
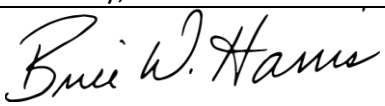




The Board of Governors of the California Community Colleges

PRESENTED TO THE BOARD OF GOVERNORS

DATE: January 19-20, 2015

SUBJECT: Independent Warrant Authority for Antelope Valley Community College District		Item Number: 2.5	
		Attachment: No	
CATEGORY:	Fiscal Policy	TYPE OF BOARD CONSIDERATION:	
Recommended By:	 Dan Troy, Vice Chancellor	Consent/Routine	
		First Reading	
Approved for Consideration:	 Brice W. Harris, Chancellor	Action	X
		Information	

ISSUE: This item presents a request for Independent Warrant Authority status pursuant to Education Code section 85266.5 from the Antelope Valley Community College District (AVCCD).

BACKGROUND: Generally, community college districts must have their warrants reviewed and approved by a county office of education prior to issuance. This process can be an unnecessary level of oversight for some districts that already demonstrate fiscal health and proper internal controls. Further, this process may prevent a district from using the enterprise resource planning system that best fits their individual needs if their county office of education’s system doesn’t interface with their system. Education Code section 85266.5 provides the Board of Governors the authority to grant Independent Warrant Authority to districts to issue warrants without review or approval of the County Office of Education. The Board’s determination is based largely on the recommendations from an independent audit firm and the district’s county office of education review of the district’s internal controls and fiscal health. This does not eliminate any other form of fiscal oversight, such as the requirement to complete an annual independent audit or the requirement to provide quarterly and annual financial data to the Chancellor’s Office. **(Background cont’d)**

RECOMMENDATION: The Board of Governors concur with the recommendations of the independent audit firm and the Los Angeles County Office of Education to approve Independent Warrant Authority status for the AVCCD.

(Background cont'd)

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.
- 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 Independent Warrant Authority

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 independent warrant authority, 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 Antelope Valley Community College District's Request

In its review of the AVCCD's capacity to independently issue warrants, the certified public accountancy firm, Vincenti, Lloyd & Stutzman, LLP., reviewed the standards outlined in the criteria and found that the district was in compliance with all four required accounting control standards. The firm noted the district has been successful in building a system capable of achieving fiscal independence.

The Los Angeles County Office of Education concurred with the assessment of the AVCCD's internal controls and recommendation for their ability to independently issue warrants. The Los Angeles County Office of Education will continue to have the ability to monitor the district to assure the

proper internal controls are in place to provide the appropriate oversight and internal audit functions for the issuance of payroll and commercial warrants directly through the County Treasury without review and approval by Los Angeles County Office of Education for scrutiny of the legality and propriety of district accounting transactions.

The district ended the 2014-15 fiscal year with an unrestricted general fund ending fund balance of \$11,631,491 (20 percent). During the preceding five year review period, the AVCCD has maintained positive fund balance in all other funds.

The Chancellor's Office staff has reviewed the materials provided by the Los Angeles County Office of Education and Vincenti, Lloyd & Stutzman, LLP., and concurs the AVCCD satisfactorily meets the control standards required for independent warrant authority.

Due to extenuating circumstances, AVCCD was not able to complete the requirements necessary for the Board of Governors to approve their request prior to January 1, 2016; however, we understand the Los Angeles County Office of Education will still allow the AVCCD to issue warrants independently starting July 1, 2016 pending approval from the Board of Governors at the January board meeting.

Staff: Michael Yarber, College Finance and Facilities Planning