



2007-2008 SANTA CLARA COUNTY CIVIL GRAND JURY REPORT

INVENTORY PRACTICES INADEQUATE IN SANTA CLARA COUNTY SCHOOL DISTRICTS

Introduction

The 2007-2008 Santa Clara County Civil Grand Jury (the Grand Jury) reviewed an Extraordinary Audit of the Los Gatos Union School District dated July 26, 2007. The audit was prepared by the State Fiscal Crisis & Management Assistance Team (FCMAT) and commissioned by the Santa Clara County Office of Education.

FCMAT is a state agency created in 1992 as a service to assist local educational agencies in complying with fiscal accountability standards. In December 2006, the Santa Clara County Office of Education made a request to FCMAT to conduct an extraordinary audit of the Los Gatos Union School District (LGUSD) after receiving allegations of misconduct at the district. FCMAT reviewed a number of issues at LGUSD, including acquisition, inventory and disposition of equipment. In its executive summary, the report states:

FCMAT learned that over the past ten years a significant amount of technology equipment and other assets purchased by the district are unaccounted for through the inventory process. In addition, information provided indicates that between 1997 and the present the district has filed more than twenty complaints with the Los Gatos Police Department regarding the theft of computer-related equipment, with losses totaling approximately \$288,000. Inventory shrinkage or loss of district assets were due to a combination of suspected thefts, administrative errors and miscommunication between the district and the contractor that performed the physical inventory.

Additional documentation indicates that administrative personnel did not follow established purchasing and inventory practices.

FCMAT issued a follow-up report dated February 25, 2008 that discussed actions that LGUSD took in response to the audit and FCMAT's recommendations. The follow-up report noted that LGUSD "has adopted a continuous improvement plan for business practices to address the findings and recommendations contained in the FCMAT report" and that the district "has identified strategies to ensure compliance and long term sustainability."

The Grand Jury considered how lessons learned from the audit report might apply to other school districts in the county. The Grand Jury sent a survey to all thirty-three school districts in the county and the County Office of Education (COE), requesting information and documents relating to their policies and practices concerning acquisition, inventory and disposition of school district equipment. The Grand Jury included the COE in the survey because the COE runs its own schools as part of its varied responsibilities. As used in this report's discussion of the survey, the term "school district" includes the COE.

The COE and all thirty-three school districts responded to the survey. This report describes the results of the Grand Jury's survey and makes recommendations based on those results.

Discussion

Frequency of Inventories

The Grand Jury survey asked each school district to state how frequently it conducts inventories of district property and equipment. Over half of the school districts in the county apparently are not in compliance with applicable state recommendations.

Section 41010 of the California Education Code requires school districts to follow the California School Accounting Manual (CSAM) published by the California Department of Education (CDE). CSAM Procedure 410 states: "For a good internal control system, CDE recommends that a physical inventory of the [district's] property and equipment be taken at least annually."

In response to the Grand Jury survey, only sixteen school districts in the county stated they conducted inventories every year. Another seven stated they did so every two years. It also appears that some districts with policies for annual inventories do not actually follow those policies. Of the sixteen districts who stated they conducted annual inventories, two indicated their latest actual inventory was in 2003 and another was in 2005.

Seven school districts stated they conducted inventories every two years, apparently to comply with regulations covering equipment purchased with federal funds, but these districts still do not follow the CSAM recommendation for an annual inventory. Other school districts had policies for conducting inventories as infrequently as every six years. One stated it had no policy. The responses of other school districts did not make their policies clear. For example, one district reported that it conducts "ongoing" inventories, but its last inventory was dated June 2001.

Content and Methods of Inventory

The Grand Jury survey asked that each school district provide a copy of its most recent inventory. The Grand Jury reviewed these documents and found many of them to be inadequate. Section 35168 of the California Education Code states that inventory records must list 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.” Many of the inventory records provided to the Grand Jury do not include all this information.

Procedure 410 of the California School Accounting Manual includes several pages of detailed recommendations and suggested procedures for conducting a physical inventory. Inventory documents sent to the Grand Jury in response to its survey indicate that many school districts are not rigorous in their methods of conducting inventories.

Accountability

The Grand Jury’s survey included the question: “Are persons entrusted with the responsibility for district property and equipment held accountable if that property is lost or misplaced?”

Nine school districts answered “no.”

For those that answered “yes,” the manner in which employees are held accountable varies among districts. Some indicated that in the case of lost equipment, the person responsible might be subject to disciplinary action depending on the circumstances. Others stated that the district would expect a responsible employee to pay for any missing equipment and that the district might expect to make a claim against the employee’s personal homeowner’s insurance.

Notice to Board of Inventory Results

The Grand Jury’s survey included the question: “Is your district’s Board apprised of the results of property and equipment inventories?”

Ten school districts answered “no.”

A school district board is the governing body of the district and ultimately responsible to the taxpayers of that district. Of the districts that answered “yes” to the Grand Jury survey question quoted above, some indicated that the methods and circumstances under which the board would be notified of inventories may vary.

Dollar Amounts of Inventoried Items

The Grand Jury survey asked each school district to state what dollar amount, if any, delineates which property and equipment in that district must be inventoried. Section 35168 of the California Education Code requires that all school districts maintain an inventory of equipment whose current market value exceeds \$500.

The responses to the Grand Jury survey indicated that most school districts in the county have policies following these requirements. In three cases, the districts responded that their inventory threshold was \$5,000 rather than \$500. The responses of two other districts were unclear. Federal regulations provide that school districts must maintain inventory of all items purchased with funds from the federal government that have a useful life of more than one year with an acquisition cost of \$5,000. However, the California Education Code requirement is in addition to the federal requirement so that all school districts in California are required to comply with the \$500 State threshold.

Board Policies and Administrative Regulations

The Grand Jury survey asked districts to provide copies of their board policies regarding the acquisition, inventory, and disposition of property and equipment. The survey further asked for copies of administrative regulations that define how, when and by whom the board policies are to be implemented.

The purpose of board policies is to set a general policy or statement of purpose on a particular topic. The purpose of an administrative regulation is to give district staff detailed instructions with respect to how to carry out the policies of the board in day-to-day work.

In response to the survey, three districts replied that they had no such board policies. Four replied they had no such administrative regulations. The Grand Jury further determined that some policies and administrative regulations provided by the districts are inadequate. For example, many districts simply copied generic board policies and administrative regulations suggested by the California School Board Association with no changes to reflect special needs of the districts.

Conclusions

Inventory practices of many school districts within Santa Clara County are inadequate. Many school district policies and administrative regulations are insufficient to guide district employees as to how to care for property and equipment purchased with taxpayer dollars. Many districts are not consistent and thorough in acting upon the policies and regulations they do have.

All school district board members and superintendents in the county can learn valuable lessons from a close study of the FCMAT report relating to the Los Gatos Union School District. School board members have the responsibility to hold district staff accountable for complying with law and good practices. It is critical that school boards understand all applicable laws, regulations and recommendations that may apply to their districts. Even where applicable recommendations or standards may not be specifically required by law, board members should require district staff to explain why those recommendations or standards are not being followed.

Findings and Recommendations

Finding 1

The FCMAT report's description of deficiencies at Los Gatos Union School District, along with FCMAT's recommendations for addressing those deficiencies, may help other school districts in the county address deficiencies in their own districts and avoid them in the future.

Recommendation 1

Each school district in the county and the County Office of Education should review the FCMAT report and the FCMAT follow-up report to determine if the report's recommendations may be appropriate for that district.

Finding 2

Most school districts in the county do not follow appropriate state/federal guidelines with respect to frequency and method by which equipment must be inventoried.

Recommendation 2a

After study of the FCMAT report, each school district in the county and the County Office of Education should review relevant law and guidelines and their own policies concerning frequency and method of inventories.

Recommendation 2b

The Board of Trustees of each school district in the county and the County Office of Education should require the Superintendent of the district to report (i) if the district complies with all specific recommendations and suggested procedures in CASM 410 and the requirements of California Education Code section 35168, and (ii) the reasons why the district does not comply if it does not do so.

Finding 3

Some school districts in the county do not follow state law with respect to minimum value of equipment that must be inventoried.

Recommendation 3

After study of the FCMAT report, each school district in the county and the County Office of Education should review relevant law and guidelines and their own policies concerning minimum value of equipment that must be inventoried.

Finding 4

Clear policies concerning the accountability of persons responsible for lost or misplaced property and equipment can help reduce loss. Some school districts in the county do not hold their employees accountable for property and equipment under their care.

Recommendation 4

After study of the FCMAT report, each school district in the county and the County Office of Education should review and enact policies under which they hold district employees accountable for lost property or equipment.

Finding 5

Some school boards in the county are not advised of results of inventories despite the fact that board members are ultimately accountable to the public.

Recommendation 5

After study of the FCMAT report, each school district in the county and the County Office of Education should review and enact policies under which its board is informed of the specific results of inventories, particularly with respect to any loss of property or equipment.

Finding 6

Some school districts in the county do not have appropriate board policies regarding acquisition, inventory and disposition of property and equipment.

Recommendation 6

After study of the FCMAT report, each school district in the county and the County Office of Education should review, and enact as appropriate, board policies regarding acquisition, inventory and disposition of property and equipment.

Finding 7

Some school districts in the county do not have appropriate administrative regulations regarding acquisition, inventory and disposition of property and equipment.

Recommendation 7

After study of the FCMAT report, each school district in the county and the County Office of Education should review, and enact as appropriate, administrative regulations regarding acquisition, inventory and disposition of property and equipment.

Key References

Documents

Title 34, Code of Federal Regulations, Section 80.3.

California Department of Education, School Fiscal Services Division. *California Accounting Standards Manual, Procedure 410*, 2007 Edition.

California Education Code, Section 35168.

California Education Code, Section 41010.

Fiscal Crisis & Management Assistance Team. *Extraordinary Audit of the Los Gatos Union Elementary School District*, July 26, 2007.

Fiscal Crisis & Management Assistance Team, Letter. February 25, 2008.

PASSED and **ADOPTED** by the Santa Clara County Civil Grand Jury on this 15th day of May, 2008.

Raymond A. Blockie, Jr.
Foreperson

Tim Cuneo
Foreperson pro tem

Kathryn C. Philp
Secretary