SANTA CLARA COUNTY SCHOOLS
INVENTORY PRACTICES
$300M+ TAXPAYER INVESTMENT – BUT WHO’S COUNTING?

Issues

• Do school districts understand the value of their inventory?
• Are there adequate inventory practices and controls in place?
• Have school districts learned and implemented any changes since the Santa Clara County Civil Grand Jury Investigation of 2007-2008?
• Are Community Colleges doing a better job of controlling inventory than the K-12 schools?

Summary

The 2007-2008 Santa Clara County Civil Grand Jury conducted a survey and prepared a report on inventory practices in all thirty-three K-12 school districts in the County. The present Grand Jury (GJ) report is to follow-up with a more thorough examination of school district inventory practices to identify specifically which districts are still failing to monitor their inventory. The GJ elected to expand the scope of the investigation to cover the four community college districts.

The total value of school districts’ inventory at the current time is over $300M, representing in excess of 130,000 inventory items. This represents a substantial taxpayer investment in equipment, furniture, and other items. For example, a local school district experienced ongoing inventory losses over 10 years, totaling approximately $288K due to a combination of suspected thefts, administrative errors, and fraud. It is noteworthy that this district did not follow established purchasing and inventory practices.

When proper controls are lacking, the school districts are subject to loss and theft of assets. Replacements of items would come from operating revenue, which is a waste of funds that should otherwise have been spent for planned teacher/student resources.

The GJ investigated district policies and practices concerning acquisition, inventory, and disposal of equipment. The GJ found that while some improvements in practices have been made, a number of school districts remain deficient in these areas.
Many school district policies and administrative regulations are insufficient to guide district employees on how to account for property and equipment purchased with taxpayer dollars. Many districts are not consistent or thorough in following the policies and regulations that they did have in place.

1) Board Members are not trained on their responsibilities with regard to Inventory.

2) Board Members in some districts fail to clearly delegate their responsibilities with respect to inventory through their Board Policies or Administrative Regulations.

3) Some School Districts fail to follow the Education Code requirements, and in many cases their own policies and administrative regulations regarding inventory.

4) Staff members do not understand the purpose or the proper methods for conducting inventory, nor do they understand the importance of reconciliation.

5) In many cases, no changes were made to the practices found in the 2007-2008 GJ investigation.

Background

Santa Clara County consists of 33 school districts, one (1) County Office of Education and four community college districts. The County Office of Education is a regional resource center and serves to provide support for the 33 school districts. For the purposes of this report and ease of identification, the County Office of Education has been counted as a School District, bringing the total number of school districts to 34. This report will also include the four community college districts.

Section 35168 of the California Education Code requires the Board of Directors for every K-12 district to establish and maintain an inventory for every item with a value over $500. Community colleges are subject to a similar requirement under California Community College Budget and Accounting Manual (BAM), at $1000. Other laws and regulations apply to financial accounting and other aspects of school inventory controls. See Appendix A for discussion of the pertinent legal requirements.

Discussion

The GJ interviewed Board Presidents, Superintendents/ Chancellors, Chief Business Officers or the individual designated as responsible for inventory control for all 33 districts and the four community college districts. The GJ has looked at Board Policies, Administration Regulations, and Inventory listings provided by each school district. In some instances, sites were visited to physically verify and observe the inventory practices.
The GJ also investigated the process and practices for the reporting of thefts and replacement of lost inventory within the various districts. Insurance coverage for most districts’ inventory items bear a minimum $10,000 deductible per occurrence. Most single incident losses are considerably less than $10,000 and therefore are paid out of district funds. Failure to maintain a proper inventory prevents schools from proving losses even when covered by insurance.

The majority of school and community college districts conduct a rolling inventory. This practice is where an existing inventory is updated by adding new items that are purchased or donated, and subtracting items that are identified as obsolete, surplus, sold, or donated. In most cases, no effort is made to perform a physical inventory and reconcile differences. Therefore, changes in inventory over time that occur at the site and district level resulting from equipment or teacher relocation, thefts, school/room closures, etc. may be missed or not properly tracked. Without regular physical inventories and reconciliation, a rolling inventory is of little value.

During the interviews, some K-12 school districts stated that utilizing an outside firm to conduct physical inventories is not a high priority and is especially difficult in the current fiscal environment. Some school districts use internal resources to conduct inventory, but the GJ found these efforts to be inconsistent and of poor quality, with no reconciliation against previous years.

A few K-12 districts were identified that fully understand what they are doing in the area of inventory control and have best practices in place. Best practices include documenting and following a process, conforming to the Education Code requirements, and performing reconciliation to prior inventories.

The GJ found that a majority of schools and community college districts spend considerable time tracking obsolete, surplus, sold, or donated equipment and preparing reports regarding these assets for presentation at board meetings, as required by law. These items have little or no value. In comparison, the same level of time and attention to detail is not given by the board and administrative staff to equipment purchases or to inventory often valued at millions of dollars.

The GJ reviewed the Master in Governance Program (Program) developed by the California School Boards Association (CSBA), which is the recognized authority currently utilized by a majority of Santa Clara County schools to provide training for school boards. The Program provides no training regarding inventory. The GJ met with the CSBA Executive Director and he has agreed to review the inventory training recommendations for possible additions to the Program.
Superintendent Purchases

In the course of this investigation it was found that all superintendents’ purchases (both credit card and purchase orders) are approved by those who report directly to them. While the vast majority of those interviewed expressed that their superintendent was very conservative with regard to spending, the GJ feels there is a potential for abuse. While this does not relate directly to inventory control practices, we felt it was important enough to include with our findings.

It should be noted in a Santa Clara County Office of Education (COE) directed special audit, conducted on a Santa Clara County school district, one of the recommended actions was to require Board approval of superintendent purchases to prevent abuse, and ensure proper fiscal oversight.

See comments below from Vavrinek, Trine, and Day and Co. LLP Audit dated February 10, 2009:

“The Superintendent purchases should be approved by the Board either in advance or through the Board Approval of disbursements process.”

“We recommend that a copy of credit card statements and a listing of disbursements, from the checking account also be provided to the board for approval.”

Conclusion:

Many of the school districts have documented policies and administrative regulations related to inventory. Since the Grand Jury Investigation of 2007- 2008, many districts have amended their policies and administrative regulations to meet the specific needs of their district in conformance with the Education Code.

Even in districts that have policies implemented, interviews with school board members, superintendents, and administrative staff, reveal a broad lack of knowledge of policies and procedures related to inventory requirements. As a result, there is a lack of proper guidance and supervision.

District application of inventory practices varied greatly among the schools and community college districts. Although the GJ is not promoting the use of specific inventory firms, it does recognize that districts which have contracted with outside firms generally demonstrated a more thorough inventory assessment. Outside firms also provided additional benefits, such as standardized methodologies, clear procedures, and independent resources.
The GJ found a number of different methods and software systems used for tracking equipment inventories among the school districts and community colleges. The GJ has identified some systems which it would consider to be best practices. (See Findings). The COE is working with a number of K–12 districts and an outside consultant to update the existing Quintessential School System software currently in use by many districts to add a module to be used for tracking inventory.

Some districts mainly track technology equipment, ignoring other assets of greater value which are required by law.

Community college districts are equally lacking in their practices and understanding of inventory matters. For instance, all four districts are failing to track inventory to the required minimum dollar levels as specified by BAM. Members of the community college district administration should familiarize themselves with the relevant policies and procedures stated in the education codes and laws that govern them.

Lack of detailed attention towards inventory controls has exposed K–12 school districts and community college districts to potential security and financial risks. Students cannot succeed without the proper support of technology and equipment. Therefore, districts should place an emphasis on controlling assets, and avoid using funds to replace equipment that would be better spent supporting students’ education.

**Findings and Recommendations**

**Finding 1**

Community colleges and K-12 boards of trustees are responsible for inventory control. However, after interviewing ALL board of trustee presidents it was evident they were unaware of their obligations under the law.

- All K-8 and K-12 and Community College Districts

**Recommendation 1**

Trustees should review and be knowledgeable of Education Code §35168 for K–12 and Education Code §81600 for community colleges to ensure complete implementation.

- All K-8 and K-12 and Community College District Boards of Trustees

**Finding 2**

No trustees or superintendents/chancellors have been trained in inventory control. Inventory control training for board members and superintendents is not mandated by the State, resulting in a lack of familiarity and inconsistent application of inventory requirements by many districts.

- All K-8 and K-12 and community college districts
Recommendation 2

All Santa Clara County school board trustees and superintendents/chancellors should be required to review and understand Education Code §35168 and §81600 and BAM requirements for inventory control.

For K-12 districts, the COE should take the lead in providing comprehensive training on inventory control, in conjunction with the release of the new inventory tracking module within Quintessential Software Systems spearheaded by the COE.

For community colleges, the CC Board should investigate additional training in the area of inventory control offered through organizations such as the American Association of Community Colleges and the Community College League of California.

- All K-8 and K-12 and Community College District Boards of Trustees
- COE Board of Trustees

Finding 3

All district superintendents, chancellors and district staff report incomplete inventory information to their boards. This results in lack of knowledge about the value and size of their inventory.

- All K-8 and K-12 and community college districts

Recommendation 3

All Boards of Trustees should require a presentation on the results of their districts’ biennial inventory, including total value, variances resulting from reconciliation between past and current inventories and a proposed plan to resolve discrepancies.

- All K-8 and K-12 & Community College District Boards of Trustees

Finding 4

With the exception of Santa Clara Unified and Los Gatos Unified School Districts, all K-12 districts fail to understand the need to reconcile inventories from previous years to the latest inventory update. Without reconciliation, the opportunity to: identify lost, missing or stolen items, take preventive measures, and obtain timely reimbursement may be lost.

- All K-8 and K-12 Boards of Trustees (except Santa Clara Unified and Los Gatos Unified)
**Recommendation 4**

All K-12 school districts should reconcile the most current, full inventory with prior inventories, to identify missing items and potential losses/thefts. The results will enable the districts to implement safeguards to prevent future losses.

- All K-8 and K-12 Boards of Trustees (except Santa Clara Unified and Los Gatos Unified)

**Finding 5**

Many K-12 Districts are not following requirements for inventory control as stated in Education Code §35168, and/or their own policies and procedures.

A) The following districts do not have an inventory listing or the inventory list that they do have is extremely deficient:

- Cambrian School District
- Lakeside School District

B) The following districts lack Board Policy or Administrative Regulations regarding inventory, and/or they failed to delegate inventory responsibility:

- East Side Union High School District
- Gilroy Unified School District
- Los Altos Unified School District
- Montebello School District
- Mountain View Whisman School District
- Palo Alto Unified School District
- Saratoga Union School District

C) The following districts are not tracking all items valued above $500 as required by Education Code §35168:

- Cambrian School District
- Gilroy School District
- Los Altos School District
- Palo Alto Unified School District
D) The following districts do not conduct inventory on a biennial basis as required by Education Code: *Note: A rolling inventory is not considered a physical inventory as defined by code*

- Cambrian School District
- Cupertino Union School District
- East Side Union School District
- Evergreen School District
- Fremont Union High School District
- Gilroy School District
- Los Altos School District
- Los Gatos/Saratoga High School District
- Morgan Hill Unified School District
- Mountain View/Los Altos Union High School District
- Palo Alto Unified School District

**Recommendation 5**

A) The Boards of Trustees for the districts listed in Finding 5A should conduct a full inventory or improve their existing inventory listing.

B) Board Policies/Administrative Regulations should be implemented by the Boards of Trustees in all districts listed in Finding 5B, assigning inventory control responsibilities and training to the superintendent, business manager, or appropriate designee. All districts should ensure that their policies remain current and in compliance. CSBA provides a good template for Board Policies in the area of Inventory Control conforming to Education Code §35168. These districts should provide training for staff responsible for inventory.

C) The Boards of Trustees for districts listed in Finding 5C should fully implement the tracking requirements for equipment with current market value above $500 for K-12. These districts should provide training for staff responsible for inventory.

D) The Boards of Trustees for districts listed in Finding 5D should conduct inventory at least biennially and track all parameters as specified in Education Code §35168. These districts should provide training for staff responsible for inventory.
Finding 6

Some school districts observed by the GJ had a demonstrated understanding of the need for inventory control. Best practices include documenting and following a process, conforming to the Education Code requirements, and performing reconciliation to prior inventories. The following districts are to be commended on their best practices:

- Fremont Union School District
- Los Gatos Unified School District
- Moreland School District
- Orchard School District
- Santa Clara Unified School District

Recommendation 6

No Recommendation.

Finding 7

There is a potential for abuse in K-8 and K-12 districts when those who report to superintendents approve credit card transactions and purchase orders made by their superintendent.

- All K-8 and K-12 School Districts

Recommendation 7

To strengthen internal controls and ensure fiscal accountability, purchases made by the K-8 and K-12 Superintendents should be approved by the Boards of Trustees prior to purchase. In the event an immediate purchase is required, post-approval by the Board would ensure no conflicts of interest or abuses occur.

Expenditures should be presented separately from the Board’s consent calendar to ensure proper scrutiny.

Credit card statements and a listing of disbursements should be provided to the Board for approval.

- All K-8 and K-12 District Boards of Trustees
COMMUNITY COLLEGES

Finding 8

All community college districts delegated the responsibilities for Inventory Control to the Chancellor, Vice-Chancellor or the College Presidents. Gavilan Joint Community College District does not have a Board Policy or Administrative Regulations addressing Inventory Control.

- Gavilan Joint Community College District

Recommendation 8

The Board of Trustees for Gavilan Joint Community College District should ensure development and implementation of Board Policy and Administration Regulations addressing Inventory Control. Foothill/De Anza College has a Board Policy and Administrative Procedures that could be utilized as a template by Gavilan if they so choose. This district should ensure that their policies remain current and in compliance and provide training for staff responsible for inventory.

- Gavilan Joint Community College District Board of Trustees

Finding 9

Three (3) of four (4) community college districts failed to conduct inventory as is specified by CSAM 410 (California School Accounting Manual) Procedures and the California Community College Budget and Accounting Manual (BAM). Districts only included items at or above $5000 in their inventory, where the requirements in CSAM and the BAM state that any items greater than $1000 should be included.

- Foothill/De Anza Community College District
- Gavilan Joint Community College District
- West Valley/Mission Community College District

Recommendation 9

The Board of Trustees for Foothill/De Anza, Gavilan, and West Valley/Mission College Districts should ensure compliance with the CSAM 410 procedures and BAM guidelines by tracking inventory items greater than $1000. These districts should provide training for staff responsible for inventory.

- Foothill/De Anza Community College District Board of Trustees
- Gavilan Joint Community College District Board of Trustees
- West Valley/Mission Community College District Board of Trustees
Finding 10

The following community college districts are not conducting inventories annually or reconciling to verify the existence, current utilization, and continued need for the equipment on a biennial basis, according to procedures specified in CSAM 410 (California School Accounting Manual).

- Foothill/De Anza Community College District
- Gavilan Joint Community College District

Recommendation 10

The Boards of Trustees for Foothill/De Anza and Gavilan Joint Community College Districts should ensure inventories are conducted as specified in CSAM 410.

- Foothill/De Anza Community College Board of Trustees
- Gavilan Joint Community College Board of Trustees

Finding 11

Chancellors’ purchases (both credit card and purchase orders) are approved by subordinates, mainly direct reports. While the vast majority of these direct reports expressed that their chancellors are very conservative with regard to spending, there is a potential for abuse.

- Foothill/De Anza Community College District
- Gavilan Joint Community College District
- San Jose/Evergreen Community College District
- West Valley/Mission Community College District

Recommendation 11

To strengthen internal controls and ensure fiscal accountability, purchases made by chancellors should be approved by the Board of Trustees. In the event an immediate purchase is required, post-approval by the Board would ensure no conflicts of interest or abuses occur.

Credit card statements and a listing of disbursements should be provided to the Board for approval.
Expenditures should be presented separately from the Board’s consent calendar to ensure proper scrutiny.

- Foothill/De Anza Community College District Board of Trustees
- Gavilan Joint Community College District Board of Trustees
- San Jose/Evergreen Community College District Board of Trustees
- West Valley/Mission Community College District Board of Trustees

**RESPONSE REQUIRED**

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APPENDIX A

LAW GOVERNING SCHOOL INVENTORIES

The California Education Code 35168, which applies to K-12 public schools states, “the governing board of each school district, shall establish and maintain a historical inventory, or an audit trace inventory system, or any other inventory system authorized by the State Board of Education, which shall contain the description, name, identification numbers, and original cost of all items of equipment acquired by it whose current market value exceeds five hundred dollars ($500) per item, the date of acquisition, the location of use, and the time and mode of disposal. A reasonable estimate of the original cost may be used if the actual original cost is unknown.”

For community colleges Ed code 81600 states as follows: “The governing board of a community college district shall manage and control school property within its district.”

Section 41010 of the California Education Code which applies to all California State Community Colleges states that “the accounting system used to record the financial affairs of any school district shall be in accordance with the definitions, instructions, and procedures published in the California School Accounting Manual as approved by the State Board of Education and furnished by the Superintendent of Public Instruction.

The California Schools Accounting Manual CSAM 410 states as follows:

Procedure 410 Conducting a Physical Inventory

The purpose of taking a physical inventory is to verify the physical existence of the property and equipment that appear in the Local Education Agency (LEA), and then use initial records to check the accuracy of the inventory control system. For a good internal control system, California Department of Education (CDE) recommends that a physical inventory of the LEA’s property and equipment be taken at least annually.

The California Community College Budget and Accounting Manual (BAM) also states as follows:

The General Fixed Assets Account Group should account for all assets associated with the Governmental Fund Group having cost which exceed the minimum threshold for maintaining a trace inventory system ($1000) and have a useful life of one year or longer.
Districts shall maintain a historical inventory, audit trace inventory systems, and any other acceptable inventory systems that contains the description, name, identification numbers, original cost, date of acquisition, location, and time and mode of disposal for all items of equipment that cost or had a market value at time of acquisition in excess of one thousand dollars ($1000). Items of equipment in the inventory system, as well as any additions, should be accounted for in the General Fixed Assets Account Group. (From BAM Appendix E, Guidelines for Distinguishing between Supplies and Equipment)

Note: The Inventory requirements for Colleges in the BAM are similar with the exception that the requirements for tracking individual inventory items are set at $ 1000 rather than $ 500 for K – 12 districts.

The *Federal Register* states that:

A physical inventory of equipment shall be taken and the results *reconciled* with the property records at least once every 2 years to verify the existence, current utilization, and continued need for the equipment. A statistical sampling basis is acceptable. Any differences between quantities determined by the physical inspection and those shown in the accounting records should be investigated to determine the causes of the differences. The results of the physical inventory can be used as a basis for writing off items that have been lost, stolen, or discarded and also for adding unrecorded items.

The suggested procedures that follow can be used in the initial inventory or retaking of inventory because they are basic and can be modified to fit the needs of the LEA. Adequate planning is critical to the physical inventory process, which should include the following:

1. Designation of the person responsible for coordinating the LEA’s inventory
2. Determination of the duties and responsibilities of persons and/or departments involved in the inventory (e.g., Centralized Data Processing, Purchasing, and Warehouse)
3. Determination of the inventory procedures to be used
4. Provision for materials needed for the count
5. Schedule for taking the inventory, including cutoff dates
6. Design of final inventory reports

There are three major stages in taking the physical inventory: the *precourt*, the *actual count*, and the *recount*. 
TERMS

Equipment (definition from the California Community College Budgeting and Accounting Manual)

Equipment is defined as having a purchase price of $200 or more and a useful life of one year or longer. The threshold for maintaining inventory in a trace inventory system and for recording the asset in the General Fixed Assets Account Group is $1000 and a useful life of one year or longer. Equipment purchased with funds from categorical programs, grants or contracts (e.g. VTEA) may be subject to specific additional or conflicting requirements. Consult the specific grant or contract literature or compliance requirements.

“By way of example, let us classify both a personal computer and a calculator. The computer is likely to last more than one year, and if it did break down, it is most likely to be repaired. The calculator may last more than one year, but in the event the calculator stopped working, it would be replaced, not repaired.” Thus it would be declared a supply rather than equipment for the purpose of inventory requirements.

Inventory (definition from the California Community College Budgeting and Accounting Manual)

“A detailed list showing quantities and description of property on hand at any given time. It may also include units of measure, unit prices, and values.”

Federal Register July 2005 410-1
This report was PASSED and ADOPTED with a concurrence of at least 12 grand jurors on this 20th day of April, 2009.

________________________________________
Don Kawashima
Foreperson