OSPR Audit Protocols
Chapter 3
Business Operations

The Business Operations chapter evaluates the human resources and payroll, financial management, asset and risk management, and purchasing and warehouse services of the district.

I. Human Resources and Payroll

The following sections cover districtwide staffing patterns, salaries, and benefits.

Data Needs

- District organizational charts
- Staffing patterns in the district
- Salary surveys
- Benefit information
- Sample job descriptions
- Personnel Policy manual
- Orientation materials
- District newsletters

Possible People to Interview

Superintendent

Personnel director
Personnel Staff Specialists

I.A. Districtwide staffing patterns

Activities to Perform

I.A.1 Chart districtwide staffing by functional area for the last three years and calculate the rate of change. Compare staffing changes to changes in student enrollment for the same time period and determine if staffing growth rates mirror student enrollment growth. Note any aberrations and explore the reason for the differences. Look for deviations from state level average of in the relative growth of staff over five school years to the growth in students.

I.A.2 Obtain a copy of any budget allocation formulas or guidelines and compare the district's overall staffing patterns to the district's formulas at each level. In the absence of a district allocation formula, compare staffing ratios to industry standards. Compare staffing ratios with peers and the state average.

I.A.3 Prepare exhibits showing employee turnover rates by functional area for the past three years by department or staffing category, as applicable. Explore and note the reason for any higher-than-average turnover rates.

Questions to Ask

What is the ethnic composition of the staff. How does this compare to the ethnic composition of the student population? What is the student/teacher ratio of the district? Does the district have an ideal staffing formulas for schools (e.g., number of administrative and support staff for each school)?

What are the turnover trends in the district? Does the district analyze turnover by employee type? How does the division use turnover data to determine staffing needs? Does the district track the reasons why employees leave the district (voluntary separation, retirement, termination for cause, transfer to a different classification [e.g., teacher to administrator])? Does the district conduct exit interviews to determine reasons for resignation which are then systematically analyzed to determine strategies for reducing turnover?

Does the district keep turnover by campus? What does the district consider to be a manageable level of turnover? How does this compare to peer districts?

Does the Personnel Department track absenteeism of teachers? If so, how?

Does the Personnel Department have records of substitutes by campus? Compare across district.

Who secures substitute teachers on a daily basis?

What reports does the Personnel Department routinely prepare? Obtain copies of all reports.

Does the district have written procedures to control the number of budgeted full time equivalent (FTE) positions? Does the district have an approval process to handle situations where FTEs exceed the number of budgeted positions?

How is technology used to facilitate active data analysis by instructional leaders and teachers rather than passive data analysis of paper format reports and charts?

I.B. Salaries and Compensation

Activity to Perform

I.B.1 Prepare a chart of salary levels for categories of staff for the last three years and chart changes. Compare current salary levels with peers and the state average and compare to salaries in neighboring districts and to competing positions in the private market.

Questions to Ask

How have salaries changed over the past three years? How do salaries compare with similarly sized districts for similar positions? How do salaries compare with similar positions in the district's market?

How are cost-of-living adjustments handled? What is the district's history as far as pay raises for the last three years? Have raises kept pace with inflation and compensation rates in neighboring districts or the marketplace? What categories of staff have salaries below market rate and how has that impacted turnover rates?

Is the district's compensation plan based on sound practices with a minimum, midpoint and maximum salary range and a range spread not exceeding 60 percent? Does the midpoint approximate the market?

Does the district periodically update the compensation scale through a comprehensive salary survey using benchmarking, job matching and collection of high, low and actual salary data? When was the last time the district performed a comprehensive salary survey? Did the board fund any pay adjustments recommended in the survey? How were any higher than appropriate pay levels brought in line by the district?

Which classes of district employees have contracts? How are contract renewals handled?

What classifications of staff receive a stipend in the district? Obtain a copy of the stipend schedule. How are stipends determined?

Does the district uniformly comply with all requirements of the Fair Labor Standards Act regarding overtime and compensatory pay?

What is the board's role in hiring, firing, promotion, or other salary actions for positions other than the superintendent? Does the board or district administration have a compensation strategy to align the district's salaries? Does the district actively manage payroll costs through balancing the numbers of staff at all experience levels?

I.C. Benefits

Activities to Perform

I.C.1 Prepare a comprehensive list of all employee benefits including such items as insurances, social security, sick and annual leave, and retirement programs. Make note if there are benefits that apply to only certain classes or types of employees and at what point part-time employees become eligible for benefits. Calculate or obtain a budgetary benefit rate by class of employee, if applicable.

I.C.2 Determine if the district keeps a chart of benefit rates/payments by class of employee/salary level.

Questions to Ask

Are all benefit terms and conditions stipulated in board policy? Does the employee handbook adequately describe the benefits offered by the district and the eligibility requirements? Does the district offer a comprehensive benefit program including life, health, optical, and dental insurance with other special programs such as capital accumulation plan, long/short term disability, etc.? Is the benefit program competitive with neighboring districts? Are differences between benefit programs for different classes of employees justified?

Can leave balances be accumulated and taken in cash at termination or retirement? Is there a reasonable cap on the amount of accumulated leave that will be paid out at retirement?

How does the district define part-time employees? How are their benefits different?

I.D. Personnel Policies and Procedures

Activities to Perform

I.D.1 Review all personnel policies, the employee handbook, employee orientation materials and determine the consistency of information presented and dates of last update. Note any inconsistencies or information that is out of date.

I.D.2 Examine board-approved personnel-related policies and determine whether the district has policies covering: Recruitment of professional, paraprofessional, clerical and auxiliary staff members? Hiring? Promotion? Seniority? Grievance? Probation? Performance appraisal? Staffing? Affirmative Action? Termination? Benefits? Employee assistance? Leave of absence (with or without pay)? Other? For each policy note the topic, policy number, date of update, class of employee impacted by the policy if applicable, and summarize the basic issue.

Questions to Ask

Are these policies available on-line? Are policies and employee handbooks regularly updated? Who is responsible for updating policies? How are employees made aware of changes to personnel policy? How is other news communicated regularly to staff?

Who covers for absent employees? How are substitutes located for absent employees? Are temporary employees or employment agencies used to temporarily fill vacant positions? Does the district have an automated substitute caller system?

How are teacher substitutes trained? What are the compensation rates for substitute teachers? Who is responsible for working with substitute teachers to ensure that the educational programs and students' education are not interrupted? How does the district select substitute teachers?

Does the district maintain a staff directory (either electronically or in hardcopy)?

Does the district conduct orientation on personnel policies for new employees?

II. Recruitment and Hiring Activities

Data Needs

- Selected job descriptions
- Selected job postings
- Personnel Policy manual
- Recruiting brochures
- Recruitment trip logs

- Statistical reports about recruitment efforts
- District website

Possible People to Interview

Superintendent

Personnel director
Personnel staff specialists
Principals
Recruiters

II.A Recruitment

Activities to Perform

II.A.1 Identify and analyze all formal and informal recruiting activities and interview staff responsible for recruitment efforts. Create a chart of recruitment trips and activities showing the success rates of the recruiting effort. Note who was responsible for each activity. If possible, compare recruitment activities with similar district or local employers.

II.A.2 Determine the total budget for recruitment in the district and compare this cost to the costs experienced by peer districts or regional averages.

II.A.3 Using historic data, chart the typical number of vacancies and of what employee type that must be filled each year before school begins and the number that typically come vacant during the year that must be filled? List the general type of recruitment activities used to fill vacancies by type of employee.

Questions to Ask

How are all jobs posted? Are jobs posted online? Does the district use any outside entities such as employment firms to assist them in locating candidates? Are advertisements placed in local and trade newspapers? Which newspapers are producing the best results? Are temporary employment agencies used to temporarily or permanently fill some positions?

Does the district finance travel for recruitment on college campuses? How does the district measure the success of its recruiting efforts? How does the district maintain professional relationships with placement offices, faculty members, and officials of colleges and universities? Does the district have strategies to address teacher shortages in specific areas (e.g., math, science, foreign language, special ed.)? Do recruiters have the authority to extend offers to candidates on recruitment trips? Does the district hire to a pool of vacancies or is hiring done on a one-on-one basis?

Does the district provide timely responses to applicants? Does the district maintain a pool of applicants for future openings? Does the district have strategies to ensure a diverse workforce?

How does the district identify staffing needs? Does the district distribute written information to candidates for employment explaining the school system, employment requirements, and characteristics of the community?

Is the district using any long-term strategies to fill critical need positions such as targeting college students early in their careers and offering them some incentives for committing to work in the district upon graduation?

How does the district market to prospective employees? Does it have information readily available to prospective employees regarding pay, benefits, community?

II.B Hiring practices

Activity to Perform

II.B.1 Diagram the process used to hire an employee, including all staff involved in the process and all intermediate approvals and final decision-makers.

Questions to Ask

How does the district conduct reference checks? How does the district conduct criminal background checks? Are check completed before new employees are allowed to work with children?

How does district notify current staff members of vacancies? Are opportunities for promotion publicized to the staff? Are all promotions based on competency, performance, and job qualifications? How does district use descriptions and essential qualifications as guides in selecting personnel?

Do hiring practices differ for temporary or part-time employees? Are job postings screened for physical requirements or examinations that would unfairly exclude the selection of disabled individuals? Does the district develop clear job descriptions, legally defensible job qualifications, and performance criteria for all vacancies being filled?

How does district document hiring process to avoid possible litigation? How does district provide for existing staff to participate in interviewing activities and hiring decisions?

How are campus administrators involved in hiring staff for their campuses? Does district have a selection procedure that is uniformly applied to each candidate? Are newly hired employees subject to a probationary period? Does the district have a system for orientation, mentor supervision, and in-service training during the probationary period? Does the board have any approval authority for hiring new employees?

Are there many complaints of favored treatment that allege the district passed over fully certified individuals in filling vacancies?

II.C. Employee Relations

Activities to Perform

II.C.1 Prepare a chart of all labor organizations representing the district and stipulate the employee population represented and the number of district employees in each organization. Describe any formal or informal processes used to bring employee concerns to the district.

II.C. Outline any employee grievance, wellness or other employee assistance programs used by the district and evaluate the effectiveness and efficiency of each.

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II. Create a chart of the number and type of employee grievances that have been filed by employee category.

C. Determine whether there are patterns, and how has the district taken steps to prevent recurrences of situations

3 most prone to employee grievances.

Questions to Ask

How are the labor or employee organizations involved in the day-to-day running of the district? In what manner does the board interact with these organizations? In what manner does the administration interact with these organizations?

Does the district have an employee assistance program which:

- Provides counseling and/or referral for employees with drug or alcohol abuse problems?
- Provides an employee wellness program encouraging good employee health practices?

Does the district have policies for voluntary and involuntary transfers? Are campus staff involved in the decisions for transfers (in and out)? Is there a chain of command or process by which and employee can protest employee actions?

Does the district have clear policies on grievances, termination for cause and reductions in force? Does the district provide for termination only after serious efforts (counseling and remedial training) have been made to assist the employee to improve? Do managers monitor the work of the employees during their probationary periods and provide assistance and support as needed to attempt to ensure success? When was the last legal review of termination and reduction in force policies? Does the district have checklists in these areas facilitate compliance and avoid legal costs for violations of policy and due process?

Does the district base termination on written evaluation reports and written documentation which have been shared and discussed with the employee? Does the district have a plan of progressive discipline, such as an oral warning, disciplinary layoff, and termination to be used for paraprofessional, clerical, and auxiliary personnel?

Are employee organizations involved in remediating poor performing employees? Does the district provide for immediate suspension and/or termination for serious violations such as assault, theft, drinking or drug use on the job; etc.? Who keeps up with latest state and federal laws on employee issues- to consult with before a final action is taken on an employee?

Who is responsible for disseminating rules, regulations and policies to all employees; ensuring that discipline actions are uniformly applied; investigating accusations; and ensuring that employees are warned before certain employee actions? Do district rules on employee actions provide for due process? Does the district require resignations to be submitted in writing to a designated staff member?

Are employees counseled when resigning on the conditions governing reinstatement, re-employment, and withdrawal of retirement contributions and termination of insurance coverage?

Does the district have a written policy for a reduction in staff which considers factors such as tenure, seniority, affirmative action, qualifications, quality of performance and certification in determining lay-offs? Do criteria for reduction in force demonstrate legal compliance for selection of individuals for reduction in force?

III. Organization, Management, and Staffing

School districts must practice sound financial management in order to maximize the effectiveness of limited resources and to plan for future needs. Effective financial management ensures that internal controls are in place and operating as intended, technology is maximized to increase productivity and that reports are generated that help management reach its goals.

Financial management includes the broad areas of organization, management and staffing of the financial management function, planning and budgeting, accounting/ internal control and payroll, internal and external auditing, and tax collections.

The district is required to manage its financial operations in conformity with the regulations and requirements of the Oklahoma Department of Education's (OSDE) Oklahoma Cost Accounting System (OCAS) and to report their data to the OSDE.

Financial management is most effective when a district properly aligns its business services functions, establishes strong systems of internal control, and properly allocates staff resources to achieve the best results.

Data Needs

- Organization chart(s) for the business services functions
- Listing of the number and type of employees for each section of the business services function
- Summary of functions/activities/job descriptions for each business services function
- Budget for the district's business services/financial management function

Possible People to Interview

Superintendent
Board members (as appropriate)
Assistant superintendent with assigned responsibility
Finance or budget director
Department head(s)

Activities to Perform

III.A.1 Review the method of organizing the business services of the district; compare to a best practice school district's organization; compare to peer districts.

III.A.2 Review and compare to peer districts the number and type of staff dedicated to specific business services functions.

III.A.3 Analyze the budget of the financial management functions and determine where and why budget changes have occurred within the organization.

Questions to Ask

How are the business services functions organized? Is the management span of control appropriate? Is the reporting relationship with the superintendent and board clearly defined? Is the chain of command followed?

Are there one or more financial standing committees of the board that regularly reviews the work of the finance area or specific functions of the finance area? Who represents the administration on these committees? Is the administrative representation on the committee adequate and appropriate?

Has the organizational structure changed recently? Over the last five years? Is the organization the most effective way to carry out the functions? Are staff dedicated to specific business functions?

Are staff cross-trained to perform different business functions? Are staff shared in different functions during peak operating times? Is there any overlap among functions being performed by one or more units? Are there any business services functions that are better aligned with another district department? Are there any functions that are centralized in the business office that would be better handled in the schools and/or departments?

Are there any functions in the schools and/or departments that would be better centralized in the business office? Do the positions and titles of staff accurately describe their functions and responsibilities? How many levels of supervision exist and what is the reporting structure?

IV. Planning and Budgeting

Budget preparation and administration are important aspects of overall district operations. Providing adequate resources for programs within the restraints of available funding sources presents administrators with a significant challenge. Sound budgeting practices benefit the district by:

- Establishing a documented method for budget development, adoption, and administration
- Providing administrative controls for expenditure of funds within approved allocations

- Assuring campus and community involvement through a "bottom up" budget approach
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A review of this area must evaluate existing policies and procedures supporting the budget process. Operational practices which must be analyzed include staff involvement, community involvement, expenditure control, spending plans, program budgeting, and long term budget planning.

Data Needs

- Districtwide budget for current year and prior four years
- Audited financial statements for the last three years
- OSDE's reports on budgeted revenues and budgeted expenditures for district and peer districts for current year and prior four years
- Budget planning documents
- Budget policies and procedures
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Possible People to Interview

Superintendent
Board members (as appropriate)
Assistant superintendent with assigned responsibility
Finance or budget director
Principal(s)
Department head(s)

Activities to Perform

IV.A.1 Chart, review and compare budgets of district and peer districts for the current year by fund, function and object code (possibly as per pupil expenditures to negate differences in district sizes). Chart and review the district's budget for the last three years by fund, function and object code. Analyze the data to determine negative trends or specific areas where district spending is out of line with peers.

IV.A.2 Chart the differences between budget and actual data for the last few years to determine significant variances.

Questions to Ask

What major initiatives have been undertaken to control costs or increase revenues? Were these initiatives successful, and how did they impact the delivery of education within the district?

Were budget reductions done equitably throughout the district? What are the major budget drivers in the district (i.e., growing or declining student enrollment, rising or declining property values, changes in program delivery procedures, and the like.) What advance planning has been undertaken to lessen the impact of these situations?

Is the board brought into the planning process early enough that they can have an impact on needed changes? Or, are most decisions administration driven?

In what way has the community been involved in helping the district deal with budget needs? Are they made aware of needs well in advance so that they can offer suggestions and participate in the decision-making process?

IV.B. Budget Planning Process

Activities to Perform

IV.B.1 Compile all budget planning documents including such things as budget calendars, budget training documents, staffing or other allocation formulas used to prepare campus and departmental budgets.

Questions to Ask

Does the budget planning process provide for an adopted budget development timeline or calendar which is published and disseminated that alerts the board to ongoing activities that must be performed to create the budget?

Does the district have board-approved budgeting policies? Are there budget procedures that are published and disseminated to appropriate staff and committee members?

Do the budgeting procedures identify roles and responsibilities in the budget process including the Board of Education, superintendent, directors and supervisors, principals, teachers, staff, the community, budget committee (if one exists)?

Is there an established procedure for collecting community input to the budget including public hearings, program advisory committees and campus committees?

Is there a budget advisory committee? If so, is the representation appropriate and effective? Does the budget advisory committee provide recommendations to the superintendent? In what form are recommendations made?

Does the budget process provide for long-term (three to five years) budget planning including, but not limited to:

- Enrollment and ADA projections?
- Staffing requirements?
- Facility needs?
- Long-term debt requirements?
- Staff development?
- Debt retirement obligations?

- Salary and benefit projections?
- Transportation needs?
- Maintenance needs?
- Capital expenditures for equipment and vehicles?
- Income projections?
- Revenue collections?

Does the district engage in an annual planning process to improve budgeting procedures such as:

- Evaluation of procedures used to determine improvement goals?
- Evaluation of procedures used in establishing priority goals?
- Evaluation of procedures used to establish hardware, software and staffing needs?
- Evaluation of procedures used to establish training needs of budget staff and personnel involved in budget development and control?
- Evaluation of the budget preparation process including the budget manual, all forms, the submittal process, the adoption schedule, public input, etc.?

Does the district use multi-year budgeting? Could multi-year budgeting assist the board or administration to realize the long-term impact of decisions?

Does the district have a memorandum of understanding or interlocal agreement for providing any planning and/or budgeting services?

IV.C. Budget Staffing and Organization

Does the district have a designated budget staff that is comparable to districts of similar size?

Does the district's budget staff have assigned areas of responsibility and monitoring, such as enrollment projections, and the various funds (general fund, special revenue fund, capital projects fund, debt service fund, trust and agency funds, enterprise funds (including internal service funds))?

Does the district's budget staff have assigned budget responsibilities as they relate to the size of the budget, functions, categorical programs, and location?

IV.D. Districtwide Revenue and Expenditure Projections

Which department is responsible for developing and verifying enrollment projections, trends, comparative analysis and multi-year planning?

Are projections of inflationary costs for energy (heat, electricity, etc.), insurance and other fixed expenditures included in the budget?

Are formalized forecasting methods used in the budget development process?

Are multi-year comparisons performed? How are these comparisons used to identify trends? To better understand the impact of certain decisions? Other?

Do the budgeting procedures provide a methodology for controlling full time equivalent (FTE) positions and part-time positions? Does the district have a position control system for budgeting and controlling staff allocations and hiring?

Are three-year trends and ratios in the growth of staff and students prepared and presented with budget information during budget adoption hearings?

IV.E. Campus-level Expenditure Projections

Do all principals and other administrators have a specific spending plan for non-salaried expenditures?

IV.F. Budget Development Process

Do the budgeting hardware and software systems meet the needs of the district? Is budget data automated and accessible to appropriate district staff and management? Does the budget system have automated features that facilitate the budget preparation process?

Are accurate budget reports produced from the system and provided to the board and staff members?

Are budget reports simple and clear in explaining the district's budget status?

Can the budget hardware and software accommodate changing budget requirements?

Does the budget process provide for evaluating and prioritizing district needs (including but not limited to):

- Classroom instructional materials?
- Staffing requirements?
- Expenditure allocations?
- Facility needs?

- Staff development?
- Special services?
- Transportation requirements?
- Maintenance and operational needs?

Does the budgeting process include an analysis of prior year budgets and expenditures? Does the budgeting process provide training in budget development and monitoring procedures for all personnel involved in budget development?

Does the budgeting process provide training to budget staff on changing budget requirements and procedures? Does budget staff attend state and area budget seminars?

Does the budget provide a reserve for contingencies? Does the budgeting process allow for evaluating and prioritizing the special needs of the district?

Is there a budget manual? Does it contain all relevant forms, instructions, and other data?

Has the district implemented program budgeting in accordance with OSDE's OCAS? Are all direct costs charged directly to program/department budgets? Are special activities and other program costs charged to program/department budgets? Is overtime charged to program/department budgets? Are part-time employees charged to program/department budgets?

Are all funds included in the district's budgeting system with procedures clearly designating the budget manager's responsibility for all funds (General fund, Special revenue funds, Debt service funds, Capital projects, Enterprise funds and Student activity funds.

IV.G. Budget Review and Monitoring

Activities to Perform

IV.G.1 Diagram the process by which the district ensures that the board-approved budget is adhered to, including computerized systems, internal control mechanisms, and the like. Identify any weaknesses that might result in expenditures that exceed appropriated funds.

Questions to Ask

Is the annual adopted budget published and disseminated to the Board of Education, superintendent, directors and supervisors, principals, teachers, staff, budget committee (if one exists), community, employee organizations, county clerk, mayor/city offices, local libraries?

What controls are in place to ensure that expenditures do not exceed appropriated funds? Does the budget process include monthly and quarterly reviews to determine the status of the annual spending plan (income, expenditures, encumbrances and balances) with a provision for necessary adjustments?

Are budgets distributed to campuses and departments monthly? Do users trust the budget distributed from the central office or do the campuses and departments keep their own manual ledgers because they do not trust the figures distributed from the central office?

Does the budget system provide a procedure for budget amendments (increases or decreases)?Are budget amendments signed and pre-approved by appropriate administrators? Are budget amendments distributed to board, staff and other interested parties?

IV.H. Finance & Budget Computer System

Does the district have an expenditure control system which allows for controlling expenditures and allocations? Is the budget system integrated with financial, cash management, and payroll systems?

Does the expenditure control system have an interrelationship between purchasing, accounting and the budget office?

Does the expenditure control system provide for a written request and approval process for exceeding expenditure allocations?

V. Accounting/Internal Control and Payroll

Accounting and payroll are among the most important business functions performed by a school district. Although regulations such as the *OCAS* and other accounting standards exist, actual practices can vary widely throughout the state.

A sound accounting and payroll system can provide numerous benefits including:

- Providing internal controls and safeguards
- Providing timely reporting on the status of funds
- Allowing systematic disbursements to maximize available funds.

Accounting and payroll policies, procedures, and operations must be evaluated. Key areas include segregation of duties, integration of funds into the central accounting system, use of hardware and software systems, and staff training programs to keep employees abreast of constantly changing requirements.

Data Needs

- Accounting manuals and any related manuals which identify policies and procedures
- Audited financial statements for the last three years

- External audit reports (with management letters), including comments and the district’s responses to comments, for the last three years
  Summary of Finance for the last three years
- Payroll records for the last year identifying position and annual salary, organized by type of employee
- List of accounting/payroll training programs for accounting/payroll staff
- Reports on budgeted revenues and budgeted expenditures for district and peer districts for current year and prior three years

Possible People to Interview

Superintendent
Assistant superintendent with assigned responsibility
Finance director/Chief Financial Officer
Chief accountant
Personnel director
Director of information services
External auditor

Activities to Perform

V.A.1 Interview accounting staff to determine actual procedures performed; compare actual procedures to accounting policies/procedures manual.

V.A.2 Prepare accounting process flowcharts to determine inefficiencies or control weaknesses, if any, in the process (specific flowcharts for each accounting function, including data entry, accounts payable, accounts receivable, payroll entry, payroll disbursements, other?)

V.A.3 Examine samples of payroll files for links to payroll automated system.

V.A.4 Examine Summary of Finance reports for the last three years to determine and evaluate the level and type of funding received, and how the funding has fluctuated from year to year. Compare the results to the peer districts.

V.A.5 Review the district’s external audit reports for the last three years, including management letter comments, to determine the continuing existence of problems in the district.

Questions to Ask

Has the district organized the departments and adequately defined each position’s responsibility to ensure proper segregation of duties which promotes internal accounting control?

Has the district established staffing criteria for payroll and accounting with management staff assigned specific monitoring activities?

V.B. Policies and Procedures

Has the district established procedures in the areas of cash receipts, cash disbursements, accounts payable and the payroll function which prevents someone from sole access to both assets (cash, equipment, vehicles, etc.) and accounting records?

Does the district have board-approved payroll and accounting policies?

Are the district's accounting and payroll policies published (or posted electronically) and distributed (or made available electronically) to the appropriate personnel?

Do the district's accounting and payroll policies identify key roles and responsibilities of payroll and accounting personnel?

Are the accounting and payroll policies consistent with federal, state and local regulations?

Does the district have an approved accounting procedures manual and a payroll procedures manual?

Are the accounting procedures manual and the payroll procedures manual published (or posted electronically) and distributed (or made available electronically) to the appropriate personnel?

Does the accounting procedures manual and the payroll procedures manual identify required data for federal, state, and local reporting requirements?

Does the accounting procedures manual and the payroll procedures manual follow the OCAS Chart of Accounts guidelines?

Does the accounting procedures manual provide for various levels of reporting for management review and evaluation for such purposes as cost analysis?

Does the payroll procedures manual provide for the control and confidentiality of payroll records?

V.C. Internal Controls

Has the external auditor pointed out any control weaknesses in the last three years? Have each of these items been corrected? Are payroll and disbursement checks signed by two authorized individuals? Are manual checks limited to once a week? Are automated checks limited to twice a month?

V.D. Payroll

Are personnel and payroll functions performed and supervised by staff in different departments? Are Payroll staff responsible for processes such as the payroll calculations, preparation of payroll disbursement records (payroll ledger, individual year-to-date earnings records) and preparation of payroll checks?

Are Personnel staff responsible for processes such as documenting employee status, compensation and benefit records; approving employee status change documents; and preparing and updating payroll master files?

Is direct deposit of payroll checks available to staff at all levels? What percent of staff are enrolled in direct deposit?

V.E. Fiscal Monitoring

Is revenue and expenditure information compiled for analysis, evaluation, and planning purposes? Is financial data used for program evaluation? Are revenues and expenditures tracked in a timely manner? Are disbursements made in a timely manner? Are available payment discounts taken advantage of? Are penalties incurred for late payments?

V.F. Reporting & Computer Systems

Do the accounting systems create the following documents: General ledger (monthly and year-to-date); Subsidiary ledgers (cash disbursements, cash receipts, fixed assets, payroll, etc., as appropriate); Budget-to-actual expenditure reports (monthly and year-to-date); Various special reports (list of expenditures for period, outstanding encumbrances, etc.)?

Is program and department accounting information readily available? Are budget detail reports, including expenditures, encumbrances and budget balances provided monthly to program managers, principals and directors? Do accounting hardware and software systems meet the needs of the district?

Are the district's accounting systems automated, when appropriate for the district size, and integrated to supply consistent information? Does the district's accounting system allow for the development of required analysis and reports on a regular and as-needed basis? Do payroll hardware and software systems meet the needs of the district?

Does the local regional education service center provide support for the district's computer systems? If not, how remote is the location of the district's support for and maintenance of their accounting systems?

Are payroll systems automated, when appropriate for the district size, to provide accurate and timely information on salaries and benefits? Is the payroll system automated and integrated with personnel, accounting and budget systems? Does the payroll system provide for efficient adjustment to changing requirements? Does the payroll system provide for efficient maintenance of historical payroll records?

Does the payroll system provide for efficient accounting for both 10 month and 12 month employee salaries and frequency of payroll? Are the payroll and personnel systems integrated to provide necessary financial data and reporting? Do the payroll and personnel systems share a common database with appropriate security measures employed?

Can the payroll and personnel systems generate management reports showing leaves, balances, overtime, special stipends, etc.? Does the accounting system provide for program cost accounting as specified in OCAS? In the accounting system, are special activities and other program costs charged to the proper program/department budgets? In the accounting system, are overtime, part-time, substitute and other incidental salaries and benefits charged to program/department budgets?

Are funds and account groups integrated in the central accounting system (including the general fund, special revenue funds, debt service funds, capital projects, enterprise funds (including internal service funds), General fixed assets account group, General long-term debt account group and agency funds (including student activity funds)?

V.G. Activity Funds

Are student activity funds monitored with full accounting through the central accounting system? Does the district have a published (or electronic) student activity funds accounting procedures manual which has been disseminated to students, advisors and officers? Are there district procedures for periodic monitoring and reporting if student activity funds are accounted for on a decentralized basis?

V.H. Training

Is training in accounting procedures provided to the accounting staff? Is training on payroll procedures provided to the payroll staff? Is training on payroll procedures provided to new employees and new management? Is training provided to management personnel in understanding and analyzing payroll and accounting reports?

V.I. Accounting

Are regularly scheduled reviews, analysis, and evaluation of accounting activities performed? Are periodic random internal audits of petty cash and activity funds performed?

Are reviews of compliance with changing accounting requirements conducted? Is a review and evaluation of information provided to managers conducted? Is an evaluation of the accounting reporting system in relation to federal, state and local reporting requirements conducted?

Are monthly reconciliations of all bank accounts performed? Is a review of changing payroll requirements conducted in a consistent manner? Is the payroll register reconciled to the payroll general ledger?

Does the district have a memorandum of understanding or interlocal agreement for providing any accounting or payroll services?

VI. Internal and External Auditing

Internal and external audits provide a review of the district's compliance with established standards and practices. External audits are required of all Oklahoma school districts and according to OSDE, are performed by state approved public accounting firms. The external audit provides:

- An annual financial and compliance report
- An examination of the expenditure of federal funds (as applicable)
- A report to management on internal accounting controls (as applicable).

The internal audit function supplements the work of the external auditor. The internal audit function examines specific areas to determine:

- The adequacy of internal controls
- Compliance with procedures, regulations, policies, and applicable law
- Efficiency and effectiveness of operations.

Data Needs

- External audit reports (with management letters), including comments and the district's responses to comments, for the last three years
- Internal audit charter, plan, mission and goals (if applicable)
- List of published internal audit and other special reports and several samples of audit reports

Possible People to Interview

Superintendent
Selected board members (Audit committee if appropriate)
Assistant superintendent with assigned responsibility
Finance director
External auditor
Internal auditor

Activities to Perform

VI. A.1 Attend Audit committee board meeting (if applicable) to determine the audit committee's level of involvement in the audit process. Determine how the committee deals with audit findings and ensures that findings are remedied in a timely manner.

VI.A.2 Evaluate the district's internal audit function and internal audit reports to auditing standards established by the Institute of Internal Auditors to determine if the district is in compliance.

VI.A.3 Obtain and review peer district information for the external audit function, including length of time district has had the same auditor and rotation policies, if any, of the external auditor.

VI.A.4 Obtain and review peer district information for the internal audit function, including the existence of an internal audit function, type of reporting structure (to the superintendent or board), existence of an audit committee, number of internal audit staff, qualifications of internal audit director and staff, type of audits performed.

Questions to Ask

VI.B. External Audit

Does the district have board-approved external auditing policies?

Does the district regularly seek proposals for audit services? Are the district's procedures for selecting external audit firms published and distributed?

Are the external auditors trained in performing school district audits?

Is the external auditor selected by the Board of Education and compensated from district funds?

How long has the current external auditor conducted the external audit for the district? Does the district have a rotation policy?

Do the external auditors meet with appropriate district management and Board of Education to discuss the annual audit plan for the external audit at the beginning of the audit; scheduling of audit work, and the findings and recommendations contained in the report to management at the end of the audit?

Do the external auditors meet with appropriate district management and Board of Education to discuss the role of the district's participation in the external audit (i.e. internal audit and accounting personnel assistance)?

Does the external audit encompass the entire district, and involve all fund types and account groups of the district? Is a risk assessment done in compliance with auditing standards and is it followed?

If the district receives federal funding, is the external audit performed according to the required standards (OMB Circular A-128, Audits of State and Local Governments; Standards for Audit of Governmental Organizations, Programs, Activities, and Functions issued by the U.S. General Accounting Office; *OCAS*, "Special Program Guidelines"; OMB Circular A-133)?

Does the external auditor retain the original working papers for a period of seven years?

Does the external audit report include an annual financial and compliance report (minimum requirements stipulated by OCAS) and a management report/management letter?

Was the annual financial and compliance report prepared, approved by the Board of Education and submitted to OSDE in a timely manner?

Were the audit reports reviewed in public meetings and copies distributed to appropriate users? What process or procedure is in place for monitoring the administration's responses to the external and internal audits?

Does the district have a memorandum of understanding or interlocal agreement for providing any external audit services?

Does the Board of Education use outside management audits to identify areas for improving economy, efficiency and effectiveness of the district?

VI.C. Internal Audit

VI.C.1. Internal Audit Organization and Management

Is the Internal Audit department organizationally independent with the department being administratively responsible to a level in the district that has an understanding of the internal audit function and sufficient authority to provide oversight and budgetary support?

Does the Internal Audit department report to a level in the district that has an understanding of the internal audit function and authority to promote independence and allow the department to fulfill its purpose? (This may mean the internal auditor reporting to a department head, to the superintendent with some interface with the Board of Education, or directly to the Board of Education.)

Has the Internal Audit department established long-range goals that are defined, measurable, and approved by administration and the Board of Education?

Are the Internal Audit department's long-range goals accompanied by measurement criteria?

Does the district have an internal audit charter?

Has Internal Audit been authorized to access records and personnel necessary for the performance of audits?

Does the district have documented internal audit policies and procedures which define the department's purpose, authority, responsibility and scope of the audit work, preparation of audit working papers, development of audit findings and preparation of audit reports?

Can Internal Audit's reported findings and recommendations be made without undue influence from the audited group?

Does the Internal Audit department have access, as needed, to the Board of Education?

Does the board receive and approve a summary of the annual audit work schedule?

Does the board receive and review student activity reports at least annually?

Is the Internal Audit department reviewed externally at least once every three years by persons who are independent of the organization and have no conflict of interest? Is a formal written report issued upon completion of the review?

Does the district have a memorandum of understanding or interlocal agreement for providing any internal audit services?

VI.C.2. Internal Audit Staffing

Are the Internal Audit staff's audit assignments made using a rotation policy?

Do any of the Internal Audit staff have operational responsibilities for any areas of the district?

Is the work of the internal auditors reviewed before the related audit report is released to provide reasonable assurance that the work was performed objectively?

Are there clearly defined minimum educational requirements for internal audit staff holding various levels of responsibility?

Does the district require their audit staff to have work experience appropriate for the types of audits to be performed?

Is continuing education and on-the-job training provided to all staff to ensure each audit team possesses the training appropriate for the work required?

Do audit supervisors receive training in personnel management skills?

Do the Internal Audit staff participate in professional organizations?

Are internal audit staff evaluated at least annually?

VI.C.3. Internal Audit Operations

Is the scope of the department's audit work clearly defined with all areas for potential audit within the district defined and approved?

Does the audit scope include an examination and evaluation of the adequacy and effectiveness of the system of internal control?

Are internal audits adequately planned and documented including the objectives and scope?

Do the internal auditors appropriately identify the areas of audit risk during audit planning? How are high risk programs and services determined? How is the risk assessment tracked and reported?

Do the internal audits examine all financial and operating records and reports?

Are special audits conducted such as investigative or other type audits? How are the decisions made about the type and number of special audits? How does conducting special audits affect the planned audits?

Do the internal audits review the systems established by management to ensure compliance with policies, plans, procedures, laws and regulations?

Do the internal audits review the operating or program objectives and goals established by management, as well as the administrative control procedures developed and implemented by management?

Do the internal auditors meet periodically with the external auditors to coordinate activities?

Do the internal auditors conduct their audits using audit programs?

Are concise, constructive and timely audit reports prepared, including the purpose of the audit, the scope of the audit, an expression of the auditors' opinion and recommendations for improvements?

Are report follow-up procedures in place to determine that corrective actions were taken and are achieving the desired results?

VII. Cash Management

An effective asset and risk management program aims to control costs by ensuring that the district is adequately protected against all significant losses with the lowest possible insurance premiums. This involves the identification and measurement of risk and techniques to minimize the impact of risk. The district should seek investments with maximum interest earning potential while safeguarding funds and ensuring liquidity to meet fluctuating cash flow demands. Fixed asset management should account for district property efficiently and accurately and safeguard it against theft and obsolescence. The district's insurance programs for employees' health and workers compensation and district's assets should be sound and cost effective to protect the district from financial losses.

Developing an effective cash management program can provide a district with additional revenues to fund essential programs and operations. Maximizing the return on invested funds while ensuring the safety and liquidity of investments has become a high priority. Effective cash management programs:

- Provide market rates of return through the use of various investment instruments.
- Are based on a comprehensive written investment policy approved by the board.

- Allow personnel to become skilled in investment procedures and techniques and stay abreast of current money markets.

This section allows review of all facets of the cash management program. Key elements include the investment policy, depository bank relationship, controls over cash disbursements, use of cash flow forecasting, and use of automated tools for sound management.

Data Needs

- Policies and procedures
- Depository contract
- Bank account analysis
- Investment portfolio
- Cash flow forecasts
- Organization charts
- Job descriptions

People to Interview:

Superintendent
Assistant superintendent with assigned responsibility
Finance director/Treasurer
Director of information services
Administrative staff with assigned responsibility

VII.A. Organization and Staffing

Activities to Perform

VII.A.1 Examine the organization and staffing charts and job descriptions for the cash management functions and interview staff to determine reporting arrangements, whether the organizational structure depicted on the chart reflects the actual organization of the department, and document if it has been changed recently or repeatedly in the recent past or is anticipated to change in the near future and explain the background for changes. Include any contracted individuals or services or committees that oversee cash management in the organization chart and show the reporting relationship and who is responsible for monitoring the contracts.

VII.A.2 Examine the staffing and budget of the cash management function. Determine whether or not the budget and staffing level compare favorably to industry standards.

Questions to Ask

Does the district have a defined and formalized cash management department or function? Do cash management staff have detailed job descriptions that outline responsibilities, set up a system of accountability, and clearly define performance measures? Do key cash management staff possesses necessary background, experience and knowledge for performing cash management activities?

Do appropriate staff have the opportunity to attend cash management related continuing education programs and be involved in professional organizations (e.g., local cash management groups, OASBO, Government Finance Officers Association)?

Does the organization structure allow for proper segregation of duties regarding executing, accounting and reviewing cash, debt and investment transactions? Are cash management personnel bonded or covered by an errors and omissions policy to protect the district against losses? If so, what is the amount of the coverage?

Has the district designated one or more officers or employees as Investment Officers? Does the district require its Investment Officer to disclose a personal business relationship with a business organization offering to sell investments to the organization? Does the district require its Investment Officer to disclose any family relationships to an individual seeking to sell an investment to the entity?

What training has the designated investment officer, treasurer and/or chief investment officer received in the last year? Does the training meet statutory guidelines.

Has the board authorized the creation of a designated investment committee? How does the committee interact with the investment officer? What is the role of the committee?

VII.B. Policies/Procedures

Activities to Perform

VIII. B.1 Compile all investment policies, procedures and/or strategies and determine whether they are in compliance, whether internal operating procedures mirror board policy, and whether internal procedures provide a level of detail to ensure that investment processes would continue in the event of staff turnover of sustained absences.

Questions to Ask

Does the district have board approved written cash management policies, procedures and practices that meet current legal requirements regarding investments, liquidity, safety of principal, diversity, marketability, and internal accounting controls?

Has the board or designated investment committee adopted policies and strategies for the investment of cash? Does the board or designated investment committee review and revise strategies at least annually? How does the committee monitor investment activities to ensure that they comply with adopted policies or procedures?

Does policy or procedures provide for documentation of all relationships with banks, dealers, brokers and others financial institutions? Are copies of all contracts or agreements on file? Are they maintained in a safe, fireproof location in the event of disaster?

Do policies or procedures prevent the payment of significant or normal obligations out of petty cash funds?

Does board policy or internal procedure provide for control on issuance of manual checks?

What internal controls exist in policy or procedure to prevent the occurrence of the following cash management practices:

- Excessive drawdown (e.g., transferring unavailable funds to another account well in excess of the amount available)?
- Check kiting (e.g., covering shortfalls in one bank account with a check that itself represents uncollected funds)?
- Chaining (e.g., using additional depository banks to deposit a check before final concentration occurs)?
- Check-crossing (e.g., simultaneously issuing and depositing checks for identical amounts drawn on different banks)?

What internal control procedures exist to ensure adequate adherence to formal investment policies and procedures?

Does the district's governing board review the investment policy and investment strategy at least annually? Does the board adopt a written instrument stating that it has reviewed the policy and strategy?

Does the district's investment policy recognize the restrictions/qualifications imposed by state law?

Does the district routinely present a written copy of the board approved investment policy to every business organization offering to engage in an investment transaction with the entity, including investment pools, banks, and investment management firms? Has a written instrument from each business organization been received acknowledging that the investment policy has been received and reviewed and that procedures and controls have been implemented to preclude unauthorized transactions? Has a qualified representative of each business organization signed the written instrument?

Did the board adopt a written investment strategy for each fund or group of funds under its control? Does the strategy describe the objectives for the fund using the priorities of suitability, preservation and safety of principal, liquidity, marketability, diversification, and yield in that order?

In addition to the statutory requirements, does the investment strategy define:

- Acceptable risk?
- Allowable issuers and instruments?

- Percentage of portfolio that can be invested in each allowable investment type and issuer?
- Diversification of risk?
- Measurement of performance?
- Authority and limitations for investments?
- Selection of maturities?
- Safekeeping accounts and/or acceptable collateralization of investments?
- Reporting and documentation?
- Formal adoption and periodic revision of the policy?

Does the district have board-approved policies for issuing and managing debt that recognizes any federal, state or local limitations imposed on the type and amount of debt issued? The district should have a policy limiting the ratio of debt to taxable property with an appropriate factor for assistance from the instructional facilities allotment.

How does the district calculate and monitor compliance with federal arbitrage regulations? Has the district employed or contracted for the services of financial advisors, bond counsel and the external auditor either in day-to-day investment activities or when evaluating and issuing debt obligations?

Does policy require disbursement of bond proceeds to follow bond passage guidelines?

Has the district ever engaged in bond refunding activities? Is there any evidence that bond proceeds were used for operating capital, like payroll? Did the refunding result in an improved cash flow and/or reduced overall debt obligations?

VII.C. Operations

Activities to Perform

VII. C.1	Prepare a list of board-approved investments and determine, to the extent possible, how these strategies positively or negatively impact risk or the yield on investments.
VII. C.2	Examine the depository contract and the related request for proposal and prepare a list of all of the major terms and conditions as they pertain to each bank account maintained by the district.
VII. C.3	Prepare a chart listing the district's bank accounts, whether they are interest bearing and the rate of interest paid, the average daily balance in each account for the last year, and the balance in the account at a point in time. In addition, list any accounts held with investment pools or other money market accounts that are also liquid.
VII. C.4	Examine cash flow forecasts for the last year and review any documented procedures for creating the cash flow forecasts. Note the frequency of the forecasts, the level of detail captured by the forecasts and compare a sample of the forecasts with actual data to determine the degree of accuracy.
VII. C.5	Examine bank reconciliation procedures and a sample of recent bank reconciliations for all district accounts and determine whether reconciliations are done in a timely fashion and whether the accounts are then reconciled to the accounting records of the district.

Questions to Ask

Has the district placed its primary banking relationships out for competitive bid on a scheduled basis? When does the depository contract expire? Are banking relationships managed centrally and reviewed regularly? Is the number of bank accounts used by the district limited to minimize idle balances and facilitate monitoring and control? Are activity funds for individual schools consolidated into one master account or are they maintained individually? Who has access to these accounts? Who reconciles these accounts, and are reconciliations current?

Are all bank accounts reconciled on a monthly basis? Who has central control over the opening and closing of bank accounts? Do written depository contract(s) exist with the district's bank(s)? What are the terms and conditions of the existing depository contract? When was it last bid? Are there other depository institutions in the area that offer additional services? Are all fees and other stipulations of the contract in the best interest of the district?

Does the district perform periodic analysis of bank relationships for performance and cost? How does the district evaluate which payment method for bank services is most cost-effective. (i.e., compensating balances, direct fee payments, or a combination)

Because most bank accounts are only insured up to $100,000 by the Federal Deposit Insurance Corporation, how does the district ensure that sufficient collateral is pledged to cover the balances kept in the depository bank or in investment accounts, where applicable? Who is responsible for regular monitoring of the quality of pledged securities? Regular monitoring to ensure that the amount of pledged securities is adequate? Review to assure that pledged an independent, third party safekeeping agent holds securities?

Are cash collection procedures, especially as it deals with tax collections, designed to get the money into the district’s accounts as quickly as possible? What time delays, if any, exist between the collection of funds and the depositing of funds into the accounts? As funds are deposited, what lapse time exists between the time that deposits are made and the time that excess funds are identified and moved to higher yielding investment accounts? Does the district use wire transfers or direct deposits to accelerate the movement of cash into district bank accounts?

Who has access to cash in the central office? At the campuses? How does the district ensure that cash taken in at the campuses is accurately reported and delivered to the central office or the bank? What other control mechanisms are in place to ensure that cash is not mishandled? Do couriers or armored car services pick up and deliver large cash deposits? Does the district have a safe in which to lock all cash and negotiable securities? Does the district have documented cash handling procedures for campus staff? For booster clubs and other groups that use activity funds including principal activity funds? What procedures are used to ensure that all cash receipts are deposited daily, including cafeteria receipts? What processes ensure that the district is meeting all current day bank deposit deadlines?

Who is responsible for performing cash-flow forecasting? Does the district do daily, weekly, monthly, quarterly, semi-annual, or annual cash flow forecasting, and is the frequency sufficient to accurately project needs while providing the board and administration good management data such as early warnings if borrowing is required in the future? Does the district attempt to match the amount and maturity of investments to the cash-flow needs of the district? Does cash flow forecasting provide a systematic approach for determining and coordinating the cash needs of the district? How is the cash flow forecasting process tied to an overall financing/investment plan? Is the cash flow forecasting system automated?

How does the district evaluate variances between actual cash flow and forecast cash flow and use this information to revise subsequent forecasts? Does the budget, key departments, board and community provide information for preparation of the forecasts as appropriate? What external sources of information are used to develop cash flow forecasts (e.g., interest rate assumptions, economic forecasts and governmental regulations)? Are short-term and long-term forecasts prepared to cover various time frames?

To improve cash flows, does the process and procedure for the payment of bills ensure that bills are paid on the latest possible date to still qualify for available discounts? Does the district have controls in place to prevent unauthorized, improper or early disbursements including:

- Assuring accounts payable disbursements are made according to the due date of the obligation?
- Use of zero-balance accounts to fund disbursements for accounting reconciliation?
- Safeguarding unused check stock with access available only to designated personnel?
- Providing control procedures over outgoing wire transfers which include:
- Use of passwords?
- Limited number of authorized personnel?
- Dual check authorization required?
- Bank call back procedures?
- Dollar amount limitations on transfers?
- Confirmation of transfers performed by someone other than the initiator?
- Requiring authorization by top administrative personnel for all significant cash transfers?

Does the district use sound investment techniques while adhering to the investment policy and providing adequate controls? Is excess cash always invested? Are competitive quotes obtained for investment purchases? Does the district invest in longer-term securities when the cash flows indicate that money will not be needed for a longer period of time in order to achieve a market rate of return on the dollars?

Do personnel responsible for the investment function fully understand investment instruments? Have they attended training on investments? How do personnel making investment decisions stay in contact with the money market to keep up-to-date on market conditions? Is the investment portfolio distributed among various issuers and vehicles to diversify risks (spreading investments over a large number of securities in order to reduce financial risk or investing in different securities and with different maturities to reduce market and credit risk — not putting all your eggs in one basket.)?

Is monthly reporting of investment activity distributed to appropriate management?

Among staff, is there proper segregation of duties regarding placing, holding, accounting, and reviewing of investment transactions?

Are the district's financing arrangements planned based on budgets and forecasts? Does all financing or borrowing comply with statutory and accounting requirements regarding borrowing or financing transactions? All indirect costs such as fees, compensating balance requirements, restrictions, etc., included in the determination of the true cost of debt? Are financing instruments selected based on availability, cost, and legal concerns?

Do cash management hardware and software systems meet needs of the district? Can the district rapidly determine how much cash is on hand (cash position)? Does the system aid the district in preparing cash flow forecasts? Does the system support investment portfolio management activities and allow the district to readily produce the required reports to the board or administration? Does the system aid the district in managing its debt portfolio, particularly when bonds are involved? How is security access to the system ensured?

Is investment performance monitored and reported to the superintendent and board on a regular basis? Are internal reviews to improve cash collections, control disbursements, enhance investment returns and reduce debt costs performed on a regular basis?

VIII. Risk Management

Risk management has become an essential part of school district operations. Rising costs for health, property, and liability insurance coverage has demanded that administrators begin cost containment programs. Successful risk management programs start with strong support from the governing board, superintendent and senior financial administrators. Commitment from the upper management to the fundamental goals of risk management is essential if risk management practices are to be effective. Most risk exposures of districts risk management involves:

- Analyzing alternatives for insurance coverage such as self-insurance and other current industry trends
- Analyzing current insurance plans including deductible amounts, co-insurance levels, and types of coverage provided
- Assessing hazards and implementing programs to minimize exposure to potential losses
- Continuously monitoring if the district is in compliance with various laws and regulations

This section assesses the district's risk management program including methods for reviewing insurance coverage, evaluation of the effectiveness of current programs, loss control programs, claims handling, determining insurable values, and requirements for coverage by outside groups using district facilities.

People to Interview

Superintendent

Assistant superintendent with assigned responsibility

Administrative staff with assigned responsibility

District's insurance agent and/or third party administrator

Campus-based personnel

Data Needs

Policies and procedures
Insurance policies

VIII.A. Risk Management Organization Structure

Activities to Perform

VIII.A.1 Examine the organization and staffing charts and job descriptions for risk management and interview staff to determine reporting arrangements, whether the organizational structure depicted on the chart reflects the actual organization of the department, and document if it has been changed recently or repeatedly in the recent past or is anticipated to change in the near future and why. In addition, note any contract services performed by professionals or consultants in support of the risk management function and show to whom they report or who monitors their activities.

VIII.A.2 Examine the staffing and budgets of personnel and personnel related functions such as recruiting, payroll and benefits management functions and determine the ratio of total staff to staffing within the personnel function. Determine whether or not the budget and staffing levels compare favorably to industry standards. Determine whether or not the manager and staff have appropriate and adequate professional development training each year.

Questions to Ask

Are risk management functions aligned with similar functions within the district? Has the district assigned specific staff to manage risk management programs? Who is assigned to manage and control the district's property and liability insurance coverages? Who establishes rules and procedures to ensure the safety and well being of pupils, employees and the public while on or in district property?

Who is assigned to bid insurance coverages? Are any outside insurance consultants or other professionals under contract to the district to provide guidance on insurance purchasing decisions? If the district is self-insurance for some coverages, is an actuary used to determine appropriate contributions and safe fund balances for the district? To whom do these contracted individuals report? Who monitors performance ? Does the district use professional insurance consultants when an identified need exists?

Does the district use the latest available risk management techniques such as inspections, investigation, and training to identify, analyze and minimize risks inherent in the operation of district programs?

Are campus or building administrators (as applicable) responsible for identifying risks inherent to their location and operation and to make every effort to minimize such risks? Who is responsible for educating employees concerning their responsibilities and enlisting their support? Who is responsible for safekeeping of all assets through security of facilities? Who distributes questionnaires and survey forms and coordinates on-site inspections and analysis of physical operations? Who is responsible for maintaining records for inspection and forwarding reports to the assigned risk management administrator?

VIII.B. Risk Management Policies and Procedures

Activities to Perform

VIII.B.1 Examine all policies and procedures related to risk management and determine whether internal operating procedures mirror board policy, and whether internal procedures provide a level of detail to ensure that risk management processes would continue in the event of staff turnover of sustained absences.

Questions to Ask

Does the district have board approved risk management policies that have been published and disseminated to all appropriate staff and the community? Do policies provide for a program of protection against and/or insurance for:

- Loss or damage or disability as mandated by federal, state or local codes?
- Loss or damage to real or personal property?
- Liability of the district and/or personal liability of members of the board and employees for damage to persons or property including injury or death?
- Losses due to employee dishonesty?

- Worker's compensation/employees liability?
- Employee health, life and other supplemental benefits such as dental, optical, or disability?

Has the district clearly defined the risk management program, including goals, objectives, procedures and responsibilities?

Have administrative regulations or procedures for the risk management program been developed and approved? Do procedures cover:

- loss prevention control?
- placement of insurance coverage?
- property damage restitution?
- catastrophe plan?
- requirements for coverage by independent contractors?
- use of facilities by outside groups?
- driver training insurance coverage?
- field trip and/or excursion coverage?
- employee/student personal property guidelines?

Does policy or procedures provide safeguards against the duplication of coverages, contracts for unlawful or unauthorized coverages?

VIII.C. Insurance Coverages

Activities to Perform

VIII.C.1	Examine all insurance policies and prepare a complete list of all insurance coverage including worker's compensation as well as any insurance cooperatives, self-insurance, names of third party administrators, stop loss coverages and the like. For each category of coverage, describe the nature of the coverage, the basic limits of the coverage, and annual premiums.
VIII.C.2	Prepare a list of all employee benefit coverages such as health, dental, etc., and show the district's contribution to the premiums versus the employee's contributions for the variety of coverages for employee, employee and spouse, employee and dependent children, and the like.

Questions to Ask

Has the district identified the most cost effective insurance programs? Does the district regularly attempt to control costs by examining other options such as self-insurance (determined by actuarial study)? Levels of coverage? Realistic deductibles? Annual request for proposals for insurance carriers (as applicable)? Wellness programs?

Has the district conducted an employee satisfaction survey of their benefits?

What type of services is the district receiving from the third party insurance administrator, if a third party administrator is used? How does the district use the information provided by the third party administrator?

Does the district have a district-wide safety program? How is the effort organized? Does the district have safety training for employees? Does the district have a calendar of safety workshops? How does the district measure the success of its safety training?

Is the risk management program reviewed and evaluated annually with emphasis on:

- Annual evaluation of types of claims?
- Annual evaluation of annual losses versus premium paid (if applicable)?
- Annual evaluation of changes in regulations and laws?
- Annual evaluation of insurance industry trends?

Does the district keep abreast of federal, state, and local risk management laws and regulations? Do risk management employees attend federal, state and local organizational meetings and seminars? Is there a mechanism in place to share appropriate laws and regulations with all employees?

Has the district identified areas of exposure to loss and obtained comprehensive coverage?

Do property and casualty insurance cover all the district's buildings and contents at replacement value as determined through a property valuation program? How are policies updated for new construction or renovations? At what point does the construction contractor’s insurances end and district policies take over?

Is comprehensive general liability, auto liability and errors and omissions protection provided covering the district, members of the board, district officers and employees while acting in the discharge of their duties within the scope of their employment and/or under the direction of the board?

Does the district provide for workers' compensation insurance to cover all employees and volunteers of the district providing benefits as prescribed by law? Has the district explored the use of a workers’ compensation pool or a self-insurance program as a means for controlling costs?

Does the district carry physical damage coverage on selected vehicles owned or operated by the district?

Does the district carry boiler and machinery insurance covering boilers and such pressure vessels, air conditioning, and refrigeration units to such limits as determined through an equipment inventory? Are the inventories current? Are coverages adjusted each year after the inventory is taken? When was the last time the list of machinery and equipment was updated?

Is student accident insurance made available to all students and required of those students who engage in district-organized athletic events? Does the district pay for this coverage or are parents asked to pay for the coverage if they are able? If parents are asked to pay, how are the needs of economically disadvantaged students handled?

What employee fringe benefits are provided to employees, such as hospital and medical insurance, dental insurance, optical insurance, life insurance, long-term or short-term disability insurance to limits authorized by the board of trustees?

VIII.D. Risk Management Operations

Activities to Perform

VIII.D.1 Prepare a list of all of the district's risk management initiatives including such things as preventive loss programs, safety training, emergency preparedness training and the like. Determine the target audience for each initiative, any documented results or performance measures used to evaluate the effectiveness of the initiative, and the person responsible for implementation.

Questions to Ask

Has the district established a preventive loss control program including :

- Installation of sprinkler systems?
- Installation of intrusion alarms and/or security systems with direct connection to a monitored location?
- Installation of smoke alarms with direct connection to a monitored location?
- Purchase of non-toxic smoke producing materials for school furniture, walls, and folding doors?
- Construction of buildings with fire walls (determined by state and local building and fire codes) between rooms and school facilities that are vandal proof?
- Installation of security fencing and lighting around buildings and ground?
- Employment of security personnel?
- Adjusting custodial schedules to provide greater adult coverage on school campuses?
- Requesting neighbors to contact police about any suspicious activities?

Find out if certain risk management strategies are not in place because of the relative lack of local building codes in certain rural areas.

Does the district maintain complete inventories of all furniture, equipment, books and materials in the district? Is a duplicate copy of inventories kept in fireproof locations or an off-site storage facility? Are "as-built" building plans and specifications in fireproof vaults or flat files?

Does the fire department have maps of school building indicating the location of fence gates and utility cutoffs to facilitate pre-fire planning? Does the district maintain a minimum quantity of flammable liquids that are properly stored? Does the district make fire inspections of buildings with fire department personnel and maintain written records of action taken on inspection reports?

Are emergency rules and procedures prepared for school personnel? Are emergency plans annually evaluated? Are the names and phone numbers of emergency personnel posted at each building in the district?

How does the district discourage student vandalism and encourage respect for public property?

CROSSOVER WITH DISTRICT ORGANIZATION, MANAGEMENT, AND PERSONNEL

Is safety training provided to employees to reduce worker's compensation claims?

Has the district established procedures for purchasing insurance coverage? Does the district obtain insurance coverage by accepting proposals for the best and most comprehensive coverage to meet its needs? Does the district consider various combinations of insurance coverage, such as, self-insurance, varying levels of deductibles and multi-year coverage?

How does the district normally evaluate insurance coverage, carriers, and self-insurance programs to determine best options for the district?

Does the district have established claims handling procedures?

Has the district established a catastrophic preparedness checklist including:

- Notification of proper emergency organization (i.e.) Fire Department, Police Department?
- Management, supervisory and maintenance emergency response teams for coordination of responsibilities?
- Communication (such as an emergency telephone system) for notification of relatives and/or spouses?
- Supply of emergency power (if applicable)?
- Evacuation plan?
- Information on media releases and who is authorized to speak on behalf of the district?
- Notification of the insurance carrier?

Did the district back up the critical data and stored off site?

Has the district established insurance requirements for outside parties utilizing district facilities and for contractors? Is a certificate of insurance, a hold harmless and indemnification agreement, and/or endorsement to other party's liability policy showing the district as an addition to the insurance policy obtained from:

- Individuals or organizations using or renting facilities or equipment?
- Automobiles or buses hired by the district?
- Contractors hired by the district?
- Joint ventures with other public entities?

Is insurance coverage required for all contractors with periodic checks to ensure policies are in force? Has the district established a formal agreement for proper coverage for leased sites and facilities that requires tenants to obtain their own insurance and include the district as part of the "named insured"? Requires periodic checks to assure policies are in force?

IX. Fixed Asset Management

Capital asset expenditure planning and control are critical to the long-term financial health of any school district. Generally, expenditures for capital assets require significant financial resources; decisions are difficult to reverse, and the investment affects district financial performance over a long period of time.

People to Interview

Superintendent

Assistant superintendent with assigned responsibility

Administrative staff with assigned responsibility

Campus-based personnel

Data Needs

Policies and procedures
Summary of fixed asset transactions and balances
Fixed asset inventory printout

IX.A. Fixed Assets Inventory

Activities to Perform

IX.A.1	Examine the fixed asset capitalization policies and procedures and determine whether policies mirror recommendations made in the Oklahoma Cost Accounting Syst*em.*
IX.A	Using the district's most recent asset ledger, test the inventory by selecting a sample number of assets from the list and attempting to locate them in the district, and by physically identifying a select sample of fixed assets

.2 and matching them back to the fixed asset ledger. Note discrepancies and attempt to locate the reason for the differences.

IX .A .3 Examine the most recent inventory of the district and determine the results, how overages or shortages were handled, how employees were held accountable for losses, and whether known thefts were reported to the proper authorities.

IX .A .4 Examine the external audit reports and management letters for the last few years and note any references to fixed assets as well as any district responses and corrective actions that resulted.

Questions to Ask

Does the district have a recorded fixed assets inventory? What is the district's process for its fixed asset inventory? How does the district value the fixed assets? Are all the fixed asset acquisitions recorded in the inventory?

Do the fixed asset expenditures comply with budgetary, legal, grantor and contractual requirements? Did the district eliminate the assets from the inventory that were disposed of? Did the district record the sale proceeds properly? How does the district account for the assets that were acquired through lease purchase agreements? Did the district present the fixed assets properly in the financial statements?

How does the district take the inventory of its fixed assets? Manual? Automated? How often does the district take the inventory? How does the district ensure the accuracy of its fixed asset inventory? What is the district's capitalization threshold of its fixed assets inventory? What is the district's depreciation methodology for its fixed assets? How is the district reporting of depreciation on assets?

X. Bond Issuance and Indebtedness

Bonds are contractual representations that a debt is owed by one party, the issuer, to one or more other parties, the investors. Bonds may be secured by lien on personal or real property or may be unsecured. The contract between the issuer and the investors is the bond indenture. The bond indenture specifies the: maturity date, interest payments, denominations of principal, call and or conversion provisions, security, the trustee, repayment plans, such as a bond sinking fund and special provisions.

Data Needs

- Policies and procedures
- Financial reports
- Budget
- Organization and staffing chart of the administrative department
- Debt payment schedules
- Analysis of the bonds payable
- Board minutes

People to Interview

Superintendent/Assistant superintendent with assigned responsibility
Chief Financial Officer
Investment Officer

X.A. Bond Indebtedness

Activities to Perform

X.A.1 Examine the bonded indebtedness of the district and note the amounts of all outstanding bonds, the interest rates and debt service payment schedules on each issue, the amount of any unexpended bond proceeds, any outstanding investment instruments purchased with unexpended bond proceeds, and whether any of the bonds have been refunded. Examine if the district analyzed the economic costs of capital lease for real property in context of potential economic savings for issuance of bonds.

Questions to Ask

Does the district have procedures for refunding bonds? Has the district recently refund bonds? What were the interest savings from the refunding? Did the district improve its cash flow position as a result of the refunding?

Who watches the arbitrage provisions? In house? outside? Does the district comply with arbitrage provisions?

Does the district classify bonds payable properly between current and non-current? Does the district record the bonds with sufficient notes included in the financial statements?

X.B. Bond Elections and Issuances

Activities to Perform

X.B.1 Review recent bond election materials and planning documents, election results, and the like and diagram the process used by the district and any supporting organizations to provide information about and promote the bond to voters.

X.B.2 Examine policies, procedures and processes used to issue the bonds once voters approved them.

Questions to Ask

Does the district have a board approved policy on issuing bonds? Does the district have procedures in place for issuing bonds? How did the district present its most recent bond proposal? How was it received?

What technical assistance did the district have during the bond issuance process? Who is the district's financial advisor?

XI. Purchasing Policies, Procedures, Planning, and Operation

An effective purchasing system allows a school district to provide quality materials, supplies, and equipment in the right quantity in a timely, cost-effective manner.

Purchasing includes those activities involved in the identification and purchase of supplies, equipment and services needed by the district, as well as the storage and distribution of goods. Goods and services must be obtained according to the specifications of the users; at the lowest possible cost; and within state laws and regulations including the state's purchasing and bid requirements and the School Laws of Oklahoma.

This section focuses on the overall purchasing system including purchase order procedures, bidding practices, internal controls, warehousing, and integration of systems.

A sound purchasing system begins with sound policies implemented through systematic procedures. Careful planning, strong internal controls and cost-efficient practices such as bulk purchasing and price/bid solicitation provide the framework for the efficient procurement of goods and services.

Data Needs

- Federal, state and local laws, rules and regulations that pertain to purchasing
- Purchasing policies, procedures, manuals and/or handbooks
- Organization chart for Purchasing Functions
- Job descriptions
- Feasibility studies, including cost/benefit analyses
- Statistical information on the number and type of purchase orders issued and requisitions filled, invoices paid or any other information that is readily available about workloads, process turnaround times
- Vendor lists
- Existing requisitions, purchase orders and contracts, particularly construction contracts
- Copies of any contracts for services that are privatized (if applicable)
- Information on automated purchasing systems
- Shared services agreements
- Memorandums of Understanding (MOUs)

  Customer satisfaction surveys (if applicable)
- Peer district information

Possible People to Interview

Superintendent
Assistant superintendent with assigned responsibility
Purchasing director/agent
Legal counsel (if applicable)
Finance/Budget director
Accounts Receivable and Accounts Payable representative(s)
Principals/campus-based personnel
Other selected department head(s) as applicable

XI.A. Organization, Staffing and Budgeting

Activities to Perform

XI.A.1 Examine the organization and staffing charts and job descriptions for purchasing and warehousing and interview staff to determine reporting arrangements, determine whether the organizational structure depicted on the chart reflects the actual organization of the department, and document if it has been changed recently or repeatedly in the recent past or is anticipated to change in the near future and explain the reasons for changes. If some purchasing functions are decentralized to other functional areas within the district such as food services, transportation and technology, show how they report within the organization and explain how these functions interact with the purchasing division to ensure statutory compliance.

XI.A.2 Examine the staffing and budgets of purchasing and purchasing related functions such as warehousing and receiving and accounts payable and determine the ratio of total staff to staffing within the purchasing function. Compare the budget and staffing levels to industry standards.

Questions to Ask

Does the district have specific personnel assigned to perform the purchasing and warehousing function or is the operation primarily decentralized with purchases made by individuals or departments? Are management staff assigned specific monitoring activities for purchasing? Are the duties of individuals within the purchasing function sufficiently segregated to prevent abuses? Is supervision and monitoring of the purchasing and warehousing function sufficient to prevent abuses?

Are staffing levels within purchasing and warehousing established based upon a district staffing formula that is comparable to districts of similar size? What is the current workload of individuals within the department and how is productivity monitored? How is the workload distributed? Is the workload evenly distributed among staff?

Do job descriptions match the actual work being performed by the staff? Is staff compensation equitable and tied directly to the responsibility, expertise and experience needed for each position?

What types of in-service training are provided for all district staff involved in the purchasing process, including principals, campus based clerks, and the like? Do campus or departmental staff have access to purchasing manuals or handbooks that guide them through the purchasing processes?

What is the budget of the purchasing and warehousing function? How does this budget compare with the purchasing budgets of peer districts? What are the cost drivers in the budget and what has the department done to control those costs?

Does the district contract for services in support of the purchasing function such as technical advisors or consultants that assist with the purchasing of specific goods or services? How did the district determine that these services were best performed by individuals or firms outside the district?

Does the departmental budget provide funds for staff development? Are purchasing staff provided in-service training on changing requirements, laws and procedures? Are staff sent to appropriate state or regional purchasing seminars?

XI.B. Policies and Procedures

Activities to Perform

XI. B.1 Examine the district's policies and procedures that relate to purchasing and note any variances from state law, either more or less restrictive. Document purchasing levels and types of purchases that require board approval, administrative approval, and the like. Review contracting patterns for evidence that districts are not unduly awarding contracts to local vendors that could be awarded for more advantageous terms.

Questions to Ask

Does the district have a board approved policy designating signature and general purchasing authority to certain district personnel at specified spending thresholds? Does board policy specify strong punitive measures for non-compliance with purchasing laws, rules and regulations? How are those policies implemented and what procedures are in place to ensure that policies are carried out?

Does the district policy call for obtaining written price quotations for purchases for non-federally funded personal property? Is there a policy defining purchase level thresholds for each purchasing method that also defines who is authorized to purchase goods and services at a particular threshold and who approval authority at each threshold level?

Does policy define and control purchases that can be made outside the established purchasing system such as emergency purchases, open purchase orders, petty cash, etc.?

Does the district have a conflict of interest policy preventing or restricting district employees and/or relatives from providing goods or services for the district? Are board members prohibited by policy and/or state law from doing business with the district? Do board members with a substantial interest in a business file affidavits declaring their interest? Do board members refrain from voting on transactions that might involve their business or the business of a family member? How has the board removed any perception that they are benefiting financially from purchasing transactions of the district? Does the district appear to be unduly restricting contracts to local vendors that could be awarded for more advantageous terms?

How has the district enforced established internal and external mandated ethical requirements governing purchasing procedures including:

- An updated conflict of interest statement from the Board of Education?

- Updated conflict of interest statements from key management personnel (at least the superintendent, assistant superintendents, directors, and responsible purchasing personnel)?

- Periodic staff training programs presented to all appropriate personnel regarding the legal and ethical procedures in dealing with vendors?

- A person independent of the purchasing function periodically evaluating the reasons for limited bid responses from vendors?

What competitive bidding requirements are stipulated in policy? Does policy address interlocal agreements requirements and board authorization? Design/build procedures and guidelines? Competitive sealed proposal/Request for Proposals requirements, including the evaluation process? State bids and prices? Catalogue purchase procedures?

XI.C. Operations

Activities to Perform

XI.C.1 Create a process flow chart showing how purchases are initiated, processed, ordered, received, warehoused, and ultimately delivered to the originating department or campus. Show points in the process where signoffs are required, the time lapse between each step in the process, where paperwork is entered into or produced from computerized systems, and how and where computer systems interact. The process flow should include orders from the supply warehouse, if one exists, as well as orders from external vendors.

XI.C.2 Prepare a process flow chart of the bidding and contracting process used by the district and compare the process to the stated policies and procedures. Sample the contracts issued for the last year and determine whether the appropriate bidding or solicitation procedures were followed based on the dollar amount of each contract.

XI.C.3 Determine the total cumulative purchases by commodity for the last year and determine whether the district is following the appropriate bidding or solicitation procedures based on the cumulative dollar amount of each commodity. Examine the purchasing system to determine that sufficient controls exist to ensure that cumulative purchases in excess of statutory limits are appropriately bid.

XI.C.4 Prepare a chart listing all shared or cooperative purchasing arrangements in which the district participates showing, by arrangement, the types of goods or services obtained, other participants, and estimated frequency of use. Interview staff to determine what decision-making process was used to make these arrangements, what benefits they believe have been achieved as a result, and what problems they have experienced, if any, with each arrangement.

XI.C.5 Obtain a listing of vendor purchases sorted by vendor name.

Questions to Ask

Does the bidding process provide for:

- Preparing specifications in a manner that does not limit competitive procurement procedures to a specific vendor or item?

- A standardized bidding process coordinated by the Purchasing Department?

- Preparing and soliciting bids according to local policy, state and federal laws and regulations; and other volume purchases where bidding is the best purchasing practice?

- Obtaining competitive prices for those items not bought by formal bid through requesting price quotations from vendors?
- Follow-up procedures with vendors not submitting bids?

Does the district periodically identify and evaluate alternative purchasing methods such as joint purchasing with the state, other districts or through the region service center?

How does the district evaluate competitive practices and innovative purchasing or service arrangements? How does the district evaluate whether there are goods or services that can be obtained from another public entity or the private sector at a lower cost, higher quality or both?

How does the district monitor vendor performance and document performance problems for follow-up?

How does the district coordinate technical purchases for user divisions? Are specifications for the bids defined by those who are responsible for using the purchased materials with review by purchasing as appropriate?

XI.D. Purchasing Technology

Activity to perform

XI. D.1 Prepare a process flow chart showing the technologies used to support the purchasing and warehousing functions showing connectivity with user divisions or campuses and with the finance and accounts payable systems. Determine how, where and when the purchasing system interacts with budget and appropriations control mechanisms. In the process, examine and evaluate the technology used to support the purchasing system, including the supply ordering and requisitioning systems and identify areas, if any, where improvements are needed or internal controls are weak.

Questions to Ask

How is the procurement program integrated into the budgeting/encumbrance system? Are all purchase requisitions reviewed for budget authorization before purchase orders are prepared? Are periodic (preferably monthly) budget-to-actual expenditure reports issued to all user departments and to the department responsible for purchasing? Is a periodic budget-to-actual expenditure report produced that includes an explanation of variances? Does the district’s designated budget officer review this variance report, and are periodic reports presented to the Board of Education?

Does the purchasing system (either automated or manual) provide for:

- Automatic reorder points for stock replenishment?
- Follow-up on back orders and partial shipments to assure receipt of proper quantities?
- Monitoring open purchase orders?

- Matching purchase orders and receiving documentation for verification of receipt of material to ensure proper payment of invoices?
- Ensuring charges are made to the proper account code?
- An approved vendor file and history?

Does the district have a centralized purchasing system that:

- Provides for a requisition form that states suggested vendor, account code, delivery point, and description of item(s) to be purchased with related costs?
- After approval of the requisition, a purchase order is issued with appropriate copies provided to the vendor, to the requesting department or campus, and to accounts payable with one copy retained by purchasing (if applicable)?

XII. Warehousing Policies, Procedures, Planning, Operations and Staffing

Data Needs:

- Federal, state and local rules and regulations
- Policies and procedures
- Organization chart (department)
- Job descriptions
- Inventory and equipment lists
- Statistical information on number and type of supplies maintained in the warehouse inventory orders issued and requisitions filled, computing reorder quantities, frequency of shelve restocking or "picking," frequency of supply delivery to users or any other information that is readily available about workloads (if traditional warehousing function)
- Location, size and primary usage of warehouse facilities in the district
- Copies of just-in-time (JIT) delivery model agreements/contracts
- Customer satisfaction surveys or comment cards (if applicable)

Possible People to Interview

Superintendent/Assistant superintendent with assigned responsibility
Warehouse director/supervisor
Purchasing director/agent (if applicable)

Principals/campus-based personnel
Other selected department head(s) as applicable

Activities to Perform

XII. A.1 Tour the warehouse(s) and evaluate the maintenance of inventories, general cleanliness, the "picking systems," that facilitate removing stock from shelves to fill orders, equipment such as forklifts, and security for high theft items.

XII. A.2 Prepare a staffing chart of all warehouse, receiving and delivery personnel and determine, based on peer district comparisons and/or industry standards, whether the staffing is appropriate.

XII. A.3 Prepare a list of vehicles, machinery and equipment used by the warehouse and determine the age; mileage (as applicable); how it is maintained, whether on contract or by district personnel; and the budgeted replacement schedule.

XII. A.4 Diagram the paperwork and process flow within the warehouse system including the supply requisition and delivery system, the receiving system, the delivery system, and the technology used to support the ordering, receiving and warehousing functions and show how the warehousing function is technologically connected to user departments. Show time lapses between processes and to the extent possible determine the average time to deliver supplies to the users from the time the order is submitted.

XII. A.5 By examining the latest inventory records and determining the inventory turnover or annual usage rates for sample items (if available), evaluate whether inventory items are being ordered in the right quantities and at the right intervals to control the amount of inventory on hand without experiencing an out of stock condition.

Questions to Ask

How do users rate the warehousing function? Does the district provide users an opportunity to comment on the service provided by the warehouse and delivery operation?

What kinds of inventories are stocked in the warehouse? Are these the items that are most frequently asked for by users? Does a traditional central receiving and warehouse model for all goods serve users best or should the school district adopt a just-in-time (JIT) delivery model for some or all items?

Does the warehousing/purchasing system (either automated or manual) provide for:

- Automatic reorder points for stock replenishment?
- Follow-up on back orders and partial shipments to assure receipt of proper quantities?
- Matching purchase orders and receiving documentation for verification of receipt of material to ensure proper payment of invoices?

Are inventories physically safeguarded with fenced compounds, storerooms, cribs, or similar areas with restricted access and security?

Do warehousing and inventory controls provide for:

- Receipt of incoming goods with appropriate receiving documentation?
- Timely reporting to purchasing and/or accounts payable regarding materials received?

- Notification to the ordering department and subsequent disposition or delivery?
- Inventory control to accurately account for items received and disbursed?
- Monitoring of inventory turnover with legal disposition of items that are inactive. (Items that are inactive for twelve months should be considered for disposal)?
- Warehouse space planning that uses available space efficiently (such as ten-foot aisles)?
- Proper segregation of duties of warehouse personnel that seeks to prevent sole custody of inventories? (One person is not responsible for receiving, disbursement, and preparation of transaction documentation.)
- Previously transferred/shipped materials and supplies that were not used by the ordering department to be returned to the warehouse inventory?
- Separate areas for receiving, storing, and shipping of inventories?
- Periodic (at least annual) physical inventories as an independent means of establishing accountability for the inventories that should be on hand?
- Physical inventory adjustments to be reviewed and approved by persons who do not have sole custody of inventories?

XIII. Textbook Operation Policies, Procedures, Planning, Operations and Staffing

Data Needs:

- Federal, state and local rules and regulations
- Policies and procedures
- Organization chart (department)
- Job descriptions
- Textbook policies, practices and procedures including information on lost textbooks
- Customer satisfaction surveys (if applicable)
- Peer district information

Possible People to Interview:

Superintendent
Assistant superintendent with assigned responsibility
Textbook Coordinator

Warehouse director/supervisor (if applicable)
Principals/campus-based personnel

Activity to Perform

XIII.A.1 Prepare a diagram or process flow chart showing the process for ordering, distributing, warehousing, retrieving, and reconciling textbooks in the district and for payment of lost textbooks.
XIII.A.2 Prepare a chart by campus showing the textbook losses for the last three years and determine the cause for any higher than average losses by campus.
XIII.A.3 Examine or create an organization chart showing the functional organization that supports the textbook ordering and distribution process including the role and responsibility of the textbook coordinator.

Questions to Ask

Are procedures established for textbook inventory, issuance and replacement including:

- Maintaining a comprehensive textbook inventory?
- Properly accounting for funds for replacement books?
- Assigning responsibility for lost textbooks?
- Accurately reporting of all textbooks to administration by each campus?
- Issuing textbooks to schools?
- Issuing of instructor manuals for individual teachers?
- Assuring that students have textbooks available to take home to study from or to do homework assignments?

Does the district have written policies and/or procedures for the textbook selection process?

Are there written local procedures for selecting specific textbook publishers to use for each subject area? Does the district have a policy regarding the acceptance of gifts from textbook publishers generally given to encourage selection?

Does the central office or individual campuses have automated textbook tracking systems to assist the district in maintaining its textbook inventory? How are textbook overages and shortages at given campuses handled at the beginning of each school year or semester? How long does it take for campuses to obtain the additional textbooks they need if enrollments exceed projections? Has the district ever purchased used textbooks? If so, how do they insure that the textbooks are Oklahoma adopted versions?

What is the procedure for ordering replacements for lost textbooks?

Does the district have a policy that designates the department or fund from which textbook replacement funds will come?

XIV. Contracting Process

Data Needs

- Copies of all service contracts
- Status reports on services performed
- Feasibility studies
- Cost benefit analyses
- Performance data
- Copies of MOUs
- Copies of shared services or inter-local agreements

Staff to Interview

Superintendent/Assistant superintendent with assigned responsibility
Business or finance director or manager
Purchasing department
Legal counsel

Activities to Perform

XIV. A.1 Compile all *major* contracts with external entities including but not limited to contracts for depository banks, legal services and external auditing services; contracts for outsourced operations or management services for operations such as maintenance, food service, transportation, printing, and the like; shared services contracts and memorandas of understanding (MOUs), and ongoing consulting contracts. Prepare a table listing the general service provided through the contract, contract expiration date, the total contract amount and/or annual payment amounts, the department or individual assigned to oversee the contract, and briefly describe general terms and conditions. Note any areas of overlap or contracts that are currently under renegotiation.

Questions to Ask

Bid process

If any services performed or contracted for through private companies or interlocal agreements, was a cost benefit analysis and feasibility study performed prior to bidding the service and entering into the contract? What was bidding process used? Did it comply with state law? Was a written bid used? Did face-to-face negotiation occur? Were all stakeholders in the service represented in the negotiation and in the evaluation? Did vendor due diligence occur as part of the evaluation process? How were bid proposals evaluated?

Were vendor references checked? Were quantitative and qualitative measures used in evaluating each proposal? Did vendor presentations or interviews take place and how was this information used in the bid process? Did staff document the evaluation process and make written recommendations?

Contract negotiation

Was a contract awarded to the lowest viable vendor? Was the contract written by the district or by the vendor or collectively? Were the terms and conditions negotiated? Was purchasing and finance involved in the evaluation? Did a district employed or district hired attorney draft or review the final contract prior to signature? Were all relevant documents referenced in the contract for future reference? What are the basic terms and conditions of the contract? Is the contract written?

Did both the district and the vendor sign the contract? Does the district have a way to shift services back in-house should in-house operations prove the most efficient way to do things? Is the contractor required to report regularly to the board? To the administration? If so, how do they report? If so, are they reporting as required? Does the contract include a contract change mechanism? Did the contract include all relevant terms and conditions required by board policy, local, state and federal law and the uniform commercial code? Are specific steps outlined in the contract for dispute resolution? What is the district’s liability and what is the vendor's liability? When does the contract expire?

Contract management

Did the district dedicate correct and sufficient contract management resources to the contract? Who is responsible for managing the contract in the district? Does this person have the authority to enforce or change the contract? Does the contract include the name of the contract manager and who represents the district as the final authority for contract disputes? What reports does the vendor have to provide the district and when do they have to be provided?

What mechanisms are in the contract for providing the vendor with feedback on its performance? Does the vendor have to account for any cost changes to the district? Does the district require the vendor to notify the district in the event the vendor changes suppliers for items included in the service agreement? Does the contract outline how the district can terminate the contract for poor performance or failure to perform without liability to the district? How are risks to the district managed by the contract?

Vendor performance evaluation

Is a specific individual responsible for reviewing and documenting vendor performance? Does the contract specifically outline minimum and preferred performance standards? Can the standards be measured objectively by the district? Does the contract describe each service to be performed in sufficient detail? Does the contract describe specific levels of performance the vendor must meet in performing the service? Are these performance measures tracked by the district or by the vendor?

How is performance measured relative to payment? Does the contract include remedies in the event the vendor fails to perform the contract or fails to perform acceptably? What types of options does the district have in remedying poor performance or terminating the contract? Is payment tied to performance? Are performance measures related to quality and quantity of activities performed by the vendor? Does the contract include specific periods in which the service must be performed?

Contract costs

Are escalator clauses tied directly to changes in the market that affects the vendor's costs? Are increases in contract costs tied directly to rising labor or supply costs? Are terms of the contract favorable in comparison to market rates for services? Are cost controls part of the contract and are costs monitored for changes?

Contract re-negotiation

Are their options to renew or renegotiate the contract as the period of performance ending? Are there options to renegotiate the contract in the event of changes in district needs or market conditions?

XV. Yellow Pages Test

All goods and services should be put to the "Yellow Pages test." Government should do no job if there is a business in the Yellow Pages that can do that job better and at a lower cost. Whether a district has decided to contract out the operation of some function in its entirety, contract for management services, or conduct all phases of the operation in-house, regular evaluation is necessary to ensure that the highest quality services are delivered at the lowest price. Simply put, when analyzing the operations of the various functional areas, regular cost/benefit analyses are needed to evaluate whether there are goods or services that can be obtained from the private sector at a lower cost, higher quality or both. The evaluation of current contracts to determine whether the district could perform these functions better in-house is addressed in **Section XIV. Contracting Processes** shown above.

Data Needed

In applying the "Yellow Pages" test to any operation, the following critical pieces of information should be examined in-house:

- Cost of materials
- Cost of labor including benefits
- Cost of overhead including utilities, management oversight, facilities, maintenance and custodial services, and the like
- Quality of service provided in-house as evidenced by the product produced
- Quantity and type of service provided as evidenced by annual productivity reports
- Availability of staff as evidenced by turnover rates, current or ongoing vacancies, and substitute needs
- Training or certification requirements of staff

- Customer satisfaction as evidenced by and user surveys
- Organizational stability

People to Interview

Board members
Superintendent/Assistant superintendent for the area under review
Managers and supervisors for the area under review
Workers in the area under review
Users or customers
External vendors
Customers of vendors

Activities to Perform

Before beginning to perform this evaluation, some preliminary work will need to be accomplished to determine if there are vendors capable of providing all or part of these services should the results of the analysis prove that contracting is a viable alternative. If there are no vendors available, STOP HERE.

XV. A.1 Through interviews with board members, users and staff compile a list of the critical success factors for the area under review. These success factors will vary by area, but should be the five to ten critical elements that must be met for this area to be deemed successful. For example, for transportation, a critical success factor might be that children arrive to school on time, that children are transported safely, and so forth. In food service a critical success factor might be that food is nutritious. Based upon quantifiable and supported documentation gathered from the **Data Needs** shown above and compare the current operations of the area or department to the critical success factors and note any area where performance falls short of success.

XV. A.2 Obtain copies of budgets and staffing information for the area under review and determine, to the extent possible, the fully loaded cost for the services being provided in-house. Where possible reduce that cost to a per unit produced number. For example, in a print service that might end up being a cost per impression. In an alternative education program it may be the annual or daily cost per student served in the program.

XV. A.3 Contact external vendors and provide them the data compiled in V.A.1 and V.A.2 above, and ask them for an informal, non-binding proposal for the cost of delivering similar services that addresses the following:

- Cost of services
- Types of services available
- Ability of the vendor to handle emergency or change orders
- Comparable quality of service
- Contract oversight

Ask them to note any areas where they could not do what the district is doing now, or where they could improve upon what the district is doing. Compare the results to district run operations and determine if contracting is a viable option.

Additional Questions to Ask

What internal conditions exist that are not necessarily financial in nature that might make it desirable for the district to examine contract opportunities for the area of district operations? What internal conditions exist that, despite the financial considerations, would make it difficult for the district to consider contract opportunities for the area of district operations?

What contracting opportunities are peer districts using that are not being used by this district? Are these arrangements working well in those districts? What elements of the contracting arrangement are peers having difficulty with?

Has the district attempted to contract for these specific services in the past? If so, what caused the district to reverse the decision?

If a decision is reached that contracting is a viable option, how will the district ensure that current employees are treated appropriately in the transition? What processes would be necessary to bring employee organizations and community groups into the decision-making process? What information will the board need to help them understand the issues and make a fact-based decision?

Steps in the Process

Step 1: Clearly define the component activity.

A clear definition of the component activity should include a description of its current budget and staffing, existing performance measurements, if they exist, the location of the function on the district's organizational chart and a description of the product or service delivery standards that are currently demanded.

This step also should include the determination of specifications to be required of potential vendors, based on the expected levels of service needed to meet or exceed the district's standards.

Step 2: Determine total in-house costs.

In determining in-house costs, the district should use generally accepted accounting principles; maintain extensive documentation of all calculations and assumptions; include anticipated increases or decreases in future costs; include all costs, regardless of where they are located for budgeting or appropriation purposes; and include all costs whether or not the cost would be avoided if the service was outsourced.

In addition, an analytical framework for comparing costs can be enhanced by including a cost analysis of the past fiscal year and estimated (or budgeted, if available) costs for the next two years.

The following formula, which borrows heavily from the Council on Competitive Government cost methodology, illustrates the methodology to use for determining total in-house costs:

Total In-House Costs = Direct Costs + Department Indirect Costs + District Indirect Costs

Direct costs, include salaries and wages (including overtime pay), fringe benefits and allowances, supplies and materials, rent, telecommunications, utilities, equipment maintenance and repair and the depreciation of assets.

Indirect costs include appropriate percentages of costs for items such as district central support activities, personnel and legal services, as well as equipment. In addition, any administrative services provided by the department that contains the component activity also should be considered, such as the percentage of costs for a department director with direct oversight of the staff performing the function.

Indirect costs can be allocated using one of several approaches, including the simplified method, a multiple base method, a single step-down method or a multiple step-down method. Again, the state's competitive cost methodology should be consulted for further direction on the appropriate approach to use.

Step 3: Request proposals for alternative providers of service.

After the determination of in-house costs, the district should make additional determinations of factors such as its ability to step in quickly if a vendor fails to perform and reasonable yet substantive liquidated damages for such failures. At that point, the component activities to be put up for competitive bidding should be advertised to the general public and the community. While the district should create appropriate standards for the sake of fair evaluation, a reasonable amount of creativity should be allowed so that vendors can propose creative new methods for service delivery that meet or exceed current standards. In addition, existing employees should be allowed time and access to internal resources to prepare bids for alternate, more efficient and effective methods of delivering services.

Step 4: Determine total cost to contract.

The formula for determining the total cost to contract is:

Total Cost to Contract = Contractor Cost + Contract Administration Cost + One-Time Conversion Costs + Unavoidable District Costs + Loss on Assets — Gain on Assets

Contractor costs are, of course, the fees and expenses proposed by a qualified vendor to provide the service being considered. Administration costs are the expenses involved in negotiating, executing, monitoring and evaluating the contract, including personnel costs as well as facility and equipment charges, maintenance and other costs.

Unavoidable costs are those that will continue to be borne by the district even if a particular component activity has been outsourced. An example might be the costs of a divisional supervisor who oversees a specific component activity. If that particular activity is outsourced, the services and therefore costs of the supervisor may still be required to continue other functions.

The gain or loss on assets, such as building space or equipment that is unnecessary after a successful outsourcing, also should be included in the final cost determination.

Step 5: Request Proposals from Vendors.

RFPs should be prepared for component activities offering significant potential for savings and/or service improvements. Both private and public potential vendors should be solicited. All competitive cost review information about the specific service should be made public. Vendors should be allowed a large degree of flexibility in providing creative solutions towards accomplishing the recognized performance standards for the particular service and asked to create performance measurements that can be developed into eventual contractual obligations should the service be outsourced.

Step 6: Determination of Savings.

Savings are the difference between total in-house costs, both direct and indirect, and the total cost to contract, which is determined if and when a qualified vendor is selected and the service is performed for at least one year.

Additional Resources:

National Association of Purchasing Management