

**TC (6) Work Step**

Review and assess the adequacy of the internal controls related to budgeting practices. Ensure that the policies, procedures and overall accounting for budgeting practices are adequate and complete. Ensure that the process for detailed line-by-line budget preparation and reporting to the Board and relevant committee(s) is accurate, thorough, and comprehensive. Perform a test of these internal controls to assess overall effectiveness.

**Results of Testing****Internal Controls Related to Budgeting:**

VLS identified deficiencies in the internal controls related to budgeting practices in the following areas:

- The budget verification for a contract proposal is done after the Board of Education (Board) approval; thereby, the obligation has been made prior to the determination if there is adequate budget in Munis. Additionally, budgets in Munis are revised to match the contract cost and entered after the contract has been approved by the Board. See recommendations TC6-1 and TC6-2 for recommendations related to this area.
- VLS noted, based on a review of the forms provided (such as *Proposal Approval Checklist Form* and *Munis Contract & Purchase Order Form*), that there was no documentation to show that the budget verification had been performed and no indication that the budget string had been reviewed by the Principal Accountant for accuracy.<sup>32</sup> See recommendations TC6-3, TC6-4, and TC6-5 for recommendations related to this area.
- VLS noted through interviews that budget reports from Munis are not distributed for review by management on a consistent and regular basis. Reports prepared by the Executive Director of Bond Finance are not reviewed by the Associate Superintendent of Business. See recommendation TC6-1.c for recommendation related to this area.

**Policies and Procedures for Budgeting:**

VLS identified deficiencies in the procedures established for budgeting practices. Written procedures provided are instructions related to entering data into Munis and not related to budgeting practices to address the areas including, but not limited to, the following:

- **Budget Amendments and Transfers:** A *Project Budget Amendment-Transfer Form* is completed and entered into Munis when there are insufficient funds for an approved contract. This form is used for transfers between major object codes or for budget

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<sup>32</sup> A budget string is the series of numbers indicating the fund, area, location, object code and in essence any identifying number characterizing the allocation of the expenditure.

amendments that decrease/increase the ending fund balance. The form is approved by the Executive Director of Bond Finance; however, there is no written resolution prepared for approval by the Board as required by Education Code Sections 42600-42603.<sup>33</sup> See recommendations TC6-1 and TC6-6 for recommendations related to this area.

- **Budget Reports:** Board Policy 3100 addresses the Governing Board’s responsibility for adopting a sound budget for each fiscal year. The policy also includes a statement that the approval of Interim Reports by the Board includes the action to adopt an amended budget in keeping with the financial projection in place for those periods. Although the Interim Reports are approved by the Board, the last reporting period is only through January 31 of each fiscal year. The District consistently makes budget amendments and transfers through the remainder of the fiscal year; however, there is no procedure in place for the Board to approve budget amendments and transfers that occur between Interim Reporting and thereafter. Therefore, those additional budget amendments and transfers have not been approved by the Board. See recommendations TC6-6 and TC6-8 for recommendations related to this area.

In the past, the District used Expenditure Authorization Worksheets (EAWs) to obtain Board approval of increase(s) or decrease(s) to a Bond project budget. These reports presented to the Board the current approved budget for each bond program project. The historical use of these reports is discussed in detail in the FI (2) Section. The last EAW presented to the Board was dated November 12, 2014, and there has been no document or report to replace it. See TC6-6 for recommendation for this area. See recommendations TC6-7 and TC6-8 for recommendations related to this area.

- **Multi-Year Project Budgets:** The multi-year function in Munis has been tested by the Principal Accountant; however, its full capabilities remain to be seen. The Bond Finance Department will be entering the multi-year contracts for Pinole Valley High School Campus Project after the Board approves its Adopted Budget for 2016/17. Refer to section TC (14) for TC14-1 and TC14-2 recommendations related to this area.

#### **Detailed Budget Preparation:**

Although the District prepared a detailed line-by-line budget for the Pinole Valley High School Campus project for 2016/17, VLS noted that there are no written procedures related to

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<sup>33</sup> According to Education Code Sections 42600-42603, transfers may be made from the designated fund balance or the unappropriated fund balance to any expenditure classifications (such as Certificated Salaries, Classified Salaries, Employee Benefits, Books and Supplies, Services, Capital Outlay, etc.) at any time by written resolution of the Board of Education.

budgeting practices that will be performed by staff in managing those budgets.<sup>34</sup> The written procedures provided to VLS are instructions related to entering data into Munis. See recommendations TC6-1 and TC6-6 for recommendations related to this area.

The SACS report for the 2016/17 budget for the Building Fund was reviewed and appears to include all of the necessary line items.

### **New Score**

High

### **Recommendations**

TC6-1. Develop and implement written procedures related to budgeting practices that include, but are not limited to, budget preparation, tracking, reporting, and approval processes.

The written procedures should:

- a. Identify all steps in the budgeting process, from the development of a budget for approved projects to the final reporting of budget to actual costs at project completion.
- b. Identify all forms to be used in the budgeting process, the purpose and workflow of the forms, and the proper review and approval signatures required on the forms.
- c. Identify all schedules and reports used in the budgeting process that will allow staff to adequately track, monitor, and report on project budgets. Identify who is responsible for creating, updating, reviewing, and approving each schedule and report.
- d. Identify how and when to perform certain steps, such as, the budget verification process and the formulation of the budget string.
- e. Incorporate appropriate sections in the written procedures to address all recommendations included below.

TC6-2. Require that the budget verification performed in Munis by the Sr. Facilities Planning Specialist be performed **prior** to the approval of contracts and change orders by the

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<sup>34</sup> The Pinole Valley High School construction project does have a detailed line-by-line budget. This construction project is not part of the Master Planning as discussed in TC (5) section. Within Master Planning discussion in TC (5), the statement is made that a detailed line-by-line item budget does not exist for the sites that are part of the Master Planning process.

Board. This will ensure that there is sufficient budget for a contract prior to Board approval. If funds must be transferred to increase the available budget, notify the Board of this transfer or budget revision at the time that the contract is approved for better transparency to the Board and public related to the impact of contract approvals. Additionally, as recommended in TC6-6, ensure that the appropriate Board action is taken to approve budget amendments/transfers.<sup>35</sup> The recommended timing for these actions is as follows:

- a. Transfer between major object codes (no impact on ending fund balance) – at least monthly to satisfy the requirements of California Education Code.
- b. Transfer of fund balance (decrease/increase in ending fund balance) – as a separate agenda item at the same Board meeting at which the contract is presented for approval/ratification.

TC6-3. Require the Sr. Facilities Planning Specialist to initial and date the *Munis Contract & Purchase Order Form* to document that the budget verification function has been performed. This will provide the proper audit trail to document that the budget verification step took place.

TC6-4. Require the Principal Accountant to initial and date the *Munis Contract & Purchase Order Form* to document that the budget string was reviewed for accuracy. In addition, the Principal Accountant must verify that the affected general ledger account string is appropriate and accurate for the specific contract based on the assigned budget string. This will ensure that there is proper review and oversight in this step and provide the proper audit trail documentation.

TC6-5. Require that the Principal Accountant continue the review of the *Project Budget Amendment/Transfer Form* to verify that the budget amount(s) is accurate and project string(s) is appropriate. Add a section to the form for the Principal Accountant's initials and date to document that this review occurred. Additionally, add a section where the funding source and total amount of the amendment/transfer(s) can be documented.

TC6-6. Develop a form that can be used by the Bond Finance Department to reflect the budget amendment/transfer transactions entered into Munis from the *Project Budget Amendment/Transfer Form(s)*. The form can be used as the District's written resolution for budget amendments and transfers between expenditure classifications. Take the new form to the Board as budget revisions for ratification and certification at its

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<sup>35</sup> Regardless of whether the appropriate process was followed previously to report to the Board any budget amendments/transfers, the District should ensure that moving forward (starting with fiscal year 2016/17), this process is followed.

regularly scheduled meetings on a timely and consistent basis (at least monthly). Maintain a log of budget revisions approved by the Board with totals for each expenditure classification. This log can be used in the preparation of Interim Reports as the Board Approved Operating Budget. This log can also be used to determine the ending fund balance for the Building Fund whenever there is an amendment (increase or decrease) to the project budget at any given time period.

TC6-7. Develop and implement procedures related to the preparation and submission of Bond project budget reports that provide project budget status to the Board. District staff must decide whether it will create a new project budget report or continue the use of the EAW. However, the project budget status report should be a separate item from the approval of any budget increase or decrease to a project.

TC6-8. Develop and implement procedures related to the preparation and submission of budget increase(s) or decrease(s) to a Bond project for Board approval. The submission must be separate from the approval of contracts and change orders. In addition, it must be prepared and submitted on a consistent and regular basis.

TC6-9. Prepare and maintain a worksheet for each project that will provide budget history and applicable expenditures for the duration of the project. This worksheet can be used to assist in the financial decision making related to the project. This worksheet can also be used to prepare the project budget status to the Board. Furthermore, it is recommended that the District include in the worksheet a reconciliation between the project budgets reported in the SACS reports (prepared on a fiscal year basis) and the project budget status report (prepared based on the duration of the project).

The preceding recommendations would strengthen the District's internal controls related to its budgeting practices. The staff members would have the process in writing that they could refer to when necessary, help temporary employees understand and know the process, and help with the consistency of workflow when there is staff turnover. In addition, it would provide transparency to the Board and the public when there are changes to the budget by major object code as well as how the changes will affect the ending fund balance(s). This practice will foster transparency and accountability about its budgeting practices; thereby promoting public trust. It would also comply with WCCUSD Board Policy 3100 and Education Code Sections 42600-42603.

### **Response by District**

The District agrees with all the recommendations concerning TC (6) and already has a written process for budget development and adoption. In February of the fiscal year the District evaluates its staffing needs and in March-April reviews the status of current and future projects with the Chief Engineering Officer to develop project budgets. The District will refine the budget development and adoption for Bond Program revenues and expenses unique to the program.

The District has reported budget and actuals on completed projects to the Board and initiated project budget revisions to the Board. Staff presented this project information on Sylvester Greenwood/LPS and Coronado Elementary School in May 2016. On June 15, 2016, the Governing Board approved project budget revisions for Sylvester Greenwood/LPS, Pinole Valley High School and the District Technology Plan. The District plans to present project information for Korematsu, El Cerrito High School and De Anza High School in the near future (by October 2016) and budget revisions if necessary. The District has reported budget information, including annual project budgets to the Facilities Sub-Committee of the Board.

The District, in practice, has met the recommendations of TC6-1, TC6-5, TC6-9; however, we need to document the recommended procedures and processes. With regard to TC6-2 the District will start to report Budget Increase/Decrease and Budget transfers to the Board by major object code. This practice will start with the first budget adjustment of 2016-17. The Executive Director of Business Services will ensure the processes and procedures are documented and will work with others to train staff as needed. The District has begun to assemble a binder of procedures and processes per this recommendation.

#### **VLS's Assessment of Response by District**

VLS has reviewed the District's response and agrees that the response and planned action are appropriate to address the recommendation(s) made by VLS. However, VLS has not seen nor reviewed the written process for budget development related to the District's evaluation of staffing needs and review of the status of current and future projects to develop project budgets. Additionally, VLS has not seen a binder of procedures and processes that the District has assembled.