of nine community college districts currently have fiscal independence status.

As presented in a Chancellor’s Office Accounting Advisory dated August 16, 2007, the process for an applicant district to have its application approved by the Board of Governors pursuant to Education Code section 85266.5 is 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. (Background Cont. on next page)

RECOMMENDED ACTION: It is recommended that the Board of Governors concur in the recommendations of the Santa Barbara County Superintendent of Schools, the Santa Barbara County Auditor-Controller, the San Diego County Superintendent of Schools and the San Diego County Auditor’s Office and approve fiscal independence status for Santa Barbara Community College District and the Southwestern Community College District effective July 1, 2015.
BACKGROUND (cont.):

- 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.

- 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 warrants 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.

**Standards for Approval of District Applications for Fiscal Independence**

The following four accounting control standards are intended to serve as 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.

ANALYSIS OF SANTA BARBARA COMMUNITY COLLEGE DISTRICT’S REQUEST

In September of 2014, the accounting firm Glenn Burdette completed the independent auditor internal control audit required for fiscal independence and found in its review that Santa Barbara Community College District (SBCCD) was in compliance with all four required accounting control standards. The firm further noted that nearly all of SBCCD’s internal controls over accounting, administration and operations were sufficient. Out of 64 requirements, SBCCD met all but six of them. For the six requirements that were not met, SBCCD has plans to satisfy the requirements well in advance of going fiscally independent on July 1, 2015.

The Santa Barbara Auditor-Controller provided only two recommendations in their analysis of SBCCD’s request for fiscal independence:

- Bonding all employees who have access to cash and cash equivalents
- Providing an evaluation of the internal audit function and necessary skills.

SBCCD subsequently established a Disbursing Officer position and appropriately assigned the Vice President of Business Services with this responsibility. The Vice President will be bonded prior to gaining fiscal independence and will be the person responsible for signing warrants.

SBCCD’s payroll and accounting staff continue to work with both the County Education Office and County Treasurer’s office to coordinate the transition to fiscal independence. Separating from Santa Barbara County Office of Education will save the district approximately $100,000, which primarily results from the transition to a new payroll system in 2013. As a result, SBCCD will not incur the cost of developing a bridge system to the County Treasurer’s payroll systems. This has enabled the SBCCD to eliminate duplication of effort, and has greatly increased efficiency, internal controls, and financial controls.
The SBCCD ended fiscal year ending 2012-13 with a significant positive ending balance of $26,703,453, due exclusively to careful planning, conserving, and sacrificing across the campus. The District will continue with its conservative approach to maintain healthy reserves. These healthy reserves will permit the continuation of many outstanding programs for the 2014-15 budget and beyond.

The Chancellor’s Office staff has reviewed the materials provided by Santa Barbara County and their designated public accounting firm, and we concur that SBCCD satisfactorily meets all four accounting control standards required for fiscal independence. In order for fiscal independence to become effective July 1, 2015, Education Code requires that this request be approved by the Board of Governors prior to January 1, 2015.

ANALYSIS OF THE SOUTHWESTERN COMMUNITY COLLEGE DISTRICT REQUEST

In its initial review of Southwestern Community College District’s (SWCCD) capacity to become fiscally independent, the certified public accountancy firm Wilkinson Hadley King & Co. LLP found several areas that the district would need to resolve prior to achieving fiscal independence.

- Controls to insure that fund deficits do not occur
- Creation of internal audit function
- Documentation of policies and procedures
- Resolution of segregation of duties in inventory
- Oversight of warrant issuance
- Timely and accurate reporting of PERS/STRS as well as federal tax reports

The San Diego County office of Education provided the following additional response:

While the district had small deficits in 2 enterprise funds during the five year review period, they maintained positive fund balance in all other funds. The district ended fiscal year ending 2012-13 with a significant positive ending balance of $7,199,788.

The SWCCD has also contracted with the independent accounting firm Christy White Associates, Inc., to act as the internal auditor for the district until the position is filled permanently. The firm and staff will work with the district in their capacity and assist in the search to fill the position with qualified staffing.

The SWCCD and the San Diego County Office of Education continue to work closely developing processes and procedures that mirror their current accounting operations. The district has established procedures for processing warrants and has hired a consultant to assist in the resolution of the segregation of duties. The reporting structure for the payroll services department has been modified through this process. The custodian of inventory has been transferred to the supervision of the Director of Facilities Operations and Planning and the responsibility for warrants has been assigned to the Director of Finance, who is directly supervised by the Vice President for Business and Financial Affairs. Additionally Southwestern has hired a full time Director of payroll to provide additional insight as they move toward fiscal independence.

The San Diego County Office of Education had previously noted concerns with the payroll functions reporting directly to the human resources functions. Since then, the SWCCD has restructured their organization to this address this concern by having the payroll functions reporting directly to the
business services functions. The San Diego County Office of Education has approved of this restructuring, and agrees this addresses their primary internal control concerns.

The Chancellor’s Office staff has reviewed the materials provided by San Diego County and their designated public accounting firm, and we concur that SWCCD satisfactorily meets the control standards required for fiscal independence.

Staff:  Michael Yarber, College Finance and Facilities Planning