

California State Auditor

B U R E A U O F S T A T E A U D I T S

Cajon Valley Union School District:

*The District Needs to Improve Its
Managerial Oversight and Accountability*



August 1998
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SUMMARY

Audit Highlights . . .

The Cajon Valley Union School District:

- Does not adequately account for and protect its equipment, totaling \$12.6 million.***
 - Does not always follow its own policies or state or county guidelines for competitively procuring goods and services.***
 - Has not fully implemented recommendations from prior reviews.***
-

RESULTS IN BRIEF

The Cajon Valley Union School District (district) is located primarily within the city of El Cajon, east of metropolitan San Diego. Governed by a five-member board of trustees (board) and administered by a superintendent and assistant superintendents and directors, the district serves approximately 19,200 students.

We reviewed the district's administrative activities and examined specific concerns raised by members of the board and the community. We found that the district failed to develop adequate procedures in some areas and did not always follow its own policies or state or county guidelines in others.

For example, the district's inventory system does not adequately track its investment in equipment and other personal property. Although it has verified the location of items totaling \$12.6 million, as of July 1, 1998, the district had not accounted for 553 items, representing \$414,600. The district's process of physically counting equipment and maintaining records does not adequately account for and thereby safeguard its assets. Further, adding to the vulnerability of equipment to loss or theft, the district does not ensure that contractors return keys loaned to allow off-hours access to school buildings and grounds. District staff accounted for 61 of 77 keys loaned to contractors for off-hours access only after our inquiry, but they could not account for the remaining 16 keys.

In addition, although a total of \$5,200 in cash was lost due to thefts from its headquarters in 1995 and 1996, the district has not established a process for employees to report actual or suspected theft or other illegal activities.

Further, the district does not always follow its own policies or state or county guidelines for procuring goods and services. In one instance, district staff executed a contract for building inspection services and paid the contractor more than \$107,000 when the board had authorized only \$7,000. Also, the district does not always seek competing proposals as state law and its own policies require. In addition, it has allowed contractors to

begin work prior to obtaining a written agreement with the contractor or before obtaining formal approval from the state agency that funds school projects. Furthermore, the district has not fully implemented recommendations from the San Diego County Office of Education that would improve its annual audit, daily operations, and compliance with state procurement laws.

RECOMMENDATIONS

To improve its administration, the district should take the following steps:

- Immediately perform a physical inventory at all sites, write complete instructions to site staff who perform the inventories, and reconcile the results of the physical inventory to identify the appropriate location of equipment and determine whether any is missing. The district should also follow up on items reported missing during inventory and investigate the causes and remedies of lost or stolen items, or inaccurate records.
- Ensure that all keys loaned to contractors are returned as soon as projects are completed.
- Establish and maintain an official record of its investment in fixed assets.
- Develop and implement the procedures necessary to execute contracts as authorized by the board and obtain board approval for any contract amendments.
- Seek competing proposals and ensure that contractors do not begin work before contracts are approved as required by the California Public Contract Code.
- Complete its revision of the Board Policies and Administrative Regulation Manual as recommended by independent studies.

Agency Comments

The district generally concurs with recommendations to improve their efficiency and accountability, and in some cases, has already implemented additional processes to address them. However, the district does not agree with some of the perspective and recommendations made regarding its procurement of goods or services, including professional services.

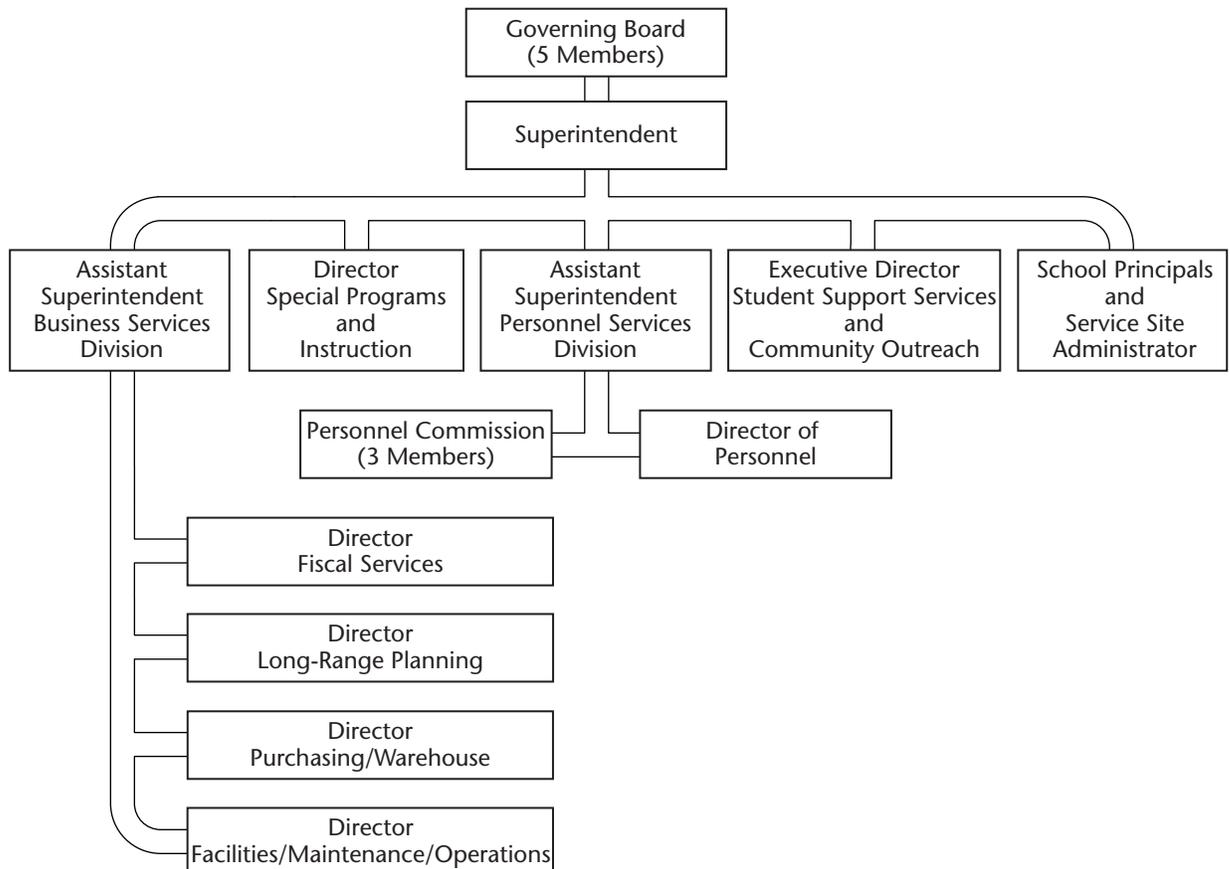
INTRODUCTION

BACKGROUND

The Cajon Valley Union School District (district) is located primarily within the city of El Cajon, east of metropolitan San Diego. Governed by a five-member board of trustees (board), the district serves approximately 19,200 students in 21 elementary schools, 5 middle schools, an early childhood school, a cooperative home education school, and 1 opportunity school. The eighth largest of the 43 school districts in San Diego County, the district is administered by a superintendent and assistant superintendents and directors who oversee its business services, personnel, and educational services programs.

FIGURE 1

Organization of the Cajon Valley Union School District



The board establishes general policies and appoints the district's superintendent. The superintendent is responsible for implementing the policies and for preparing and submitting to the board a budget for each fiscal year. For fiscal year 1997-98, the board adopted a budget that included general fund operating revenues and expenditures, totaling \$95,543,353 and \$93,550,939, respectively, and employed 1,059 certificated and 540 classified staff.

The district receives oversight and guidance from state and county agencies. Authorized by the California Education Code, the State Department of Education administers applicable law and provides guidance to school districts through administrative regulations, accounting and operational handbooks, and workshops and conferences to train school district and county personnel. In addition, county superintendents of schools supervise all school districts within the boundaries of their counties by, in part, reviewing budget and financial information, enforcing applicable laws and regulations, and enforcing the curriculum. The district is also subject to the applicable provisions of the California Public Contract Code.

SCOPE AND METHODOLOGY

The Legislature requested that the Bureau of State Audits conduct an audit of the Cajon Valley Union School District (district) based on concerns raised by members of the district's board and the community. To accomplish this goal, we investigated these allegations. We also reviewed the laws, rules, and regulations relevant to the audit issues.

To assess the district's conflict-of-interest policies and procedures, we reviewed the applicable provisions of the California Education Code and the California Government Code, the district's conflict-of-interest code, its designated employees' annual statements of economic interests and personnel files, key staff and board members' involvement with outside vendors, and designated employees' property ownership records and sources of income. We also reviewed the district's and designated employees' involvement with community organizations, such as the Little House, Community Against Substance Abuse, Children's Hospital, and Mission Federal Credit Union.

We also reviewed the district's financial and budget reports to the San Diego County Office of Education, audited financial statements, and interim financial reports to assess its compliance with the applicable laws and regulations. In addition, to assess the district's budgetary review process, we reviewed the district's financial and budget reports for fiscal year 1994-95 through fiscal year 1997-98, its revisions to the fiscal year 1997-98 adopted budget, and its budget monitoring process. Further, we compared the fiscal year 1996-97 board-approved budget to that submitted to the San Diego County Office of Education. We found that the district properly prepares the budgets and financial reports it provides to county officials. Because our review was not sufficient to constitute an examination of the financial statements made in accordance with governmental auditing standards, we do not express an opinion on any of the financial statements referred to in this report.

We researched the laws applicable to the management of surplus real property and determined that the district has managed, in a consistent manner, its small amount of surplus property at the discretion of the board, as allowed by law.

To assess the district's safeguarding of its assets, we interviewed key staff and reviewed board policies and administrative regulations applicable to reporting thefts, fraud, and other illegal activities. We also compared the district's internal control policies and procedures to its practices relating to equipment inventory and control over access to district facilities.

Further, we assessed the district's purchasing and contracts management practices by interviewing key personnel and reviewing purchasing transactions, contracts, and accounting records such as performance agreements, expenditure reports, vendor lists, purchase orders, bid files, and board minutes.

We reviewed and evaluated internal controls over certain areas, such as cash management and use of the district's revolving fund. Also, we followed up on the district's implementation of recommendations from previous audits and independent studies.

To address other concerns raised by the district's board and members of the community, we performed additional audit procedures in a variety of areas and generally found no evidence

to support allegations of wrongdoing. For example, we interviewed district staff and reviewed the district's records to determine whether its emergency resolutions had been inappropriately used to avoid bidding projects, whether the district's relationships with vendors have been within accepted codes of ethics, whether individual board members acted outside their scope of authority in settling disputes with contractors, and whether district officials or its staff had potential conflicts of interest related to the district's real estate dealings.

CHAPTER 1

Inadequate Procedures and a Lack of Managerial Oversight Have Diminished the Accounting and Safeguarding of District Property

CHAPTER SUMMARY

The Cajon Valley Union School District (district) has not developed and implemented adequate procedures and systems to account for and protect its property. For example, because the district does not adequately record equipment in its inventory system, perform systematic physical counts, or follow up on missing items, its inventory records are incomplete and inaccurate; therefore, the district cannot be sure all of the equipment it has purchased is being used as intended or that it is safeguarded against loss or theft. In addition to the 84,500 items valued at \$12.6 million the district had listed in its inventory, it could not account for 553 items, totaling \$414,600, as of July 1, 1998.

Further adding to the vulnerability of equipment, we noted that the district does not ensure that contractors return keys loaned to them for off-hours access to school buildings and grounds. As a result, some of the district's facilities are unprotected from prohibited access and its equipment susceptible to unauthorized removal or theft. Finally, we found that the district has not provided procedures to its employees for reporting suspected or actual internal theft or any other illegal activities, and thereby lacks opportunities to promptly identify, investigate, and take action on these instances.

The District Cannot Adequately Account for All of Its Equipment Inventory

The district has not established an effective system to account for its investment in equipment for its school sites and district offices. As of May 1998, the district has listed 84,452 items, totaling \$12.6 million, in its inventory. State law requires the district to establish and maintain an inventory of the equipment it acquires that includes the description, cost, and location of

The district does not perform complete or regularly scheduled counts of its \$12.6 million inventory.

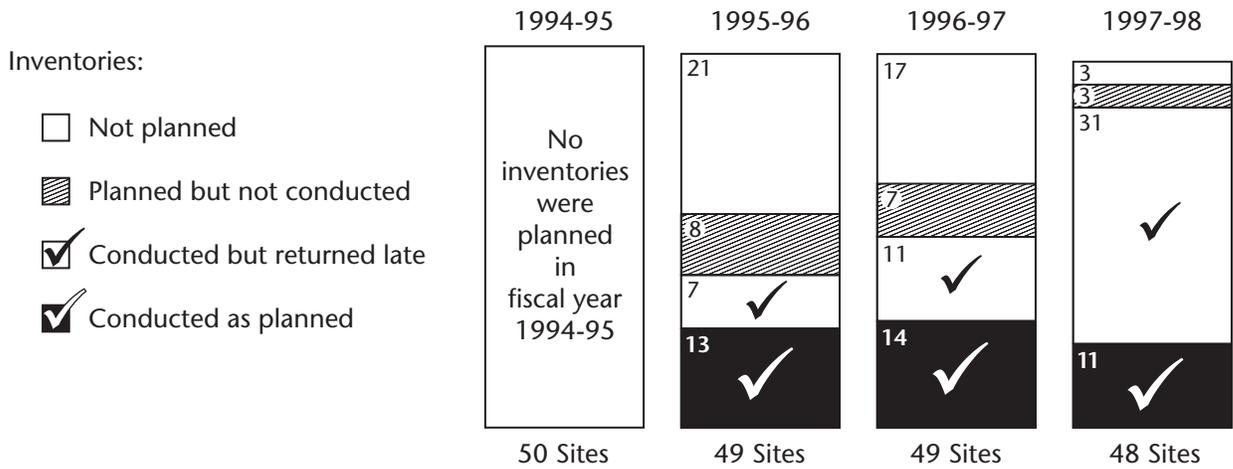
each item with a value greater than \$500. However, weaknesses in the district's administrative controls reduce the accuracy and usefulness of inventory records and lessen its ability to account for and safeguard its equipment. Specifically, the district does not perform complete or regularly scheduled physical counts of its equipment inventory, promptly identify its equipment as district property and record the location of the equipment in its system, or adequately investigate missing equipment reported from physical counts to identify and remedy the causes of the losses or to correct inaccurate records. We further noted that the purchasing and warehousing managers who are responsible for the inventory records do not perform adequate reviews of equipment inventory records or the results of physical counts.

Weaknesses in Controls Over Physical Counts Reduce the District's Accountability Over Its Equipment Inventory

The district does not take complete or regularly scheduled physical counts of its equipment. Physical counts are necessary to verify the location and existence of the district's equipment. The State Department of Education's *California School Accounting Manual* states that the district should have adequate planning for physical inventories that determines the duties and responsibilities of persons and departments involved in the inventory. While the district's policy recommends periodic physical inventories, district management interprets that policy to require an annual count. In addition, the San Diego County Office of Education recommends that a physical inventory of district property and equipment be taken annually. According to the equipment inventory controller, the district's schedule for physical inventories is annual for the most part, but not necessarily planned on a fiscal year basis. Physical inventories could be scheduled on a calendar year or fiscal year basis, or any combination thereof. However, we reviewed the district's physical inventory records for fiscal years 1993-94 through 1997-98 and found that it did not perform physical counts of its equipment for any of its schools or departments during fiscal year 1994-95 and did not physically count the equipment at all of its sites for fiscal years 1995-96 through 1997-98. Figure 2 shows the district's performance of physical inventories of its property and equipment.

FIGURE 2

The District Inadequately Planned For and Conducted Inventories



According to the equipment inventory controller, the district did not perform physical counts during fiscal year 1994-95 because of modernization work at the district’s school building facilities. The district did not perform complete physical counts of its equipment in the ensuing years because it has not developed a plan to provide a regularly-scheduled count of its equipment.

Although the equipment inventory controller prepares inventory schedules, he does not ensure that all sites actually undergo regular physical counts. For example, the district mistakenly did not include Montgomery Middle School in its physical inventory schedules of fiscal years 1993-94 and 1995-96 as an existing site that should have been inventoried.

Furthermore, the district does not have procedures in place to ensure that someone independent of the custody of the assets counts them. For example, of the five schools we visited, four reported that the teachers and custodians in whose areas the equipment was located performed the physical inventories. To ensure that losses or thefts do not go unreported, good internal controls require that employees who have custody of the equipment do not also perform counts to verify the existence of the equipment and the accuracy of the inventory records. According to the equipment inventory controller, it is the responsibility of the site principal to assign the duty of verifying the existence

In four of the five schools we revisited, teachers and custodians with custody of equipment performed inventory counts.

of the inventory. He further told us that for coordinating physical counts, he follows procedures verbally explained to him by the previous equipment controller.

Inaccurate Inventory Records and Untagged Equipment Further Reduce the District's Control

The district does not always promptly identify items as its property and include them in its inventory. Ownership identification and an accurate listing of the location of equipment are integral parts of a system to control and protect equipment from loss or theft.

For example, as of April 1, 1998, the district had neither tagged nor included in its inventory system equipment at Hillsdale Middle School. By then, the district had spent \$180,000 for equipment, such as refrigerators and food mixers, that was installed during construction of the school. After we inquired, the district prepared from the project's blueprint a list of the equipment that should have been included in its inventory. At other district sites, we identified 10 additional items, totaling approximately \$46,000, that remained untagged for periods ranging from 9 to 566 days. The equipment inventory controller, who is responsible for attaching identification tags to the district's equipment, told us that while he gives tagging equipment received at the warehouse the highest priority, he tags equipment delivered directly to other sites as time permits.

At one school, \$180,000 of equipment had neither been tagged as district property nor included in the inventory system. At other sites, items worth \$46,000 were not promptly tagged.

The district also does not adequately control transfers of its equipment and, therefore, inventory records may not reflect the accurate locations of its equipment. For example, the October 21, 1997, physical inventory list of Information Systems Department (ISD) contains notations for 46 items, totaling \$57,858, that the ISD had transferred to other sites. However, the ISD did not complete the appropriate form to notify the equipment inventory controller of these transfers. Instead, it waited until the physical inventory to do so. In addition, the controller did not verify the location of the items before he changed their location in the records. Conversely, from our review of inventory lists for 16 additional sites, we found 7 sites had items in their custody when the inventory records did not show them at those sites. These included computers, video cassette recorders, televisions, and a check-signing machine located in accounting.

The District's Inclusion of Low-Cost Items in Its Inventory Records Aggravates the District's Inventory Problems

The district's efforts to account for its equipment are frustrated by the number of items it unnecessarily includes in its inventory records. Specifically, although the law requires including in inventory records only items valued at \$500 or more, the district's current practice is to include items costing substantially less. According to the district's director of purchasing and warehousing, all items costing \$250 or more are recorded to provide accountability over items that are highly susceptible to theft, such as video cassette recorders, televisions, and computer printers.

However, in an April 1, 1998, property listing for the superintendent's office, only 43 of 120 listed items had a recorded cost greater than \$500 or, in our opinion, qualified as highly susceptible to theft. The remaining 77 items were miscellaneous office furniture or equipment with a cost less than \$500, such as chairs, desks, file cabinets, and a chalkboard. In fact, at least 20 of these 77 items cost less than \$250, including a coffeemaker that cost only \$30. The 20 items had an average cost of \$93. Similarly, the property listing for the child nutrition services department contained 120 items costing less than \$250. The average cost of these 120 items, which represent 21 percent of the 582 items on the list, was \$130. The director of purchasing and warehousing told us that, before 1991, the district tracked items costing \$50 or more. Consequently, those items are still in the inventory records. However, by keeping low-cost items in the inventory records, the district increases the difficulty of tracking equipment and maintaining records for valuable or sensitive equipment on an ongoing basis.

The District Does Not Adequately Investigate Causes for Equipment Reported Missing During Physical Counts

Even when physical inventories are conducted and discrepancies identified in equipment listings, the district does not review the results to reconcile its records with the counts. According to the director of purchasing and warehousing, most items that are reported missing either turn up in subsequent inventories or as disposed-of equipment. If subsequent years' inventories do not locate the missing items, they are permanently designated as in an unknown location.

Rather than searching out missing equipment, the district simply designates it to an unknown location.

The State Department of Education's *California School Accounting Manual* states that the results of a physical inventory should be reconciled with property records and any discrepancies investigated to determine the causes of the differences. However, the district does not always ensure that site administrators conduct follow-up searches to determine the causes and remedies for the missing items. According to the equipment inventory controller, due to an excessive workload and insufficient staff, almost none of the sites received a follow-up listing of missing equipment during fiscal years 1995-96 and 1996-97, and only school sites and some of the departments received a missing-items listing for fiscal year 1997-98.

In addition, we found that the purchasing and warehousing managers responsible for the equipment records do not review the results of physical inventories and reports of missing equipment to assess safeguards and ensure accountability and protection of district equipment. For example, the equipment in the superintendent's office was not included in physical inventories for two consecutive fiscal years, 1995-96 and 1996-97. The director of purchasing and warehousing stated that given the time and staff allocated to physical inventories, she believes the process is being handled as well as possible. Further, she attributes the primary responsibility for the correctness of the inventory to the school principals. However, without a process to oversee the equipment inventory system districtwide, school principals alone cannot effectively provide accurate inventory records. In addition, without a process to identify why it cannot locate some equipment listed in inventory records, the district cannot take the necessary steps to improve accountability over equipment and ensure its protection.

As of July 1, 1998, the district had classified as missing in its equipment inventory system 553 items, totaling \$414,600, in addition to the 934 items, totaling \$204,700, it had already identified as in an unknown location. After July 1, 1998, the district began a search to locate the missing items. According to the director of purchasing and warehousing, at one school alone the district found in a computer laboratory missing items, totaling approximately \$100,000, that the custodian had forgotten to count when taking the original physical inventory. The director further explained that warehouse employees conducted a rush sweep of three other schools to look for missing items. Although they could not gain access to some locked classrooms

As of July 1998, \$414,600 in equipment was classified as missing and an additional \$204,700 was identified as being in an unknown location.

and cabinets, they located additional items worth approximately \$61,000. In total, the district found 167 of the missing items, worth \$161,063.

The director stated that locating missing items requires a second or third search of the school or site and that a careful search of the sites will eliminate items on the missing-equipment list. We agree that accounting for all of its recorded equipment requires a careful search for missing items each time the district performs a physical inventory. However, the district has not committed to careful searches and reconciliations of physical counts with inventory records.

Inadequate Control Over Access to Facilities and Equipment Causes Unnecessary Risk of Loss or Theft

The district does not adequately control access to its facilities and equipment. Specifically, we found that it does not ensure that loaned master keys and gate keys are returned. Coupled with the district's poor inventory control system, this problem adds to the potential of equipment losses and thefts going undetected. Furthermore, the district does not limit access to its warehouse to authorized employees, creating unnecessary risk. While its policies include provisions for the control of access, the district has not adequately implemented them.

The District Does Not Adequately Control Keys to Its Facilities

The district does not ensure that keys it loans to contractors and youth sports groups are returned. District policy allows for issuing master keys to outside contractors when the scope of the work and the contract time require access to the facilities outside of regular business hours. The district's policy requires a contractor to sign for the necessary keys, lock the site daily, and return the keys at the end of the project. Although the district's policy does not address loaning gate keys to contractors or youth sports groups, it is the district's practice to do so. We reviewed the district's log of loaned keys and found many instances when there was no evidence that the keys had been returned.

As of April 9, 1998, the facilities, maintenance and operations department (department) personnel responsible for loaning keys did not know the status of 77 keys it had loaned to contractors and youth sports groups as long ago as April 3, 1992. After we

The district does not maintain control over master keys to facilities, thus compromising security.

brought the matter to the attention of the department's director, staff retrieved 11 keys and identified the status of 50 others. However, they could not locate 16 of the loaned keys.

Not only are outstanding keys a significant security risk, but they also can be costly. When the district cannot locate loaned master keys to one of its facilities, it pays to have the locks at the site rekeyed. Depending on the size of the school, it can cost hundreds or even thousands of dollars to rekey a school. Moreover, the district has no assurance that the keys have not been used to steal district property. Although we did not encounter evidence that any keys had been used in such a way, the district's inadequate inventory records and procedures, in conjunction with the inadequate controls over keys, makes equipment unnecessarily vulnerable to theft.

According to the director of the department, she was not aware of the lack of follow-up for the return of loaned keys. She stated that although the department had verbally instructed its clerical staff to perform monthly reviews to ensure loaned keys are accounted for and returned, department managers cannot monitor department employees to ensure the completion of all tasks. However, we believe control of keys to district facilities is paramount to safeguarding district property and is a task department management should oversee.

The District Does Not Adequately Restrict Access to Its Warehouse

The district stores most materials and equipment shipments, as well as surplus property, in its central warehouse. However, since access to the warehouse is not restricted to employees whose job duties require it, this poses the potential for public intrusion. As a result, the district has unnecessarily increased the exposure of its materials and equipment to loss or theft.

Specifically, a small door in the back of the warehouse remains unlocked to give employees of the district's ground operations unit access to restrooms located inside. In addition, maintenance employees use the warehouse as a passageway to the maintenance offices. This access by employees who are not essential to warehouse activities puts district property at risk of being stolen. In our observation of the physical setting of the location, we noticed that people can enter and leave the warehouse without being noticed by authorized staff.

Nonessential employees had free access to the district's central warehouse.

We also observed the potential for unauthorized access to the warehouse by the public. The warehouse gate that connects the loading area to a public road remains open during the day. At times, and especially during employee breaks, items awaiting loading or unloading are left unattended in this area with the gate to the public road open.

According to the director of purchasing and warehousing, the grounds operations and maintenance employees use the warehouse restrooms and use the warehouse as a passageway because it is convenient. While the warehouse manager agreed with our observations, he also stated that the warehouse has never had any problems with losses or thefts; therefore, he found it unnecessary to restrict access to the warehouse. However, because of some of the inadequacies in the district's controls over equipment discussed earlier, we are not convinced that the district would always know whether it had suffered thefts.

The District's Use of Some of Its Facilities Has Resulted in Unnecessary Cost and Risk

We found an instance when the district unnecessarily increased its liability risk when it stored 434 computers for a community member for over a year at a cost to the district of approximately \$1,000, and without the approval of the board. The assistant superintendent of business services stated that the district stored the computers to help the community member, who had collected them from local businesses and planned to upgrade and eventually donate them to the district's students.

The district unnecessarily increased its liability when it stored 434 computers for a community member.

In addition, the district could not provide a listing of the computers it agreed to store. Without such a listing, the district could not document how many computers were left in its trust and that it returned them all to the community member. Because the computers were in the care, custody, and control of the district, it could be liable for any loss or theft that may have occurred.

In April 1998, after storing the computers approximately one year, the district wanted to move the computers out of storage but could not contact the community member who owned them. The district then decided to sell them at a county auction, even though it was not the legal owner. Fortunately, on May 11,

1998, the district learned that the community member planned to pick up the computers and canceled its plans to sell them at the county auction.

Lack of Records Reduces the District's Accountability Over Its General Fixed Assets

Although an accounting of general fixed assets is an integral part of the accounting records and financial statements, the district does not maintain a record of its investments in general fixed assets. A government's general fixed assets that should be reported by asset class are land, buildings, equipment, improvements other than buildings, construction-in-progress, and intangible items, such as computer software.

The Government Accounting Standards Board (GASB) publishes standards that state a governmental entity should record its general fixed assets in a listing known as the general fixed assets account group and include them in the entity's financial statements. However, the district does not maintain such records, and, as a result, cannot provide the level of accountability over its fixed assets or financial statement information as required by generally accepted accounting principles. For at least fiscal years 1994-95 through 1996-97, the district's independent auditor qualified his opinion on its financial statements because the district does not include an accounting of its general fixed assets.

The assistant superintendent of business services believes that the district does not need to carry a fixed asset account on its general ledger because as a public agency it does not depreciate assets for tax purposes as in private business. Further, the district's insurance program tracks values for its fixed assets for insurance purposes. However, insurance amounts are estimated replacement values and do not represent investments in general fixed assets, nor do they provide the financial statement information required by generally accepted accounting principles.

The District Has No Procedure to Report Internal Thefts or Fraud

During 1995 and 1996, the district suffered cash losses totaling \$5,200 as a result of five thefts that occurred at its headquarters. According to the assistant superintendent of business services, district administrators did not immediately inform the board and local police of the thefts because incidents of this nature

The district's independent auditor qualified his opinion because general fixed assets were not accounted for.

Although the district headquarters suffered cash thefts totaling \$5,200, it has not developed procedures for employees to report illegal activities.

had occurred only once before during the last 25 years. Additionally, the business services division was working with the district's auditor and legal counsel to identify the actual losses and to develop procedures to detect and prevent losses in the future. After the business services division completed its work, it notified the superintendent, who in turn notified the board at a time he felt appropriate. Although in 1996 the district hired an independent audit firm to assist it in improving its cash handling procedures, it still has not developed procedures for employees to report internal illegal activities to district administrators and to ensure that the board is kept informed of these. Therefore, the district cannot be certain that employees who suspect or witness internal thefts or other illegal acts will be able to report these to district officials responsible for coordinating investigations to resolve the thefts and correct the conditions that made the thefts possible.

RECOMMENDATIONS

To ensure it maintains an inventory system that will provide proper accounting of its investment in equipment, the district should establish and implement policies and procedures that will provide a complete and accurate record of its equipment. Those procedures should include the following:

- Immediately perform a physical inventory at all sites, write complete instructions to site staff who perform the inventories, and reconcile the results of the physical inventory to identify the appropriate location of equipment and determine whether any is missing. The district should also follow up on items reported missing and investigate the causes and remedies of lost or stolen items, or inaccurate records.
- Periodically perform physical inventories.
- Promptly identify equipment purchases as district property and include them in equipment inventory records.
- Promptly report equipment transfers to the equipment inventory controller using transfer forms that are signed by authorized staff from both the transferring and receiving sites.

In addition, the board should review the district's practice of recording in its equipment inventory items that cost less than \$500 and establish a policy that defines the following:

- A minimum cost threshold above which all items should be recorded in the district's inventory system.
- Criteria for classifying highly pilferable items that cost less than the threshold.

The district should delete from its inventory system items that are less valuable or not sensitive to theft to more efficiently provide for an accurate and complete accounting of valuable or sensitive equipment.

To protect its equipment and other assets from unnecessary risk of loss or theft, the district should follow its policy regarding loaning and retrieving keys to its facilities and ensure that all keys loaned to contractors are returned when the projects are completed. In addition, the district should restrict access to its warehouse and storage facilities to those employees whose job responsibilities require access.

To limit its costs and exposure to risk, the district should restrict the use of its facilities to its business-related purposes.

To the extent that it is administratively feasible, the district should establish and maintain a record of its investments in general fixed assets in its official accounting records to provide accountability for such expenditures and meaningful financial statement disclosure as recommended by generally accepted accounting principles.

The board should review its policies to include a requirement for the district to develop instructions for reporting illegal activities, including theft and fraud, and ensure that district staff understand them. The district should designate an official to receive reports of any suspected or actual crime, inform the board, and initiate investigations to ensure that corrective action is taken immediately.

CHAPTER 2

The District Does Not Always Follow State Procurement Law or Its Own Administrative Policies

CHAPTER SUMMARY

The board of trustees (board) and administrators of the Cajon Valley Union School District (district) do not always follow applicable laws and guidelines in procurement and other administrative and oversight practices. For example, the district's administrators executed a contract for professional services with terms contrary to those authorized by the board and then, without authorization, district staff altered the agreement to facilitate payments to the contractor. In addition, the district did not request competing bids to cover telecommunications equipment and services at various sites when the district's aggregate annual expenditures to one vendor exceeded the threshold after which the law requires competitive bidding.

The district also did not follow its own policy for the procurement of goods and services not subject to formal competitive bidding. For example, it did not always seek competing proposals for purchases of equipment and services less than \$50,000. Further, the district did not always seek competing proposals for contracts for professional services.

The district has also failed to comply with other administrative guidelines and oversight practices. For example, it has not completely implemented recommendations from the county office of education that will improve its annual audit, daily operations, and compliance with state procurement laws. Furthermore, in three instances, the district did not acquire criminal background clearances for newly-hired substitute teachers before placing them in classrooms. Finally, some members of the board and one district administrator are not in compliance with the requirements of the Political Reform Act of 1974 which requires that they disclose their income and property interests when they file their annual conflict-of-interest statements.

District Staff Made Unauthorized Payments and Altered a Contract

The California Education Code states that no contract is valid or constitutes an enforceable obligation against the district unless it is formally approved or ratified by the board with a motion recorded in the meeting minutes. On May 11, 1993, the board authorized the district to enter into an agreement for building inspection services for new construction and modernization projects for all of the district's facilities. At that time, the district's long range planning department estimated it would cost \$85,680 to cover projects for the period April 1992 through September 1994. However, the board authorized only \$7,000 for the services, apparently an amount that would cover the costs for fiscal year 1992-93 only. The board did not specify a performance period. However, the district did not execute the agreement with the inspector in accordance with the board's authorization. Instead, it entered into an agreement without a spending limit and with a specified performance period of April 20, 1993, through June 30, 1995.

Although the board authorized only \$7,000 for building inspections, the district paid \$107,833 for these services.

The district continued paying the building inspector until August 1, 1997, for a total of \$107,833, over 15 times the amount approved by the board. Moreover, when we examined the two agreements supporting the payments, we found that district staff had altered the original agreement to extend the payment period to June 30, 1997, two years longer than the original agreement. As a result, the district continued making payments to the inspector in excess of the original board-approved amount without obtaining additional authorization.

The staff member who altered the agreement stated that when she learned the consultant agreement had expired, she informed the director of long-range planning of the need to submit a new agreement for board approval to pay subsequent invoices. She asserted that the director of long-range planning instructed her not to submit a new agreement to personnel and to alter the date on a copy of the agreement. The director of long range planning maintained that when the staff member notified her the inspection work was not completed but the performance period authorized by the agreement had expired, she directed the staff member to do whatever was necessary to remedy the situation but did not specifically direct the staff member to alter the dates on the agreement.

The District Does Not Consistently Seek Competitive Bids When Purchasing Goods and Services

The district does not always seek proposals from competing vendors and professionals for the goods and services it purchases. State law and the district's own guidelines require competitive bidding of contracts that fit certain criteria.

The district paid one vendor \$280,000 over two years without seeking competitive bids.

For example, the district purchased equipment and services for its telecommunications system without competitive bidding. The California Public Contracts Code requires school districts to competitively bid items such as equipment, supplies, services, and repairs that involve expenditures of \$50,000 or more and to award the contract to the lowest responsible bidder. The district spent \$109,291 and \$171,754 for fiscal years 1995-96 and 1996-97, respectively, with one telecommunications vendor usually without seeking competing bids. These amounts clearly exceeded the \$50,000 threshold. The aggregate spending represented expenditures for individual work orders at the district's school sites and district offices.

The district purchased routine repairs, changes to existing systems, and installations of new telecommunications equipment from the vendor. According to the purchasing director, it is most efficient to work with one vendor who is familiar with all the district's sites, and it has saved money through the services provided by this vendor. According to the district's legal counsel, because the work orders for the services and products were separate projects that did not exceed \$50,000, the district did not have to competitively bid the projects.

The assistant superintendent of business services cited several reasons why he believed the district did not have to competitively bid the expenditures. First, he sorted the fiscal year 1997-98 expenditures into five categories: repairs, new phones or equipment, the reconfiguration of existing systems, temporary phone service, and data cabling, with individual expenditures ranging from \$4 to \$6,696. He pointed out that expenditures for each of these categories ranged from \$130 to \$33,037, less than the statutory bid threshold. He also stated that almost all of the services were spontaneous and unpredictable prior to the beginning of the school year. While the assistant superintendent believes these expenditures clearly were not subject to formal bid requirements, he also asserted that the purchasing department is sensitive to those requirements and

has obtained bids for some telecommunications work. The assistant superintendent contended that district expenditures for telecommunications for fiscal years 1995-96 and 1996-97 were unusually high due to the modernization of 16 schools and new school construction. However, we noted that the district's payments to this vendor for these services during fiscal year 1997-98 also exceeded \$50,000.

We disagree that the district should apply the \$50,000 threshold to each type of service or equipment purchase or to each individual work order. The district maintains the telecommunications system as a whole. We believe that the pattern of spending with this vendor shows an expectation that the district will always require routine repairs, changes to, and installations for its telecommunications system at a significant cost.

Contrary to state and professional guidelines, the district does not always request competing proposals from professionals for audit work, construction inspection services, and some architectural services. As a result, it does not allow professionals in the community to compete for the district's business. During fiscal year 1996-97, the district expended approximately \$560,000 for professional services. Although contracts for professional services are exempt from legal bid requirements, the California Government Code and the Government Finance Officers Association both state that the selection of professional services should be based on fair prices and demonstrated competence and qualifications for the services to be performed.

The business services division selects professionals for projects less than \$50,000 based on their expertise, performance in previous projects, reasonableness of their fees, and recommendations from agencies with oversight. However, the district cannot be certain it receives expert professional services at reasonable fees unless it obtains proposals from competing professionals. For example, we found that the district has retained the same outside auditor for 16 years without seeking competing proposals from other professionals. According to the assistant superintendent, the district originally selected the auditor based on his expertise in school finance and is satisfied with the auditor's performance. Additionally, because of the auditor's familiarity with the district's operations, annual audits proceed with minimal disruption of district activities and it is in the best interest of the district to retain qualified professionals who are familiar with the district's operations and facilities.

Contrary to state guidelines, the district does not always seek competing proposals for its outside professional services.

However, not only has the district lost assurance that it receives audit work at competitive prices, but a long-term financial relationship between an auditor and client can create the appearance of a lack of independence on the part of the auditor and may even impair the auditor's ability to remain independent. In addition, while the auditor's expertise and familiarity with its operations may give the district the advantage of minimal disruption during the course of its annual audit, the lack of auditor rotation also limits the perspective on the way annual audits are conducted and precludes the district from obtaining fresh ideas for the improvement of its operations.

For half of the purchase orders we sampled, the district did not follow its informal procedure of obtaining at least three quotes.

Furthermore, the district does not always follow its own informal policy for purchasing goods and services that do not require formal competitive bidding. Although the district lacks written procedures, it has an informal policy to obtain three written quotes for purchases over \$10,000 and three verbal quotes for purchases from \$2,500 to \$10,000. However, for 6 of a sample of 12 purchase orders costing between \$2,500 and \$50,000, district personnel did not follow these procedures.

In one instance, the district purchased two copiers, one for \$13,700 and the other for \$6,700, and a maintenance service contract for its duplicating machines that cost \$30,500, without obtaining competitive quotes. The district's purchasing director explained that it purchased the two copiers because they were already on-site, serving as replacements for copiers needing repairs. The district purchased the service contract for its duplicating machines from the machines' manufacturer without competitive quotes because it was satisfied with the manufacturer's service and responsiveness.

In another instance, a school drama instructor arranged with a contractor to upgrade the theater lighting at a school auditorium for a cost of \$10,700 without contacting the purchasing unit. According to the purchasing director, school personnel should work with the maintenance department to prepare a project work order that purchasing uses to obtain competitive bids for the project. However, the purchasing director stated that her unit did not know about this project until after the drama teacher had negotiated the purchase with the vendor. As a result, the district made the purchase without involvement from the appropriate purchasing authority.

The District Does Not Always Follow the Provisions of Contract Law

Although the district issued only one contract under emergency provisions from 1994 through April 1998, it did not follow the requirements of the California Public Contract Code (law) in that instance. When a portable classroom was damaged by fire on May 11, 1997, 38 days before the end of the school year, the district authorized emergency repairs totaling \$35,226.

Although the district issued only one contract under emergency provisions during the past five years, it did not follow the legal requirements for the \$35,226 of repairs.

The law requires public projects involving expenditures of \$15,000 or more to be competitively bid; however, it allows emergency contracts to be awarded without competitive bidding to avoid danger to life and property, or if repairs are needed to continue existing school classes. The district authorized the emergency repairs, with concurrence from its legal counsel, to permit the resumption of classes for the following school year beginning in August 1997. However, emergency repairs to the district's damaged classroom were not necessary to allow classes to resume in the following school year. Based on an analysis prepared by district staff, the repairs would have taken 4 to 6 weeks to complete. Further, as the contractor estimated 26 days for completion of the project, repairs could have easily been completed by the end of the summer break. In addition, the district set up a temporary classroom in the school's multipurpose building to continue the current year's classes, and could have resumed classes, temporarily, in the multipurpose building if the repairs had not been completed by August.

In addition, the district failed to obtain the approval of the county superintendent of schools prior to the repairs as required by law. Moreover, the district did not obtain an enforceable contract until August 4, 1997, 11 days after the contractor completed the repairs. The district also failed to obtain a payment bond from the contractor as required by law. Consequently, the district lost some assurance that the contractor would execute and complete the contract in conformity with the terms and conditions of the agreement and failed to minimize its liability should the contractor have failed to adequately complete the repairs. Further, the district did not file a notice of completion with the county recorder. The purpose of this notice is to shorten the period within which subcontractors or laborers for the project may file a claim against district property in the event of nonpayment from the contractor, even if the district has paid the contractor in full. According to the director of maintenance, the district's failure to obtain the payment bond

was an oversight that resulted from the urgency of the project coupled with the year-end workload. She also stated that the district dates contracts to reflect the board approval date, but rarely, if ever, signs contracts on the same day that the board approves them.

A contractor was allowed to begin work on a \$4.3 million modernization project prior to district board and State Allocation Board approvals.

We further found that the district allowed a contractor to begin work on a \$4,289,000 project to modernize three schools before it had board approval, or approval from the state agency that was to be the source of \$4,012,865 for the project. Specifically, the district gave the contractor permission to begin work on the project at least one month before the board ratified the award on September 27, 1994. In fact, according to a construction inspection report dated August 27, 1994, substantial amounts of work had already been completed. In addition, although the board granted tentative approval on August 30, 1994, it made its approval tentative because the members knew the district had not received approval from the State Allocation Board. The board also knew that if the State Allocation Board did not grant its approval, the district would not obtain the requested funds from the State.

Moreover, the State Allocation Board did not grant its approval of the project funding until September 22, 1994, at least a month after the contractor began work on the project. The assistant superintendent of business services told us that the district proceeded with the project based on verbal approval from the Office of Local Assistance. However, without formal approval from the funding source, the district ran the risk of not having sufficient funds to complete the work or of having to pay for the project using funds designated for other projects or programs. Furthermore, because the district allowed the contractor to begin work before it had an enforceable contract, the district had significantly diminished assurance that the contractor would complete the work in accordance with the district's expectations.

The District Has Not Fully Implemented Recommendations to Improve Its Operations

In 1996, the San Diego County Office of Education (SDCOE) conducted a review of the district's operations and recommended the development of updated manuals for board policies and administrative regulations and for the district's accounting desk procedures. According to the SDCOE, the manuals would

assist the business services division in its daily operation, would help the assistant superintendent analyze the effectiveness and efficiency of division services, and would clarify the duties and responsibilities of the business staff. Our reviews of contract, procurement, and equipment inventory activities also indicate that the division needs to further develop and document its operating procedures, and the district is in the process of updating its existing board policies and administrative regulations manual. However, because other assignments have been given priority, it has not developed an accounting desk procedures manual.

The district has not fully implemented another SDCOE recommendation that the director of purchasing and warehousing, in collaboration with the assistant superintendent of business services, review the district's procedures for purchasing food service products. The purpose for the review is to ensure that food service staff understand the competitive bid requirements prescribed by the California Public Contract Code, which requires the formal bid of product purchases that exceed \$50,000, and to ensure that these requirements are not accidentally circumvented. For fiscal year 1997-98, the district budgeted approximately \$2.2 million for food service supplies.

Currently, the purchasing department does not have a system in place to track payments made to vendors during the school year. Consequently, it cannot identify vendors that receive amounts over the threshold for competitive bidding. According to the purchasing and warehouse director, she has met informally with food service staff, but she has not met with the assistant superintendent of business services to conduct a review of the purchasing procedures as recommended by the SDCOE.

The District Has Not Always Completed Criminal Background Checks Before Hiring New Teachers

Our review of a sample of the district's personnel and payroll records revealed that the district placed three substitute teachers in its classrooms before it obtained criminal background clearance on them from the Department of Justice. All three teachers worked as early as October 1997 although the district did not receive clearance for two of them until December 1997 and for the third until January 1998. Assembly Bill 1612, which became effective September 30, 1997, prohibits a school district from employing in a position that requires certification qualifications any person who has been convicted of a violent or serious

The district placed three substitute teachers in classrooms before obtaining criminal background clearance.

felony. Without complete and prompt criminal background clearance on all of its teaching staff, the district cannot ensure the safety of students.

According to the assistant superintendent of personnel, when the district became aware of the requirements of the new law on October 8, 1997, it did not know the effect the law would have on its hiring process. He further stated that in September 1997, the district experienced a shortage of substitute teachers, and on October 8 and October 10, 1997, the district conducted recruiting meetings to sign up new substitutes. It was not until after the new teachers had already worked and submitted time sheets for payment that the district realized it had not conducted a criminal background check. However, in numerous other instances, the district obtained the required clearances before placing substitute teachers in the classroom.

Board Members and Administrators Do Not Always Comply With Disclosure Requirements of the District's Conflict-of-Interest Code

Two of the district's board members and one administrator failed to disclose all of their economic interests as required by the Political Reform Act (act) of 1974. The act was created, in part, to ensure that public officials disclose assets and income that may be materially affected by their official actions, and that they disqualify themselves from participating in decisions which may affect their personal financial interests. While we found no evidence that these district officials had conflicts of interest or allowed their financial interests to influence their official actions, when officials do not disclose their financial interests, the public loses faith in the officials' loyalty and allegiance to the public interest. Moreover, public awareness of officials' failure to disclose their financial interests could lead to a lack of confidence in the officials.

Our review of annual conflict-of-interest statements district officials must file found that the assistant superintendent of business services did not disclose as income reimbursements for travel expenses, totaling \$6,596, he received while serving on the board of directors of a credit union in the community. In addition, two board members and the assistant superintendent of business services did not always disclose their spouses' incomes during at least one of the three years we examined. Finally, one board member did not disclose her real property holdings.

According to the above district officials, their failure to disclose income and real property ownership information was due to unintentional omissions or a lack of understanding of the act's requirements.

RECOMMENDATIONS

To ensure that its contracts are valid and enforceable, the district should develop and implement the procedures necessary to execute contracts as authorized by the board and obtain board approval for amendments.

The district should ensure it receives competitively-priced, competent goods and services, including high-quality professional services, by improving its procurement practices to include the following procedures:

- Follow the formal competitive bidding requirements of the California Public Contract Code.
- Seek competing proposals from professionals in the community to provide architectural, construction inspection, and audit services.
- Fulfill the purchasing authority delegated to it by the board by developing formal purchasing procedures to ensure the district receives competitive prices on its purchases of equipment, supplies, and materials not subject to competitive bid. The district should communicate those procedures to purchasing and school site staff and enforce them.

In addition, the district should take the following steps to maintain appropriate contracting:

- Develop written procedures for emergency contracts to ensure that all legal requirements are met.
- Educate personnel authorized to supervise contractors on the importance of obtaining all approvals before allowing a contractor to begin work.
- Enforce a policy to prevent contractors from beginning work until it obtains funding approval and an enforceable agreement that outlines the rights and responsibilities of the contracting parties.

The district should complete the recommendations made by the San Diego County Office of Education by doing the following:

- Complete its revision of the Board Policies and Administrative Regulations manuals.
- Develop an accounting desk procedures manual and distribute it to all school and district facilities.
- Develop procedures to identify payments to vendors that, during the course of a school year, will exceed threshold amounts for competitive bid requirements.

The district needs to ensure that it obtains criminal background clearance on the new employees it hires to reduce students' potential risk from acts committed by employees with a criminal background.

District officials and employees should properly review the instructions for completing their annual statements of economic interests and disclose all required information to reveal possible conflicts of interests.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,



KURT R. SJOBERG
State Auditor

Date:

Staff: Philip Jelichich, CPA, Deputy State Auditor
Ann K. Campbell, Project Director, CFE
Norm Calloway, CPA
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Agency's response to the report provided as text only:

CAJON VALLEY UNION SCHOOL DISTRICT
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GOVERNING BOARD
Jill D. Barto
Laoma Dana Davidson
Joe Mackey
Marsha L. Saben
Nancye M. Splinter

August 5, 1998

Mr. Kurt R. Sjoberg
State of California
Bureau of State Audits
660 "J" Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

On behalf of the Board of Education of the Cajon Valley Union School District, I would like to express our appreciation for the dedication and professionalism of your staff in conducting a thorough review of the management of business services in our district during the past four months.

As you may be aware, this audit was requested because of many allegations and insinuations from some community and Board members about mismanagement of funds, inappropriate business practices, and conflict of interest by Board members and District staff. At the time, there was discord in the district and on the Board over the removal of the superintendent. This audit provides the district and community a review by a neutral party to substantiate or refute those allegations. We appreciate the comments, such as those made in the introduction to the report, which should put those allegations to rest:

"To address other concerns raised by the district's Board and members of the community, we performed additional audit procedures in a variety of areas and generally found no evidence to support allegations of wrong doing."

"We found that the district properly prepares the budgets and financial reports it provides to county officials."

As with any audit, we recognize and appreciate obtaining a different perspective on various aspects of our business operations that can improve our efficiency and accountability. District staff and Board members have reviewed the draft of your findings. While we generally concur with most of the findings, and in some cases, have already implemented additional processes to address them, we believe the wording of the summary page is stated in an inflammatory manner that could be taken out of the context of the report. We believe blanket statements such as the one below, without any modifying statements relating to the context, could be used to magnify certain issues beyond reasonable bounds if someone chose to simply quote the text from the summary.

①* For example, the statement, “The district’s process of physically counting and maintaining records does not safeguard its assets” could be taken by some to mean there is no accountability for any of the district’s assets, which is not true. As per statements in the report, it is obvious the district does have a process to account for the more than 87,000 items in inventory, though it can and will be improved upon. Because of the enormous influx of inventory due to the opening of three new schools, the modernization of 16 schools, and items purchased by 27 school sites with one-time funds from the state, there was a conscious decision to postpone the regular inventory process in 1994-1995. With minimal staffing, it took tremendous effort to just get the items logged so they could be placed in the schools for use in a timely manner. As per your report and staff’s response, most of those items have since been accounted for or can be reconciled within the next few weeks. Though the inventory process can be tightened, and staff is currently doing so, we believe it is important to note up front in the summary the increase in accountability for inventory as depicted in your graph (’97-’98 where 42 out of 48 sites were inventoried) as the district has moved back into normal operations.

② Another example of a potentially inflammatory statement is the comment, “District does not always seek competing proposals as state law and their own policies require.” This insinuates that the district has intentionally ignored the law or its own policies to circumvent the law. In context, the specific circumstances noted to support this comment in the report demonstrate responsible behavior by district staff. For example, on certain issues, the district followed the advice of legal council, which may contrast with the conclusion of the audit report, but is reasonable procedure.

It has also been the consistent practice of staff to inform the Board of proposed actions for specific building and contracting issues prior to initiating any work if time does not allow for formal approval, based upon the urgency of the project to meet the needs of the school site. This has always been done prudently, with reliance on acceptable business practices within the context of running a school district. Therefore, there has been no intentional circumvention of the law or policies; prudent actions were taken to facilitate projects being completed in a timely manner to meet the needs of school sites.

Thank you for considering these issues in preparation for the final report to the District and community. We again appreciate the many long hours your staff has devoted to all issues of concern that have been raised and providing the Board and district staff with reasonable courses of action.

Sincerely,

Marsha L. Saben, President
Governing Board
Cajon Valley Union School District

c: Norm Calloway

*California State Auditor’s comments on this response begin on page 65.

CAJON VALLEY UNION SCHOOL DISTRICT

***189 Roanoke Road
El Cajon, CA 92020***

***STAFF RESPONSE
STATE AUDIT REPORT***

August 1998

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STAFF RESPONSE TO STATE AUDIT RELATIVE TO THE SUMMARY SECTION TO THE AUDIT REPORT

The State Audit Report has been thoroughly reviewed by staff. The State Audit Team, headed by Norm Calloway, should be commended for their insight in development of scope and methodology of the audit program, and their professional conduct with staff.

As indicated in the report, Cajon Valley is a relatively large district. The annual operating budget is approximately \$100 million. In addition, approximately \$75 million has been expended in the area of capital facilities and school modernization over the last four years. Careful review of the Audit Report section entitled, *Scope and Methodology*, illustrates clearly the thoroughness of this audit. It seems as though the Audit Team reviewed every aspect of business operation, and always made themselves available to board and staff members, as well as members of the community who had information they wished to share or suggestions regarding areas to investigate. In the closing paragraph of the introduction section of the Audit Report, it is stated that the Audit Team, ***“generally found no evidence to support allegations of wrongdoing.”***

Among the multitude of issues addressed, the auditors have identified a few they feel need attention. To understand these issues, it is necessary that interested persons thoroughly read the detail in the body of the report, and the corresponding staff responses. While staff does not agree with the perspective and recommendations made relative to some of these issues, the overall report is of value, and includes recommendations which, upon implementation, will serve to strengthen and improve business practices.

Equipment Inventory

The audit of the equipment inventory system is welcome, and will serve to heighten awareness districtwide, regarding the importance of this function. In most school districts equipment inventory is a low priority, and consequently, does not receive the attention deserved. Based on informal information shared between districts, Cajon Valley does a better job with this function than most. However, in 1994-1995, and succeeding years, the schools were heavily impacted through construction modernization, and purchase of new equipment with one-time funding. As a result, key components of the equipment inventory process were temporarily suspended, partially reinitiated in 1996-1997, and more fully implemented in 1997-1998.

The District concurs with the audit finding that equipment inventory procedures need to be strengthened and documented. *However, it should be stressed that the equipment inventory process is the responsibility of one person — not an entire department.* Efforts to keep on top of the inventory process have been greatly impacted over the last four years by the construction and furnishing of three new schools (Blossom Valley, Hillsdale Middle School, and Bostonia), and the modernization of 16 schools; each of these 19 schools received a State Furniture and Equipment Allowance; these allowances totaled \$3,058,378. This affected 19 of 27 or 70% of the District's schools. It is doubtful any other District in the State was this fortunate, or so impacted with an equipment related workload. Also, every school in the District has received, on two different occasions, special one-time funding allocations by the State which were principally used for purchase of technology equipment. Therefore, during these past few years the Equipment Inventory Controller's time and efforts were almost totally dedicated to the receiving, tagging, and distribution of equipment to the schools.

- The Audit Report noted there was \$414,600 worth of equipment unaccounted for on July 1, 1998.
- ⑨ ***From that statement the reader could surmise that the equipment was missing; this assumption is wrong.*** It simply points to the need to reconcile the inventory. As time permitted the week following the audit, warehouse personnel performed a site check of certain schools and quickly accounted for an additional \$214,000 + worth of equipment. This amount of equipment was reconciled to the inventory even though warehouse personnel were not able to get into all rooms, cabinets, or talk with site level personnel. The balance will be reconciled when staff returns in the Fall.

Loan of Keys

- The audit identified a need for increased followup to ensure timely recovery of loaned keys. In terms of accountability for loaned keys, record keeping is good; staff knew where the keys were.
- ③ This enabled rapid recovery or verification of possession of all 13 building keys, 37 gate keys, and 13 of the miscellaneous keys. The four keys not returned are three 'construction' keys which do not work in any of the District locks, and one electrical panel key.

Procedures have been put in place addressing the monitoring of loan keys, which are outlined in detail in the staff response which follows in the body of the report.

Recommendation to Establish a "Process for Employees to Report Actual or Suspected Thefts or Other Illegal Activities"

Although this was not included previously in recommendations regarding the subject of cash handling by the District's Certified Public Accountant, or through the special audit regarding cash handling procedures contracted by the District, staff believes the recommendation of the State Audit Team is important, and will draft a policy implementing a process for Board consideration

The State Audit Team Questions Whether the District Always Follows Their Own Policies or State and County Guidelines for the Procurement of Goods and Services

- ② Staff does not concur with the perspective of the Audit Team in this area. Detail regarding the auditors and staff position are addressed in detail in the staff response which follows in the body of the report.

Regarding the consultant utilized for construction management assistance, note the following:

The original contract was executed in 1993. The Governing Board was aware the services were needed, that the consultant was working for the District over a multi-year period, a rate of pay was established, and annually, the Board approved a budget appropriation for this purpose. Since the employment of this consultant, procedures for obtaining board contract approval have changed. Approximately two years ago, a process was implemented where each department is responsible for generating a specific board item in their own section of the agenda, providing all details as to need for specific services, term of the contract, and compensation. This modification greatly reduces the possibility that such an oversight could be repeated.

The Audit Team Felt That on a Small Project Relative to the Repair of a Portable Classroom Damaged by Arson Fire the Contractor had Been Allowed to Commence Work Before the Contract was Actually Executed and Work Commenced on Modernization Projects Before State Written Approval was Received

Rapid repair of this classroom in order for it to be available for students when school commenced, was an important issue. During the interim period, prior to executing the agreement, work was directed and authorized through issuance of a purchase order. It was also noted that the District proceeded with modernization contracts prior to obtaining formal written approval from the State agency. It is noted in the staff response which follows in the body of the report, that the District had every verbal assurance that the project would be approved, from the Office of Local Assistance staff. Formal State Allocation approval was routine, and there was every assurance of no risk relative to this decision. The Governing Board was aware of these circumstances.

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The State Audit Team Identified Two Recommendations in The San Diego County Office of Education Business Services Audit That Had Not Been Fully Acted Upon

Those items will be addressed as indicated in the staff response which follows in the body of the report.

CHAPTER I RESPONSES

The District Cannot Adequately Account For All Of Its Equipment Inventory

The system the District currently has utilizes a simple D-Base program. While not as sophisticated as newer programs, it has served the District well during the past few years with the occurrence of several fires, and the loss of a large amount of equipment. It has always been the goal of the Equipment Inventory Controller (under the direction of the Warehouse Supervisor and the Director of Purchasing and Warehousing) to complete an annual inventory for each site in the District on an annual basis, but due to the limitations of staff and time this has not always been possible during the last four years.

It is noted in this section that the District is not as prompt in tagging new equipment and recording the pertinent information in the data base as they should be. Since all of the tagging and data entry is handled by the Equipment Inventory Controller alone, the District is severely limited in its ability to respond promptly when extraordinary volumes of equipment are being purchased, as in the past four years.

Also noted was the need for a review of the completed equipment inventories by management. This is an area that will be addressed. Written procedures will be developed which will ensure there is a higher priority placed on the physical inventory by schools and departments, with prompt reconciliation by the Equipment Inventory Controller, and follow up by the Warehouse Supervisor, and Director of Purchasing and Warehousing, with appropriate site and department administrators as necessary.

Weakness In Controls Over Physical Counts Reduce The District's Accountability Over Its Equipment Inventory

As previously stated, the department's goal (although not required by policy) is to complete an annual inventory of each site in the District. However, the heavy workload for both the Equipment Inventory Controller and site/department staff responsible for conducting the inventory, has at times precluded this from happening, due to the purchase of an extraordinary amount of new equipment over the last several years.

It was mentioned that there were no inventories done in the 1994-1995 school year, and in subsequent years, only partial inventories completed. As previously noted, the District was heavily impacted with construction modernization and purchase of new equipment. Therefore, the inventory process was suspended for that period of time, and started returning to past practices of annual inventories in 1995-1996.

The chart prepared by the State Auditor notes the trend toward recovery of the physical inventory process from the years of huge equipment purchases. In 1996-1997, 25 of 49 site inventories were completed, while in 1997-1998, 42 of 48 were completed.

The District Inadequately Planned For And Conducted Inventories

In the past, it has been the practice of the District to inventory all school and departments annually. This was temporarily suspended as previously noted. At this time, the District is very near to full implementation of that practice, and will develop a comprehensive Districtwide inventory schedule. Written instructions to the sites/departments regarding inventory will be refined. Regarding comments on segregation of duties, it would be desirable if physical inventories at a school or department could be taken by someone other than staff assigned to that site; however, that is not practical, or economically feasible for the District.

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Inaccurate Inventory Records And Untagged Equipment Further Reduces the District's Control

Given the staff level available, the equipment is being tagged as soon as possible. First priority is given to items being received at the warehouse. A lower priority is given to site delivered large items. We are very aware that the site tagging process is behind schedule, and will attempt to rectify this situation.

In terms of transfer of equipment between school and/or departments, the District can only centrally control what is known. Renewed efforts will be made by the department to reimpress upon administrative and supervisory personnel, the importance of completing an Equipment Transfer Form (A-11) each time an item is moved between locations.

Hillsdale Middle School Kitchen Equipment

An example mentioned in the Audit Report was certain equipment located in the kitchen at Hillsdale Middle School. This was not something discovered by the Audit Team, but rather shared with them during a discussion relative to equipment inventory at their first visit.

Transfer of Equipment From Information Systems

In the case of the equipment that was transferred from Information Systems to schools and departments, while Information Systems did not complete the A-11 District Transfer Form, it was agreed between the Equipment Inventory Controller and them, that they would do follow up paperwork to let the Equipment Inventory Controller know where the equipment had been delivered. Information Systems used the October 21, 1997, inventory to notify the Equipment Inventory Controller of the locations of this equipment. Therefore, records regarding this equipment are accurate. It is not common practice for the Equipment Inventory Controller to visit each site to verify equipment transfers. Therefore, he did not do so with these computers.

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Items Not On Inventory

The Audit Report noted that the physical inventory identified equipment at some sites that was not on the inventory list. This is no surprise, and could happen for one or more of the following reasons:

- When teachers move from site to site they often take equipment with them and perform the move by themselves, bypassing the equipment inventory transfer process.
- Equipment is donated or purchased by support organizations (Parent Clubs, PTA's, etc) and not formally donated to the District, bypassing the equipment inventory process.
- Equipment does not belong to the District. It could be personal property of teachers or staff.
- Equipment was not reported on the initial or previous inventory completed at the site.

The District's Inclusion Of Low Cost Items In Its Inventory Records Aggravates The District's Inventory Problems

Historically, prior to 1991, inventoried items were valued at \$50 or more. In 1991, this was changed to \$250. The District is aware of the \$500 minimum set by law. While using this higher limit would greatly reduce the number of items in the inventory and make the inventory process much easier, it does not seem in the best interest of the District to do so, as there is a great deal of equipment under that limit which is highly susceptible to theft i.e. televisions, VCR's, computers, printers. However, the items in the \$50 - \$250 range that are still on the inventory will be removed.

8

The District Does Not Adequately Investigate Causes For Equipment Reported Missing As A Result Of Physical Counts

Reconciliation of physical inventory discrepancies has always been a component of the District equipment inventory process. However, as discussed in detail in other parts of the staff response, sufficient time has not been available over the past few years for this purpose, due to the purchase of extraordinary amounts of new equipment. Also, as stated elsewhere, administrators and supervisors throughout the District will be reminded that the need for an accurate equipment inventory is of great importance, and the purchasing and warehousing managers will closely monitor the reconciliation process.

9

As noted in the Audit Report, there was \$414,600 worth of equipment unaccounted for on July 1, 1998. ***From that statement the reader could surmise that the equipment was missing; this assumption is wrong.*** It simply points to the need for reconciliation of the inventory. As time permitted the week following the audit, warehouse personnel performed a site check of certain schools, and quickly accounted for an additional \$214,000 + worth of equipment. This amount of equipment was reconciled to the inventory even though warehouse personnel were not able to get into all rooms, cabinets, or talk with site level personnel. The balance will be reconciled when staff returns in the Fall.

The District Does Not Adequately Control Keys to Its Facilities

The focus of the audit regarding loaning of district keys is appreciated. It heightened the awareness of all staff involved regarding the importance of adhering to, and strengthening existing procedures in this area. It is noted in the audit that there were 77 loaned keys which should have been accounted for in the records. Of that number, it would be helpful to note that 13 were building keys, 47 were gate keys, and 17 were miscellaneous (Sevick Pool pump room and door; relocatable 'construction' keys; Hillsdale storage shed; and electrical panel doors).

3

In terms of accountability for loaned keys, record keeping is good; staff knew where the keys were. This enabled rapid recovery or verification of possession of all 13 building keys, 37 gate keys, and 13 of the miscellaneous keys. The four keys not returned are three 'construction' keys which do not work in any of the District locks, and one electrical panel key. It should also be noted that there has never been a necessity to re-key a school site due to failure of a contractor or other party to return a master key.

The significant point in the audit regarding keys however, is that a higher priority and more attention needs to be placed on ensuring keys are promptly returned at the conclusion of the project/event for which they are loaned. To ensure this happens, the following actions have been taken:

1. The loan form has been revised to include an anticipated return date.
2. A follow up form has been developed for staff to fax to the individual to whom the key was loaned, reminding them of their responsibility to return the key as agreed, or verify the need for an extension of time.
3. A weekly status review of the forms, and follow up as needed, has been implemented.

The District Does Not Adequately Restrict Access to Its Warehouse

Historically, foot traffic by district employees through the warehouse has been a slight nuisance to warehouse staff in terms of work interference; however, this has decreased significantly with recent reconfiguration and separation of the warehouse from maintenance shops. Although inventory losses have not been experienced over the years, it would now be possible to secure the warehouse by restricting entry to authorized personnel only. To accomplish this, staff recommends the following:

1. Post signs indicating access is limited to warehouse/purchasing, administrative and supervisory personnel.

2. Post notices throughout the building, front offices, and on restroom doors, that a handicapped accessible restroom is available in the warehouse.
3. Install metal expansion gates at all major entrances which are normally left open during business hours.
4. Restrict passage door keys into the warehouse to selected authorized personnel.

It should be noted that District maintenance/operations personnel on duty for emergencies have access to all facilities

The District's Use Of Some Of Its Facilities Has Resulted In Unnecessary Cost And Risk

As a courtesy to a certain district group, the previous superintendent authorized storage of surplus computer equipment they intended to refurbish and make available to students for home use. For a number of reasons, their efforts did not proceed as planned, and the computer equipment remained in the warehouse for quite some time. Staff concurs wholeheartedly that storage of this non-district equipment is not a good practice and should be discouraged.

Relative to the \$1,000 cost for storing this equipment, mentioned by the Audit Team, it should be noted that the space utilized was already leased by the District, and no additional expenses were incurred.

Lack Of Records Reduces The District's Accountability Over Its Fixed Assets

While Generally Accepted Accounting Principles (GAAP) state that a ledger of fixed assets should be maintained, most school districts do not. Throughout the State, only 5-10% of districts maintain a fixed assets ledger. A survey in San Diego County indicates that only 2 of the 43 districts maintain fixed assets ledgers. Those that do maintain ledgers do not have complete records that can be reconciled with a comprehensive inventory and capital facilities list. Because school districts are not "for profit" entities, and they do not depreciate assets, there is absolutely no value in maintaining such a ledger. In order to comply with GAAP, the fixed assets ledger would have to record the value of each asset on the date of acquisition, not the current value. Cajon Valley does not have historical records that can provide that kind of information, and could not accurately set up a fixed assets ledger now. While the State Accounting Manual says that GAAP requires a fixed assets ledger be maintained, it also states "Local Education Agency (LEA's) are not required to maintain the general fixed assets account group.." and then goes on to provide sample accounting entries "...for those LEAs that choose to maintain these account groups". The State Accounting Manual does require that districts maintain a record of fixed assets which includes description, identification number, location, cost, date of acquisition, and mode of disposal. Cajon Valley is in compliance with this requirement.

10

The District Has No Procedure To Report Internal Thefts Or Fraud

At the time the thefts started to occur, they were a very unusual event for Cajon Valley. The District spent some time researching the circumstances surrounding them, to determine whether thefts had actually occurred, or whether this was the result of inaccurate recordkeeping at the originating site or department. When it was determined that they had actually occurred, and that there appeared to be a problem in the district office, changes were made in cash control procedures, and a complete report was prepared by the Fiscal Services Department, and shared with the Superintendent. Subsequently, an audit of cash handling procedures was conducted by an independent accounting firm. Their report did not include a recommendation to develop procedures for employees to report internal illegal activities. In considering this recommendation by the State Audit Team, we see the value in such a district procedure, and will work toward development of an appropriate policy for consideration of the Governing Board.

CHAPTER 2 RESPONSES

District Staff Made Unauthorized Payments And Altered A Contract

In April 1993, a construction management consultant was employed by the Board to assist the Long-Range Planning Department with coordination of new construction and modernization projects. Board action specified the projects for which service was needed, establishing an hourly rate for the consultant, and placed a \$7,000 limit on total compensation; there was no reference to term (length) of service. During the course of the State Audit, two issues were identified regarding administration of this consultant contract. Before discussing these issues, it would be helpful to understand the District process followed at the time this performance agreement was approved:

1. A consultant's Performance Agreement (Form A-27) was generated by the initiating department, and sent to the Personnel Department.
2. The Personnel Department submitted the request to the Governing Board for approval.
3. After Governing Board approval, the agreement was executed, utilizing facsimile signatures of the Board by the Superintendent's Office.
4. The approved and signed agreement was disbursed to the Accounting Department, Personnel Department, originator, and contractor.

DETAILED INFORMATION REGARDING TWO ISSUES IDENTIFIED IN THE AUDIT

Issue I

The \$7,000 Limit On Total Compensation Was Exceeded

At no time during the period services were rendered by this consultant was the Long-Range Planning Department or Accounts Payable Department aware that the \$7,000 compensation limit had been established. When Long-Range Planning submitted the Performance Agreement, they did not include a limit, and it was not reflected on the executed contract copies provided to Long-Range Planning or Accounts Payable Departments. When reviewing this issue, there does not seem to be an explanation as to how the \$7,000 limit was established, in fact it would not have even covered services required for even one of the several projects listed in the board agenda item; however, it is clear that the operational staff involved had no knowledge of it. Had the \$7,000 limit been stipulated in the contract document, it would have been observed, and payments above that amount would not have been processed.

Issue II

The Term (Length) of the Contract was Modified Administratively Without Board Authorization

Actual board action did not stipulate the term of this consultant's performance agreement; however, the agreement itself, which was executed with board facsimile stamps, specified the period of April 30, 1993 through June 30, 1995. In late September 1996, Accounts Payable notified Long-Range Planning staff that the performance agreement had expired 15 months earlier. At that time, a decision was made in Long-Range Planning to administratively extend the length of the contract, and the Director of the Long Range Planning Department has indicated it was her intent to prepare a new agreement for ratification by the Board, extending the initial agreement for two years (July 11, 1995, through June 30, 1997). Through an oversight, that agreement extension was not processed.

In summary, there are various aspects of this issue which are extremely pertinent. First of all, it is clear that there was an oversight, and perhaps lack of judgement on the part of staff involved; although clearly, there was no malice or intent to defraud the District in any way. Also, it was a one-time event, and therefore, not a pattern or course of conduct. Had this agreement been resubmitted to the Board for extension, it no doubt would have been approved as a consent item. The Governing Board was aware the services were needed, that the consultant was working for the District over a multi-year period, and had established a rate of pay, and annually approved a budget appropriation for this purpose. Since the employment of this consultant, procedures for obtaining contract approval have changed. At this time, each department is responsible for generating a specific board item in their own section of the agenda, providing all details as to need for specific services, term of the contract, and compensation. This approach is much more direct, and places far less reliance on the Personnel and Superintendent's Office relative to incorporating the particulars into the board item, requesting the approval, and the final contract itself.

The District Does Not Consistently Seek Competitive Bids When Purchasing Goods And Services

Telecommunication System

Relative to comments regarding telecommunications systems and competitive bidding, staff developed the following analysis:

District purchase orders for 1997-1998 were sorted into five categories: repairs, new phones/equipment, reconfiguration, temporary phone service, and data cabling. There were approximately 78 purchase orders written across these categories of service, and some service was provided at most work sites throughout the District.

Cost to date per category are:

Repairs:	\$11,225.89	New phones/equipment:	\$33,036.96
Reconfiguration:	\$1,970.10	Temporary phone service:	\$130.00
Data cabling:	\$5,446.26		

Highest/lowest dollar amount per category are:

Repairs:	\$303/\$4	New phones/equipment:	\$6,696/\$30
Reconfiguration:	\$369/\$16	Temporary phone service:	\$65/\$65
Data cabling:	\$1,264/\$88		

It should be noted that almost all of these service needs were spontaneous and unpredictable prior to the beginning of a school year. Also, not one of them exceeded statutory bid limits. This work clearly was not subject to formal bid requirements, although, that is not to say the Purchasing Department is not sensitive to these requirements.

To demonstrate the sensitivity, all telecommunication needs which were foreseen and exceeded the bid limits were formally bid; examples are:

- Bid #969 for Turnkey Data Networks at Various Sites (Awarded 2/11/97)

This bid was awarded to Hugh Foley Construction for \$22,754. Columbia Pacific was actually the low bidder at \$22,120, but the Director of Information Systems felt it would be better to have Foley do the job since this was like a second part (relocatables) to a data cabling project that was done earlier by them. This award was based on the Ed Code provision to award to any of the lowest three bidders (data communication equipment).
- Bid #977 for Telephone Equipment for Avocado, Montgomery, Rancho San Diego, Sevick, Vista Grande (Awarded 8/19/97)

Columbia Pacific was the second lowest bidder at \$19,615. The bid was awarded to Phone Masters for \$18,667

- Bid #978 for Turnkey Data Networks at Crest (Awarded 8/19/97)

This bid was awarded to EOS Signal for \$24,034. Columbia Pacific was second lowest bidder at \$28,104.

During the past two years, total dollars spent in this area were high; however, those were atypical years due to modernization of 16 schools, and so much new construction. District experience for 1997-1998 is typical.

Mr. Tim Garfield, District Counsel, participated with staff in developing the format for the foregoing analysis. He has now reviewed the analysis, and issued another opinion letter regarding the requirements to bid telecommunication system services (Attachment "A"). Mr. Garfield concludes that the District is not required by law to bid such work, and not precluded by Public Contract Code from contracting for individual repairs as need arises during the course of the school year. (11)

Since "deregulation," reliable quality telecommunication service for large organizations has been difficult to obtain, yet, because these systems are vital in public schools for communication and data transfer, quality service is imperative. If possible, you want only one or two responsible, knowledgeable technicians working on your system month by month, year by year. This is possible utilizing the District's present approach.

In a survey of five school districts within the County, most comparable in size to Cajon Valley, only one district utilizes the formal bidding process for their annual telecommunication system services. Should the District choose to bid this work on an annual basis, the bid would not generate an annual cost; it would simply establish a labor rate cost of some materials. All projects, which would be unknown at the time of the bid, would be charged on a time and material basis. In other words, bidding would not generate firm prices for individual projects. The District would be locked into a contract for a year; if the contract proved unsatisfactory, the ability of the District to cancel the contract would be even more difficult than having a service company perform on a job-to-job basis at the "pleasure of the District." Further dialog between the Governing Board and staff would be helpful regarding this issue.

Professional Services

The District has a fine record regarding selection and utilization of a wide number of professional consultants through an RFP process for large projects. As indicated in the Audit Report, for projects \$50,000 or under, generally the RFP process is not used. It is important to understand when referencing projects \$50,000 or under, reference is not made to the amount of the consultant fee, but whether the cost of actually completing the project i.e. cost to install a portable classroom might be \$50,000; however, the necessary architectural fees might total no more than \$2,000. From the group of consultants identified through RFP's for large projects, when there is a need for a similar service on small projects, consultants who have demonstrated competence, and professional qualifications through previous satisfactory services are employed, based upon prior work completed. Rationale for this approach regarding small projects is as follows: (12)

1. Staff time is minimized, since they do not have to reorient a new consultant each time a new project is started. Familiarity with location of sites, buildings on each site, and special conditions, are most important.

2. Certain base knowledge is required relative to doing business with the District. Constant use of new consultants would require additional time for them to get up to speed.
3. School sites have developed a certain level of comfort when they are dealing with familiar architects and other types of consultants.
4. The utility companies have a difficult time in dealing with a wide variety of architects and engineers regarding District projects.
5. District staff has developed a level of expectation and understanding with architects/consultants that would need to be recomunicated each time someone new was used. In this area, standardization is important for such items as paper towel dispensers, door and lock hardware, soap dispensers, floor coverings, etc.
6. With regard to consultant expertise and qualifications, there are a very limited number qualified to work on school projects. Expertise regarding State Department of Architect requirements and processes, as well as various other codes is imperative.
7. Developing an RFP and conducting the process for a consultant for every small project would be very time consuming, and severely impact the workload of staff.
8. The timeframe on most smaller jobs is usually a major concern. It is a hardship to stop and bring a new firm up to speed before getting on with the job.
9. Many District projects are so small that consultants would not be interested on a job-by-job basis. They require assurance of probability for future work.
10. There is a performance incentive relative to consultant services, and firms know on small jobs, if they do good work, they will be in line for more.
11. From time to time, it is necessary to employ consultants based upon the recommendation of District legal counsel. In such cases, consultants are specified who will provide expert testimony in court.

This is a fairly broad list of reasons why the District does not use the RFP process for consultant services required on small projects. The approach utilized by Cajon Valley is common practice for the reasons listed above at school districts throughout the State. This may be verified by contacting California Association of School Business Officials (CASBO).

Relative to price competitiveness for these services; while that is not the most significant factor when employing professional consultants, it is important. The District utilizes such services frequently enough that staff is well aware of what represents a competitive rate, assuring that the District receives value for the funds expended. In the Audit Report the State Team references sections of the California Government Code. Please note the attached legal opinion from Mr. Tim Garfield, District Legal Counsel, indicating that the approach utilized by the District is in full accordance with this code section (Attachment "B").

Auditor

Cajon Valley uses Harlan & Boettger for its annual audit because they provide an excellent, thorough audit, and are very knowledgeable in the area of school district accounting. Currently, 22 of the County's 43 school districts use Harlan & Boettger for their annual audit. Harlan & Boettger is a growing firm, currently employing nine audit staff and three audit managers. Each year, they rotate the staff that they assign to audits, to provide a "fresh look" at each organization they are auditing. (13)

Cajon Valley has been able to obtain a very competitive price from Harlan & Boettger. Of the seven other elementary and unified school districts in San Diego County that roughly compare in size with Cajon Valley, five others use Harlan & Boettger. Cajon Valley's cost for its 1997-1998 audit is \$6,300; the other five districts are paying \$6,100 to \$11,900, depending upon the size of the district, and the number of middle schools and high schools. Of the two districts comparable in size that do not use Harlan & Boettger, one is an elementary district, paying \$13,000, and the other is a unified district, paying \$33,000. As another point of comparison, the special cash handling procedures audit that was performed for Cajon Valley in 1996 by Maloy, Rosner, and Brown, cost the district \$8,000.

Regarding the recommendation to issue RFP's for auditing services on a regular basis, general information made available by California Association of School Business Officials indicates that districts in the State who have recently experienced financial difficulty, requiring intervention from the State, had shown a pattern of changing auditors, just prior to their serious financial difficulties.

Copiers

The audit reported that the purchase of two copiers violated the internal procedures. There were no formal internal procedures regarding this issue. The confusion on this issue is due to very informal guidelines in a memo (Attachment "C") issued in 1991 by the Director of Purchasing and Warehousing to help reduce the backlog of requisitions. Guidelines certainly do not have the stature of policy or regulation, and are put in place to establish process for the majority of work flowing through the department. It is good business practice to modify the approach stated in guidelines when judgement and the best interest of the District would suggest otherwise. In addition, it should be noted that while additional quotations were not obtained for these two purchases, these copiers were not purchased simply because "they were there". These particular copiers met the needs of the department that would be using them, and the pricing was very competitive based on a comparison with a bid issued by the North County Educational Consortium for similar machines. In fact, these machines were lower in price than machines on the Consortium's bid, which have fewer features. (14)

In reference to maintenance on duplicators (Riso), the audit reported that this service was not bid because the District was satisfied with the service and responsiveness of the current vendor (Riso). While this is correct, it should be noted that currently Riso has no other authorized dealers or repair facilities in San Diego County (there will be another authorized repair facility opening in September). The District deals directly with Riso, unlike the Los Angeles area where several local companies are authorized to sell and service Riso equipment. While it may have been possible to employ a non-factory authorized company to do maintenance, they would not have priority to obtain parts from Riso, affecting the promptness of service required by the District. This service will be bid in the future.

Theater Lighting

- ⑮ Relative to theater lighting in the school, it is indicated in the audit report that the school drama instructor worked with the Maintenance Department; which did not occur. The drama instructor did arrange for the installation of the lighting equipment. After the fact, the school submitted a requisition for the equipment which included some additional lamps. When the requisition was received in the Purchasing Department, staff realized that this was already “a work in progress,” and purchased the lamps from another source that offered a better price. In trying to play catchup on this requisition, the maintenance supervisor was asked to check the site to make sure the installation was feasible, i.e. enough power, etc. He did, and reported back to the Purchasing Department that it was okay. This was noted in the file on 4-24-97. A work order was never located, and likely never completed by the site.

Normally, the school staff and maintenance work together to make sure the project is feasible, and then school staff prepare a requisition to order the equipment. A work order is then done for any necessary work needed by maintenance staff in relationship to the procurement (the requisition and work order are cross referenced). Upon receipt of the requisition, the Purchasing Department would then obtain quotes from multiple vendors. However, competing quotes were not obtained for this project because Purchasing was not informed until after all arrangements had been made between the teacher and vendor.

It should be noted that although this procurement did not follow normal procedures, the outcome was probably identical. San Diego Stage Lighting is a very competitive vendor, and has been awarded the majority of business for this type of specialized equipment in the past.

A bulletin will be developed and sent to district administrative and supervisory personnel, reinforcing established procedures in this area, with a request that they share this information with their staff.

The District Does Not Always Follow The Provisions Of Contract Law

As indicated in the audit, the Public Contract Code provides authorization for Award of Contract Under Emergency Conditions. This provision is rarely used by the District (perhaps two or three times over the last 25 years). This code provision was utilized in the Spring of 1997 to complete fire repairs in a portable classroom at Naranja Elementary School, which was damaged by arson. It is the position of the State Audit Team that conditions regarding the need to repair this facility did not meet the requirements of the code. As previously indicated, use of the code section is extremely rare, and District staff does not proceed without obtaining review and advice from District counsel,

Mr. Tim Garfield, (Attachment "D") who indicates his opinion that this project clearly qualifies under the *Emergency Provision of the Public Contract Code*.

It should be noted that the key issue of urgency was that this classroom be repaired, equipped, and ready for students prior to the first day of school in August 1997. If a contract had not been awarded on an emergency basis, a strong possibility existed that the classroom would not have been available for students at the beginning of the 1997-1998 school year for the following reasons:

Fire occurred on May 11, 1997, and if the project had been bid, the process outlined below would have been required:

1. Select and employ an architect, 5/12/97-5/14/97
2. Assess damage and determine what repairs were necessary, 5/12/97-5/19/97
3. Obtain quote for and employ fire damage clean-up contractor to sort out the salvageable furnishings and/or teaching materials and remove for cleaning/deodorizing, 5/12/97
Work to begin and end, 5/13/97
4. Obtain quote for and employ demolition contractor to remove all burned debris and deodorize building in readiness for reconstruction, 5/12/97
Work to begin and end, 5/14/97-5/19/97
5. Reassess damage to the facility with architect for final plans and specifications, 5/19/97
6. Develop set of plans, specifications and bid package, complete by 6/6/97
7. Advertise for bids, 6/6/97 and 6/13/97
8. Perform a pre-bid job walk, 6/16/97
9. Open and evaluate bids, 6/23/97
10. Obtain approval of insurance company, 6/23/97
11. Award of bid by Governing Board, 6/24/97
12. Notify contractor of award and complete contract documents, 6/25/97-7/1/97
13. Provide authorization to proceed for successful contractor, 7/1/97
(Minimum five calendar days notice required from date of notice)
14. Complete the construction cycle, 7/7/97-8/29/97

It is noted that actual construction time was eight (8) weeks. The above schedule is very optimistic in that all steps would have been completed in such a timely manner with construction ready to begin on July 7. In recent years the District has been through several construction projects of building new schools, modernizing sixteen, and placing more than one hundred (100) portable

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classrooms. This experience has confirmed for staff the many and varied things that can go wrong, and do, in construction. There was a likely possibility the classroom would not have been ready for the start of school on August 25, which is contradictory to the position taken by the State Auditor's Team.

If the project had not been completed prior to the start of school, the educational impact would have been significant. Naranca Elementary School has a large number of students with many special programs. In addition to 20 permanent classrooms on site, there are 20 portable classrooms. Facility space is at a premium, and extended use of the multipurpose room/auditorium to house a class was not feasible. There are many other scheduled uses of the multipurpose room which would have had to be canceled, the learning environment is not conducive, and the instructional time lost from transitioning from the multipurpose room to the classroom during the course of the year would have been significant.

There were several other miscellaneous issues regarding this project noted by the Audit Team as follows:

- County Superintendent Approval Was Not Obtained Prior to Initiating the Repair Work

This was an oversight on the part of staff. There were three departments in Business Services involved; the Business Services Office, Purchasing, and Maintenance, and Operations. Each assumed the other was going to complete this step. However, it should be noted that in San Diego County, this authorization is routine following unanimous approval of an emergency contract by the school board, which occurred. The Governing Board was fully apprised regarding Use of an Emergency Contract to complete this work in public session on May 13, 1997, and May 27, 1997. The County Superintendent did approve the emergency contract retroactively.

- Payment Bond

The Code requires a payment bond. This was an oversight on the part of District staff. However, it should be noted that the size of this project is very small, relative to the many multi-million dollar facility projects the District has frequently been involved with. Public works projects are almost always handled through a full bidding process utilizing County construction bid documents. Those documents clearly stipulate bonding requirements, which are routinely obtained for all projects by staff. In the case of the Naranca relocatable repair, the urgency of this project, coupled with year-end workload, resulted in this oversight. Because of the size of this project (\$35,000), and the known qualifications of the contractor, the risk to the District was extremely minimal.

Note: Regarding the two above issues, it is felt by staff that because this emergency provision of the Public Contract Code is used so infrequently, it would be helpful to develop procedures to use when such occasions arise. These procedures would address such matters as County Superintendent authorization, and payment bonds.

- Notice of Completion

It is the understanding of staff that Notices of Completion are not required on non-Department of Architecture projects. This was such a project, therefore, a notice was not filed. (17)

- Contract Execution Date

Finally, there was a concern regarding the date the contract was executed. The contract was dated May 27, 1997, reflecting the date of formal board approval. Contracts are rarely signed, if ever, on the same date the Board takes action. A purchase order was also issued to cover this expenditure on an interim basis; the contract was signed by the Purchasing Director after her return from summer vacation. (4)

Response to Comments Regarding Moving Ahead With Modernization Projects Prior to State Approval

The Audit Team noted that the District proceeded with the modernization projects prior to receiving written approval from the State. It was of vital interest to the District to complete as much work during the summer as possible. Discussions between the contractor and District staff determined that it was realistic to complete four elementary schools during the Summer. The Governing Board was aware of that objective, and realized the benefits, such as minimizing disruption on campus during the school year, and avoiding interim housing costs, since the allowance for this purpose was seriously underfunded by the State. Verbal approval to proceed was provided by the Office of Local Assistance (OLA) field representative, Mr. Woody Woodard, to Leona Hone, Director of Long-Range Planning. Formal action by the State Allocation Board, and generation of approval notification letters is a lengthy process, but very routine. If the District had waited, rather than proceeding based on the verbal authorization, the Summer advantage would have been lost. It would have become necessary to install relocatable classrooms throughout the school year, and move teachers and students in and out, one wing at a time, until the full school was completed.

The Board was aware at the time that staff was not going to wait for the letter, and there is reference to this in the Board item to the effect that the work would be started immediately after the last day of school, June 16 (Attachment "E"). In addition, the recommendation in the Board item is contingent upon State Office of Local Assistance approval, which the District received verbally, not the formal State Allocation Board approval which came later. This approach was used with full assurance that the District was not at risk.

The District Has Not Fully Implemented Recommendations To Improve Its Operations

Accounting Desk Procedures

The Accounting Department continually shares information with sites and departments regarding accounting and payroll procedures, through newsletters, memorandums and internal workshops. Development of a comprehensive accounting procedures manual has been discussed, and some of the information needed has been gathered over the last year. Due to other high priority issues, turnover of staff, and reassignment of duties in the Accounting Department, this task has not been completed. It will be given a high priority for completion in the 1998-1999 school year.

Food Services Purchases

The Child Nutrition Director and the Purchasing Director are now meeting to review Child Nutrition purchasing practices. Upon completion of this review, there will be a joint meeting with the Assistant Superintendent of Business.

The District Has Not Always Completed Criminal Background Checks Before Hiring New Teachers

Before the new fingerprint law came into being, Cajon Valley did not do any fingerprint clearance checks on new substitute teachers because all credentialed persons had to have a fingerprint check by both the Department of Justice and the Federal Bureau of Investigation to receive a Letter of Clearance and a credential. As of October 10, 1997, the District started using the County Office of Education as a clearing house and, if the new substitute teacher had a credential on file with the County, the District did not require another fingerprint clearance. If the new person did not have a credential on file with the County, an expedite fingerprint card was done, and sent to the Department of Justice through the County Office of Education. As of July 1998, any new substitute teacher hired by Cajon Valley Union School District will need to do an expedite fingerprint card that will be sent by the District, directly to the Department of Justice, because it was determined that the County Office of Education legally cannot be a clearing house for the surrounding districts.

The past ten months have been a transition period for the County Office of Education and school districts to establish guidelines for compliance with the new fingerprint laws. We now feel that we have guidelines which will comply with the law, and also be manageable for the District.

Board Members and Administrators Do Not Always Comply With Disclosure Requirements of the District's Conflict-of-Interest Code

Relative to the reimbursement of expenses for travel and conference, the staff member was not aware of regulations stipulating that direct reimbursement for travel and conference expenses are to be considered as income.

ATTACHMENTS A - E

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August 3, 1998

CONFIDENTIAL ATTORNEY/CLIENT COMMUNICATION

Ms. Sharon Swafford
Director of Purchasing and Warehousing
Cajon Valley Union School District
189 Roanoke Road, Box 1007
El Cajon, California 92022

Re: Competitive Bidding of Telephone System Work

Dear Ms. Swafford:

You have requested that I review my opinion of May 16, 1997, pertaining to contracts for telecommunications repair work in light of comments of the State Auditor set forth in their memo of May 26, 1998, and in light of subsequent data generated by your office concerning telecommunications repair expenditures over the past several years. After reviewing the foregoing data, I reaffirm my previous opinion that an annual contract for telecommunications equipment repair is not required as a matter of law.

Member of the State auditing team have indicated that inasmuch as at least in some years the aggregate amount expended for telecommunications repair exceeds the \$50,000 bid threshold, the District's entire telecommunications repair work should be bid in the form of an annual contract at the beginning of the year. It is my understanding that this work consists of repairs to telephone equipment and data lines, as opposed to routine maintenance. While regularly required maintenance would be known at the beginning of a year, repairs to the system would be unknown since they occur only as equipment becomes nonfunctional during the year. Thus, your District could not obtain a lump sum bid for repair of all possible malfunctions of District equipment during the year unless you could find bidders willing to provide a guaranteed sum for all repairs. It is questionable whether you would be able to do so and if you did, it is highly likely that a bidder would quote a relatively high amount in order to protect itself from losing money in the event that a larger than expected number of repairs were needed.

Ms. Sharon Swafford

August 3, 1998

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It has been suggested that such a contract could be bid on a specified hourly rate for labor and specific line item quotes for various pieces of equipment. However, it is difficult to guarantee from such a bid who would be actually the lowest price bidder. One bidder may have a slightly higher hourly rate but a lower price for pieces of equipment. Moreover, even a bidder with the lowest hourly rate would not necessarily utilize the smallest amount of time in performing the work and thus when the total time taken to perform the repairs is taken into account, that bidder might actually be the highest bidder. Consequently, it is difficult to determine as a practical matter how your District would determine the lowest responsible bidder for a contract where the work to be done is unknown when the bid is submitted.

I am aware of no law that requires your District to bid services at the beginning of a year where the extent of those services is unknown at that time. You are required by Public Contract Code Section 20111 to competitively bid any contract involving an expenditure of more than \$50,000 for the purchase of equipment, materials, supplies, or services to be rendered. The question, then, is whether individual repairs made by a vendor to the telephone system are individual contracts. I believe that they are if the repairs are not known at the beginning of the year but arise on a spontaneous and unpredictable basis. You may, of course, not split up a contract into smaller amounts to avoid competitive bidding. However, I know of no legal basis to conclude that your entire repair work for the year constitutes as a matter of law one "contract" which must be bid if in excess of the \$50,000 bid threshold. As discussed above, even if you were to know at the beginning of the year that the total amount of repairs during the upcoming year will exceed \$50,000, it would be difficult to formulate a bid structure for those repairs which would ensure the District actually contracting with the lowest cost vendor. Only in the event you could obtain a lump sum bid from vendors for all repair work, no matter how extensive, would you be able to compare discrete dollar amounts to determine a low bidder. Even there, there is no guarantee that that lump sum would be the most economical means of obtaining service since any prudent bidder would in its bid allow for the "worst case scenario" of needed repairs during the year in order to avoid submitting an unprofitable bid.

In summary, I believe that your District is not precluded by Public Contract Code Section 20111 from contracting for individual repairs of malfunctioning equipment as the need for those repairs arises during the course of the school year.

Very truly yours,

Timothy K. Garfield

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July 31, 1998

CONFIDENTIAL ATTORNEY/CLIENT COMMUNICATION

Mr. G. Wayne Oetken
Assistant Superintendent, Business Services
Cajon Valley Union School District
189 Roanoke Road, Box 1007
El Cajon, California 92022

Re: Request for Proposals in the Selection of Architects for District Projects

Dear Mr. Oetken:

You have requested that I review Government Code Section 4525 et seq., especially Section 4526, and determine whether those sections, or any other provision of law, requires your District to obtain proposals from professional services firms such as architects and engineers before employing an architect or engineer for a District project. My review indicates that there is no provision of law which requires that your District obtain proposals from architecture or engineering firms before employing such a professional firm to do work on a District project.

Government Code Section 4526 provides in pertinent part:

“Notwithstanding any other provision of law, selection by a state or local agency head for professional services of private architectural, landscape architectural, engineering, environmental, land surveying, or construction project management firms shall be on the basis of demonstrated competence and on the professional qualifications necessary for the satisfactory performance of the services required. . . .”

The foregoing language does not require that the District obtain a written proposal from a prospective professional service provider. It does require that selection be on the basis of demonstrated competence and the particular qualifications of the firm selected, as opposed to a

Mr. G. Wayne Oetken

July 31, 1998

Page 2

competitive bidding situation where the project is awarded to the lowest responsible bidder. The District can determine demonstrated competence and professional qualifications through a variety of avenues. Meeting with professional service providers, for example, would allow the District to determine professional competence. Checking of references, particularly with other school districts who have utilized the professional firm in question, will also allow a determination of competence and professional qualifications. Nothing in Section 4526 or in any other provision of law requires your District to obtain proposals from a number of potential professional service providers before contracting with one provider to perform professional services. Section 4526 goes on to require state agency heads contracting for professional services to adopt by regulation procedures to assure that the services are obtained on the basis of demonstrated competence and qualifications for the types of services to be performed and at fair and reasonable prices to the state agencies. It also authorizes local agency heads to adopt such regulations, but does not require that local agencies do so.

In summary, your District has discretion in determining how it will go about selecting of a firm to provide professional services in architectural, landscape architectural, engineering, environmental, land surveying, or construction project management so long as the selection is made on the basis of the demonstrated competence and qualifications of the firm which is hired.

Very truly yours,

Timothy K. Garfield

TKG:mam

M E M O R A N D U M

Date: 3/13/91

TO: Buyers

FROM: Sharon

SUBJECT: Quotation Guidelines

As a result of the discussion at our staff meeting, below I have outlined some guidelines for soliciting quotations when the total dollar amount of a requisition falls below the required bidding limits.

Let's give them a try and then we'll re-evaluate in a couple of months. These are not hard and fast rules, so, if your past experience tells you that a price is competitive go ahead and go with it. Also, this won't apply to all items - - things like all types of educational material and sole source items will not fit into these guidelines.

Dollar Values above \$10,000 and Below Bid Limits-3 Written Quotes

\$5,000 to \$10,000 - 3 Phone Quotes

\$2,000 to \$5,000 - 2 Phone Quotes

Below \$2,000 - only 1 Phone Quote

cc: Diane
Pam
Ellen
Becky

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August 3, 1998

CONFIDENTIAL ATTORNEY/CLIENT COMMUNICATION

Mr. G. Wayne Oeken
Assistant Superintendent, Business Services
Cajon Valley Union School District
189 Roanoke Road, Box 1007
El Cajon, California 92022

Re: Contract for Repair of Naranca School Classroom Fire Damage Pursuant
to Public Contract Code Section 20013

Dear Mr. Oetkin:

You have requested my opinion as to whether the contract entered into by your District in May of 1997 for repairs to a classroom at Naranca School which had been severely damaged by fire, qualifies under Public Contract Code Section 20013 to be entered into without compliance with the competitive bidding requirements.

Public Contract Code Section 20013 provides in pertinent part:

“(a) In any emergency when any repairs, alterations, work, or improvement is necessary to any facility of public schools to permit the continuance of existing school classes, or to avoid danger to life or property, the board may, by unanimous vote, with the approval of the county superintendent of schools, do either of the following:

“(1) Make a contract in writing or otherwise on behalf of the district for the performance of labor and furnishing of materials or supplies for the purpose without advertising for or inviting bids.”

Mr. Wayne Oetken
July 31, 1998
Page 2

In the situation which arose in May of 1997, the burned out classroom had to be repaired in time for the resumption of classes in August. You advised me at that time of this occurrence and I stated to you that it was reasonable to conclude that an emergency existed in which repairs were necessary to permit the continuation of existing school classes. The fire occurred on May 11 and the class which occupied the classroom had to be moved to the school's multi-purpose room. This negatively impacted the entire school. Thus, it was crucial to have the repairs completed by the middle of August in order to allow the classroom to be furnished and the teacher to prepare for the first day of school which began in late August.

It was also a reasonable exercise of judgement to conclude that there was not adequate time to proceed with competitive bidding procedures and still ensure that the repairs would be completed by the deadline. While the time available in June, July and early August may have been adequate to bid and complete the project, there was no way of being certain in late May that this was in fact the case. Competitive bidding would have required development of some at least rough specifications on which bids would be submitted together with the publication of notice as required by Section 20111 and the time for submission of sealed bids. Moreover, when competitive bidding is held, it is always possible that no responsive bids will be received, requiring that the process be started over. If a contract is awarded pursuant to competitive bidding (or without competitive bidding for that matter), the contractor may not finish the project within the stipulated time period (which frequently occurs, despite liquidated damages provisions in the contract). Obviously, liquidated damages would be inadequate to compensate for the harm of having a lack of classroom available when it is needed.

Thus, the district was faced with the alternatives of bidding the project and assuming a substantial risk of not completing the classroom by the time it would be needed for the beginning of classes or proceeding under Section 20113. It is my opinion under the circumstances that there was a reasonable basis to obtain a contractor pursuant to Section 20113 to begin work as soon as possible in order to make certain that the work would be completed by the time it was needed.

Very truly yours,

Timothy K. Garfield

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TKG:mam
cc: Ms. Diane Dahlheim

IX. ACTION JUNE 14, 1994

C. BUSINESS SERVICES DIVISION

3. CONSIDERATION OF AWARD OF BID, NINE MODERNIZATION PROJECTS: ANZA, BALLANTYNE, CHASE, CUYAMACA, LEXINGTON, MADISON, MAGNOLIA, MERIDIAN, AND NARANCA (Page 1 of 2)

The District has solicited and opened bids for the first nine schools to be modernized: Anza, Ballantyne, Chase, Cuyamaca, Lexington, Madison, Magnolia, Meridian, and Naranca. The apparent low bidder meeting specifications (bid summary follows) is West Coast Air Conditioning, Inc. who has previously done work for the District. Staff feels fortunate to have such a quality firm come in as low bidder.

The Administration and school based staff are most pleased that we have a viable bid so that the projects can begin. The general approach and scheduling of work to be done is outlined as follows:

- Construction at the three traditional calendar schools (Anza, Madison, and Meridian) will be started immediately after the last day of school, June 16.
- An accelerated schedule will be utilized during the summer at these three traditional calendar school locations with the projects substantially complete prior to the start of school in the fall 1994 (school begins August 29; however, Principal and staff return August 15). At that time, all buildings will be available on a "beneficial occupancy" basis.
- Construction at Ballantyne Elementary School would be started June 25. Project scheduling would follow the phasing plan outlined in the bid package. Offices in the remaining schools will be made available for construction at a date later this summer to be jointly determined in the immediate future.
- While the foregoing work is underway, the District will place the required number of relocatable classrooms on the remaining campuses (Chase, Magnolia, Naranca, Cuyamaca, and Lexington).
- The balance of the work at the remaining schools will be initiated based upon contractor suggestion and District review. The phasing schedule included in the bid package will be used for this work.

C. BUSINESS SERVICES DIVISION

3. CONSIDERATION OF AWARD OF BID, NINE MODERNIZATION PROJECTS: ANZA, BALLANTYNE, CHASE, CUYAMACA, LEXINGTON, MADISON, MAGNOLIA, MERIDIAN, AND NARANCA (Page 2 of 2)

In addition to the base bid, the contractor's submitted quotes for several Additive Alternate items as requested by the District. The base bid submitted by West Coast of \$9,547,000 is sufficiently under the State allowance to award Additive Alternates as follows: #A-4, #A-10, #B-4, #B10 Refinish Existing Cabinets. The total cost for this group of Alternates if \$41,100.

Adding the cost of these alternates to the base bid leaves a contingency between total project cost and the State allowance of \$106,751; this contingency is most important because when undertaking remodeling work, the probability of encountering unexpected conditions during construction is high.

There is a strong possibility that the State allowance will be increased by an additional \$175,625 through supplemental funding relating to require handicapped lifts (which are already included in the base bid) and special funding for the utility service upgrade required at Anza to support air conditioning. Should these additional dollars be made available, other Additive Alternates would be considered such as: replacement of chalkboards and markerboards in the classrooms and metal screens for roof mounted mechanical equipment. West Coast has assured the District that the bid submitted for all Additive Alternates will be held firm for six months, ensuring the ability of the District to exercise these options should additional funding for the State be available.

Fiscal Impact: Total construction bid cost of \$9,588,100 funded through the State School Modernization Program.

ADMINISTRATIVE RECOMMENDATION:

It is recommended the Governing Board award the bid for modernization of nine elementary schools on the following basis: Base Bid "A Additive Alternates #A4, #A10, #B4, and #B10 to West Coast Air Conditioning, Inc, as low bidder meeting specifications contingent upon State Office of Local Assistance (OLA) approval, and authorize the Administration to execute the necessary documents.

MOTION _____
SECOND _____
VOTE _____

C. BUSINESS SERVICES DIVISION

4. CONSIDERATION OF AWARD OF BID, FOUR MODERNIZATION PROJECTS: FUERTE and W. D. HALL ELEMENTARY, CAJON VALLEY and GREENFIELD JUNIOR HIGH SCHOOLS (Page 1 of 2)

The District has solicited and opened bids for an additional four schools to be modernized: Fuerte and W. D. Hall Elementary, Cajon Valley and Greenfield Junior High schools. The apparent low bidder meeting specifications (bid summary follows) is West Coast Air Conditioning, Inc. who has previously done work for the District. The staff feels fortunate to have such a quality firm come in as low bidder.

The low bid submitted (\$7,092,000) exceeds the State allowance of \$6,894,254 by \$197,746. The State Office of Local Assistance will approve bids in excess of State allowance providing the excess does not exceed ten percent. The overage amount is approximately four percent - well within guidelines. In light of the need to expedite and complete these projects, it would be in the best interest of the District to award the bid now to West Coast Air Conditioning, Inc. as low bidder meeting specifications and indicate to the State that the cost in excess of State allowance will be funded locally.

The Administration and school based staff are most pleased that we have a viable bid so that the projects can begin. The general approach and scheduling of work to be done is outlined as follows:

- The construction at Fuerte Elementary School will be started immediately after the last day of school, June 16. An accelerated schedule will be utilized during the summer and the project will be substantially complete prior to starting of school in the fall 1994.
- Work in the remaining schools will be indicated later this summer at dates agreed upon by the contractor and the District. W. D. Hall possibly will be started earlier than the junior highs inasmuch as sufficient portables are currently located on that campus to handle the phasing of modernization.

C. BUSINESS SERVICES DIVISION

4. CONSIDERATION OF AWARD OF BID, FOUR MODERNIZATION PROJECTS: FUERTE and W. D. HALL ELEMENTARY, CAJON VALLEY and GREENFIELD JUNIOR HIGH SCHOOLS (Page 2 of 2)

FISCAL IMPACT: Total construction bid cost of \$7,092,000 funded through combined sources as follows: \$6,894,254 - State Modernization Program; \$197,746 - Local Sources.

ADMINISTRATIVE RECOMMENDATION:

It is recommended the Governing Board award the bid for modernization of four schools as named above to West Coast Air Conditioning, Inc. as low bidder meeting specifications contingent upon State Office of Local Assistance (OLA) approval, and authorize the Administration to execute the necessary documents.

MOTION _____
SECOND _____
VOTE _____

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COMMENTS

California State Auditor's Comments on the Response From the Cajon Valley Union School District

To provide clarity and perspective, we are commenting on the Cajon Valley Union School District's (district) response to our audit report. The numbers correspond with the numbers we have placed in the response.

- ① We agree. As a result, we modified the language in our report summary.
- ② The district objects to a conclusion that is not stated in our report. Rather, on pages 19 through 21, we describe numerous cases where the district did not follow its purchasing procedures, as the district described them to us, to ensure it receives maximum benefit for each tax dollar expended as stated in district policy. Further, we state that we disagree with the opinion of the district's legal counsel and the district's application of the law regarding its procurement of telecommunications equipment.
- ③ The district's response is updating the status of information on page 11 of our report. We are pleased the district has been able to locate the remaining keys since April 22, 1998.
- ④ The district overstates the control it asserts over the repairs as a result of its purchase order. We reviewed Purchase Order 97160001, regarding the emergency repair of the fire-damaged classroom, and noted that the purchase order contained the name of the contractor, reference to the board approval and the contractor's proposal, the beginning and ending dates of the work, the district contact, and the estimated amount of the repairs. However, the contractor's proposal was an estimate based on a visual inspection of the classroom and clearly disclosed that the estimated cost could change upon discovery of hidden damage. Further, the proposal or purchase did not clearly define the parties' rights and responsibilities with respect to the repairs.

- ⑤ We disagree with the district's assessment that there was no risk it would not obtain the formal approvals. The district does not dispute the fact we reported on page 23 that it authorized the contractor to begin work on the projects prior to obtaining formal approval from the state agency that was to provide \$4 million for the cost of the project.
- ⑥ The district appears to misunderstand our comments on page 7 regarding proper segregation of duties in conducting equipment inventories. If infeasible to have staff from another location verify the existence of the equipment, an acceptable option is to have a person at the site not responsible for the specific items of equipment verify their existence.
- ⑦ The district appears to misunderstand our comments on page 8. We do not recommend that the district property controller visit sites to verify reported transfers of equipment. Rather, we recommend that the district verify the location of transferred equipment using transfer forms that are signed by authorized staff from both the transferring and receiving sites.
- ⑧ The district mischaracterizes our comments on page 9. We recognize the merits of keeping in the inventory system some pilferable items with a value less than \$500. That is why we recommend that the district establish criteria for determining which pilferable items below \$500 it should include in its inventory.
- ⑨ The district is updating the status of information on pages 10 and 11 of our report. We are pleased that they believe they have found an additional \$53,000 of the unlocated equipment discussed on page 10 of our report.
- ⑩ The district appears to misunderstand the criteria for recording the historical cost of fixed assets and the merits to decision makers and others knowing the historical cost. The Government Accounting Standards Board (GASB), through National Council on Governmental Accounting Statement 1, paragraph 47, allows for recording the value of fixed assets at an estimated cost if the historical cost is unknown. Further, GASB does not identify the cost threshold for recording fixed assets, leaving the district free to determine the threshold that makes recording fixed assets administratively feasible. According to GASB, reporting costs of fixed assets provides accountability over investments in those assets and useful information to users of the district's financial statements.

- ⑪ We discuss the district's perspective on pages 19 and 20 of our report.
- ⑫ The district is not addressing the high dollar contracts which are the cause of our concern. Its response focuses on small projects where it asserts professional fees may total no more than \$2,000. For such projects, we agree. However, we identified professional services contracts ranging in amount from \$10,800 to \$61,000, for which the district did not seek proposals from competing professionals. Moreover, it did not request proposals for the building inspection services contract we discuss on page 18 of our report when the district estimated the cost of the services was over \$85,000. As we indicate on page 20 of our report, for fiscal year 1996-97, the district spent approximately \$560,000 for professional services. Without using a competitive bidding process, the district cannot meet its policies to obtain the maximum benefit for each tax dollar expended or make reasonable efforts to provide equal opportunity to all qualified vendors.
- ⑬ The district has not fully described its relationship with its outside auditor. The district's audit has been supervised by the same auditor for the past 16 years.
- ⑭ The district has inconsistently presented its informal procedures for purchases under \$50,000. Contrary to the 1991 memo the district presents in its Attachment C of this response, the district's director of purchasing and warehousing described a stricter policy. In the minutes of a 1997 workshop to explain some of the district's administrative practices, the director of purchasing and warehousing is quoted as stating that for purchases over \$10,000, the district requires three written quotes. For purchases under \$10,000, but over \$2,500, the district requires three quotes over the telephone that are to be documented by the buyer. Forms containing the quotes are to be kept on file until the product is obsolete. Without consistently applied procedures, the district cannot be certain it meets the policies of the district to obtain the maximum benefit for each tax dollar expended or to strive constantly for improvement of purchasing methods.
- ⑮ Based on the district's comments, we changed the text of our report.

- ⑩ We concluded that the district could have sought competitive bids and completed the repairs to the fire-damaged classroom before the start of school, August 25, 1997. We based our conclusion on how long the district estimated it would take to complete the project, four to six weeks, at the time they made their decision.

- ⑪ The district misunderstands our concern. Our concern is not compliance with a requirement; rather, as we point out on page 22 of our report, filing such a notice shortens the period within which subcontractors or laborers for the project may file a claim against district property in the event of nonpayment from the contractor, thereby reducing the district's exposure to such claims.

cc: Members of the Legislature
Office of the Lieutenant Governor
Attorney General
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps