

DEPARTMENT OF EDUCATION SAN DIEGO COUNTY

6401 LINDA VISTA ROAD, SAN DIEGO CA 92111 • AREA CODE 714 TEL. 278-6400

M. TED DIXON
SUPERINTENDENT OF SCHOOLS

December 13, 1974

Dr. Wilson Riles
State Superintendent of Public Instruction
721 Capitol Mall
Sacramento CA 95814

Dear Dr. Riles:

Attached is an "Application for District Authority for Issuance of Warrants" which was completed by the San Diego Unified School District in connection with possible implementation of Education Code Section 21116. Provisions of the Code indicate that "upon receipt of an application from a district, the County Superintendent of Schools shall cause a survey to be made of the district's accounting controls by an independent certified public accountant or public accountant in accordance with standards prescribed by the Department of Finance." An application was received from San Diego Unified School District and processed in accordance with requirement. Attached is a copy of the survey completed by the firm of Daniel H. Gibbs, Certified Public Accountant in cooperation with Ford, Hickman and Trammel, Accountants Inc. Also attached are the recommendations of the County Auditor and the County Superintendent.

You will note that the County Auditor recommended approval with contingencies. As County Superintendent of Schools, I recommend that it not be approved and have detailed information supporting this position.

The application with related materials are being transmitted to you for your consideration. The entire process has been on a tight time line. Your consideration is needed prior to January 1, 1975.

Very truly yours,

A handwritten signature in dark ink, appearing to read "M. Ted Dixon".

M. Ted Dixon

MTD:JD

Attachments

December 13, 1974

To: Board of Education
Superintendent of Schools
San Diego Unified School District

Attached is a copy of the material forwarded to the State Superintendent of Public Instruction in connection with your application for district authority for issuance of warrants.

You will note the recommendation was that it not be approved. The materials have considerable explanatory information which clearly indicate the reason. I would be happy to discuss the matter further with you or members of your staff.

Very truly yours,

M. Ted Dixon

MTD:MGM

RECOMMENDATION - DISAPPROVE

Education Code 21116 provides that " the County Superintendent shall forward the District's application, together with his recommendations and the recommendations of the County Auditor and the report or survey to the Superintendent of Public Instruction who shall approve or disapprove the application." I am unable to recommend implementation of Education Code 21116 because of the inadequacy of the proposal as included in the report of survey of the accounting controls by the certified public accountant. Inadequacies are as indicated below:

1. A too close relationship organizationally between the accounting and the audit functions. (See Chapter I)
2. A too close relationship between the payroll and audit function. (See Chapter I)
3. Incomplete control system in relationship to payroll submissions to Data Processing. (See Chapter I)
4. Incomplete plans for warrant controls. (See Chapter III)
5. Incomplete proposal for credential control. (See Chapter III)
6. No board approval of proposed organization chart as required by audit standards of the Department of Finance. (See Chapter II)
7. No resolution of the Board adopting the organization plan and approval of additional costs and positions. (See Chapter II)
8. Other areas required by the Auditor but not completed. (See Chapter II, Items 5, 6, 7, 8, 9)

The CPA study did not specify additional auditing requirements to assure proper expenditures were made. Generally, auditors who make annual audits of school districts accept the fact that the orders for payment are examined by the County Superintendent's Office; therefore, they make no effort for verification in this area. It is proposed that implementation by a district under Education Code 21116 would require an extended auditing procedure to verify compliance.

M. Ted Dixon

M. Ted Dixon
County Superintendent of Schools

TIME LINE

Time for a study of this type was extremely brief. Every effort was made to demonstrate good faith involving the process.

October 8	Request of San Diego Unified to appoint a committee of representatives from San Diego Unified, County Auditor, and County Superintendent of Schools
October 28	First meeting of study committee
November 6	Filing of official "application" for district authority to issue warrants by San Diego Unified School District with County Superintendent (prior to completion of study)
November 15	Request for quotations and qualifications of CPA firms
November 20	Consideration of proposals and appointment of CPA by County Superintendent
December 5	Last meeting of study committee which was one of a total of six
December 6	Completion of study by CPA firm
December 11	Recommendation of County Auditor received
December 13	Recommendation of County Superintendent completed
December 16	CPA study with recommendations of County Auditor and County Superintendent of Schools delivered to State Superintendent of Public Instruction

ANALYSIS

1. FOR THE RECORD - In considering all matters pertaining to the request for implementation of the provisions afforded by Education Code 21116, let it be known that the County Superintendent and Department of Education Staff have nothing but the highest regard for the integrity of the San Diego Unified School District in connection with its accountability procedures.
2. An effort was made to process first the inquiry and request for study dated October 8, 1974 (Attachment A) and then the official request dated November 6, 1974. As indicated by the time line (Attachment B) the period was extremely short, in fact inadequate to effectively meet the requirements.
3. The provisions of Education Code 21116 are recognized as authorizing school districts to legally examine and approve orders for payment. The fact still remains that transfer of audit from the present arrangement of an outside agency (County Superintendent) to inside (District) examination weakens the check and balance system. It is also recognized that it is in the intent of Education Code 21116 to authorize school districts to issue their warrants following establishment of procedures which when implemented will assure accountability. It is my opinion that the recommendations of the CPA are not sufficient for desired assurance; therefore, I have no alternative but to recommend against implementation on the basis proposed.
4. A study committee composed of representatives of the San Diego Unified School District, the County Auditor's Office, and the County Superintendent's Office met a total of six times to analyze a variety of items. Included were:
 - a. What are the objections of the San Diego Unified School District which could be satisfied with the present system or alterations to the present system.
 - b. What alternatives would be available to assure efficiency and accountability rather than implementation of Education Code 21116.

The study committee made recommendation but there was not sufficient time for the District to consider their recommendations (Attachment C) prior to the filing of the official application.

5. The review of probable cost was not complete. It included three items marked "unable to determine." In addition, Education Code 21116 provides that "... the County Auditor and the County Treasurer may charge those districts that draw their own warrants for the cost of all fiscal services." There was a verbal indication during discussions that charges may be made with no specification regarding the amount. The additional gross cost for implementing a program in San Diego Unified is reported as ~~638,800~~ plus the three areas which were marked as "unable to determine." Deducting their proposed savings of \$9,000, leaves a net of \$41,800 plus. There has not been sufficient time to analyze the possible savings to the County Superintendent's Office which should be part of the total study. The School District, the Department

\$ 18,800
CORRECTED IN
ACCORDANCE WITH
INSTRUCTIONS
RECEIVED BY TELEPHONE,
FROM MRS. MYRA E. MELDRUM, COUNTY SUPERINTENDENT OF SCHOOLS OFFICE. 12/10/74 JLD

ANALYSIS

Page 2

of Education, the Auditor and Treasurer's Office, and the taxpayers should all have access to cost information. The CPA did not express an opinion on the validity of the cost estimate of the district.

6. Education Code 21116 makes no provision for approval with contingencies, rather it states " the Superintendent of Public Instruction shall approve the application only if he finds the accounting controls of the district are adequate." Should the request be denied by the State Superintendent of Public Instruction, further consideration would be given so that compliance with Code requirement pertaining to specific steps which must be taken would be given.
7. As an indication that my disapproval is not a matter of obstinance, I am willing to participate in continued study including consideration of modification of current procedures.

I am sure we have a common objective of meeting needs effectively with the least possible cost. I am willing to make the resources of my office available for continued study.



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M. TED DIXON
SUPERINTENDENT OF SCHOOLS

December 13, 1974

To: M. Ted Dixon
From: Lee A. Panttaja
Re: Report of Working Committee on
Education Code Section 21116

The County Superintendent requested the appointment of a study group consisting of representatives of the three agencies and the first meeting of that group was conducted the end of October.

The work of that study group is now completed as a result of its initial charge; however, as will be seen, the study group recommends that it be issued another charge for further investigation of alternatives to EC 21116. The outcome of the study group's work is as follows:

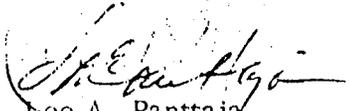
1. The development of flow charts in the handling of all payroll and other fiscal transactions in each of the individual departments.
2. The development of a statement of the scope of the study to be performed by an audit firm under EC 21116.
3. Review and approval of the specifications written for a study to be conducted by an audit firm under EC 21116.
4. Review of the proposals submitted by various audit firms and the recommendation as to the award to the County Superintendent of Schools.
5. A review of the report of the audit firm employed prior to its submission to the County Superintendent of Schools.
6. Development of a further proposal to the administrative head of each of the agencies involved that work proceed to obtain approval for fiscal independence under EC 21116 and that implementation of EC 21116, should it be approved, be terminable by any of the parties involved, pending effective solution to the next several items following:
 - a. That the working committee be instructed to continue to explore alternatives with a report to the County Superintendent by March 1, 1975, of alternatives available for the satisfaction of much of the intent of EC 21116 without its actual implementation.

ATTACHMENT C

2

M. Ted Dixon
December 13, 1974

- b. Should it be determined that requirements of the various agencies are satisfied, by an alternative procedure, agreements would be drawn up to specify that relationship and, when signed by all parties, the implementation of EC 21116 would be terminated.



Lee A. Panttaja
Recorder