



November 2017



Montebello Unified School District

County Superintendent Intervention Is Necessary
to Address Its Weak Financial Management and
Governance

Report 2017-104



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November 2, 2017

2017-104

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the California State Auditor presents this audit report, which outlines our findings regarding Montebello Unified School District's (Montebello) financial practices, performance, and related issues. This report concludes that intervention is necessary to address Montebello's weak financial management and governance. Montebello, which serves approximately 28,000 students in Los Angeles County, has been the subject of public scrutiny in the face of its declining financial situation. Most significantly, Montebello is in danger of becoming financially insolvent. The Montebello Unified School District Board of Education (board) has failed to take appropriate action to contain increasing costs in the face of declining enrollment, the primary driver for the district's funding. The board has continually ignored warnings from its oversight agency—the Los Angeles County Office of Education (LACOE)—which has repeatedly urged it to curtail deficit spending. Instead, the board continued to approve budgets in which expenditures exceeded revenues. In August 2017, LACOE rejected Montebello's fiscal year 2017–18 budget because Montebello projected being unable to meet its financial obligations in fiscal years 2018–19 and 2019–20.

Contributing to its financial challenges, Montebello exercised poor governance by failing to consistently follow its hiring processes and by employing individuals in extraneous high-paying positions. Specifically, Montebello failed to follow its hiring processes, such as advertising job postings and performing interviews, for eight of the 10 individuals we reviewed, most occupying high-ranking positions. Therefore, it did not ensure that it hired the most suitable executives and management. Further, our review determined that Montebello hired employees into positions for which they did not meet the minimum qualifications, including a high-ranking position responsible for overseeing Montebello's roughly \$300 million budget.

Moreover, Montebello did not ensure the proper oversight of millions of dollars in bond funds, putting these funds at risk of abuse. Further, Montebello failed to ensure that its employees did not have conflicts of interest when they approved expenditures and contracts related to the bond funds. Also of concern, Montebello's lack of oversight over its expenditures led to Montebello wasting public resources during this period of financial distress. Lastly, the Montebello adult education program likely misrepresented its enrollment and imprudently managed two of its revenue sources—state funding and student fees—at the expense of the community that it serves.

Taken as a whole, the concerns raised in this report call for significant change if Montebello is to avoid financial insolvency. The Los Angeles County superintendent should take immediate actions to reverse Montebello's current trajectory, such as helping Montebello to justify its workforce size and cost compared to its enrollment projections.

Respectfully submitted,

ELAINE M. HOWLE, CPA
State Auditor

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Summary

Results in Brief

The Montebello Unified School District (Montebello), which serves approximately 28,000 students in Los Angeles County, has been the subject of public scrutiny in the face of its worsening financial situation and the danger of financial insolvency. The poor financial stewardship by the Montebello Unified School District Board of Education (board) has endangered Montebello's financial stability and calls into question whether the district can overcome the projected decline in its funding. Specifically, the board has failed to take appropriate action to contain increasing costs despite shrinking enrollment, the primary driver for Montebello's funding. The board has also continually ignored warnings from its oversight agency—the Los Angeles County Office of Education (LACOE)—which has repeatedly urged it to curtail deficit spending. Instead, the board has continued to approve budgets in which expenditures exceeded revenues. In August 2017, LACOE rejected Montebello's fiscal year 2017–18 budget because the district projected an inability to meet its financial obligations in fiscal years 2018–19 and 2019–20.

Contributing to its financial challenges is the fact that Montebello exercised poor governance by failing to consistently follow its hiring processes and by employing individuals in extraneous high-paying positions. Specifically, the district failed to follow its hiring processes, such as advertising job postings and performing interviews, for eight of the 10 individuals we reviewed, most of whom occupied high-ranking positions. In doing so, Montebello did not ensure that it hired the most suitable executives and managers. As a result, our review determined that Montebello hired some employees into positions for which they did not meet the minimum qualifications. For example, Montebello hired its chief business officer (CBO), a high-ranking position overseeing Montebello's roughly \$300 million budget and earning more than \$186,000 annually, even though he did not meet the education-related minimum qualifications. In addition, Montebello employed individuals in extraneous, high-paying positions. For instance, Montebello employed two highly paid executives with similar responsibilities who acted as co-superintendents.

Moreover, Montebello did not ensure the proper oversight of millions of dollars in bond funds, putting these funds at risk of abuse. Montebello's school bond funds can be used for activities such as the construction or replacement of school facilities and, as of December 2016, Montebello had more than \$100 million to spend related to its two primary bonds. State law requires the board to establish and appoint members to an independent citizens' oversight committee (bond committee), which informs

Audit Highlights . . .

Our review of Montebello's financial practices and overall governance revealed the following:

- » *County superintendent intervention is necessary to address Montebello's poor financial management and governance because it is in danger of financial insolvency.*
 - *The board has failed to take appropriate action to contain increasing costs despite declining enrollment, the primary driver for Montebello's funding.*
 - *Despite warnings from its oversight agency, the board continued to approve budgets in which expenditures exceeded revenues.*
 - *The district projected that it will be unable to meet its financial obligations in fiscal years 2018–19 and 2019–20.*
- » *Montebello failed to consistently follow its hiring processes and employed individuals in extraneous, high-paying positions.*
 - *It hired employees who did not meet the minimum qualifications for some positions, including a high-ranking position responsible for overseeing its roughly \$300 million budget.*
 - *It did not ensure that it hired the most suitable executives and managers.*
 - *It employed two highly paid executives with similar responsibilities that acted as co-superintendents.*

continued on next page . . .

» *Montebello did not ensure the proper oversight of millions of dollars in bond funds.*

- *It could not demonstrate that bond funds used to pay for employee salaries were related to allowable bond purposes.*
- *It failed to ensure that its employees who approve expenditures and contracts related to the bonds did not have conflicts of interest.*

» *Montebello's lack of expenditure oversight led to the waste of resources.*

- *It has not provided effective oversight of the purchase and use of equipment and cannot verify that certain purchases were related to district business.*
- *Overtime payments more than doubled from fiscal years 2013–14 through 2015–16 because it failed to monitor employee overtime.*

» *The Montebello adult education program imprudently managed two of its revenue sources—state funding and student fees—at the expense of the community that it serves.*

the public about the expenditure of bond funds and actively reviews and reports on the proper expenditure of taxpayers' money. However, the bond committee did not meet as often as required, and Montebello did not provide the committee with the required expenditure information, which inhibited the bond committee's ability to effectively safeguard millions of taxpayer dollars. In fact, we found that Montebello may have inappropriately paid for salaries using bond proceeds, as there is no documentation showing how the work of these employees related to bond projects. Further, Montebello failed to ensure that its employees did not have conflicts of interest when they approved expenditures and contracts related to the bond funds.

Also of concern is Montebello's lack of oversight of its expenditures, which led the district to waste public resources during this period of financial distress. Specifically, Montebello has not provided effective oversight of the purchase and use of equipment, leading to waste and to potential abuse of district resources. For example, of the 200 computers Montebello purchased in May 2016, it could not locate 13 computers, 162 computers were unopened in a warehouse for more than a year, and the remaining 25 computers were unboxed in a classroom but were not being used. Additionally, Montebello cannot verify that certain other purchases were related to district business. In our review of purchase card expenditures, for example, we noted that employees failed to provide the required receipts for their charges, including payments to PayPal, Domino's, Target, and Amazon. Further, overtime payments more than doubled from fiscal years 2013–14 through 2015–16 because the district failed to monitor employee overtime. For instance, Montebello allowed one employee to receive \$84,000 in overtime, essentially doubling his salary.

Lastly, the Montebello adult education program (adult program) imprudently managed two of its revenue sources—state funding and student fees—at the expense of the community that it serves. The adult program likely inflated its enrollment, a factor the Los Angeles Regional Adult Education Consortium (consortium) used to determine how to allocate state funding for adult schools in the Los Angeles region. The consortium is a governing body with members representing four school districts and a community college district. In addition, the adult program allowed classes to proceed despite low attendance. Finally, we found that an average of more than \$60,000 per year in student fees were at risk of misuse because the adult program failed to implement even the most basic cash collection procedures.

Taken as a whole, the concerns raised in this report call for significant change if Montebello is to avoid financial insolvency and regain the public's trust. Based on our analysis and absent significant

changes, Montebello could be at risk of state intervention. To avoid the serious consequences of state intervention, the Los Angeles County superintendent (county superintendent) should take immediate actions to reverse Montebello's current trajectory, such as helping the district to justify its workforce size and cost compared to its enrollment projections.

Summary of Recommendations

Los Angeles County Superintendent

To ensure that Montebello takes the steps necessary to meet its financial obligations, the county superintendent should direct Montebello to submit a corrective action plan, develop a workforce plan, and implement all of the recommendations detailed below.

Montebello

To improve its current financial condition and ensure future viability, Montebello should, within 60 days, revise its fiscal stabilization plan and make the necessary cuts to fund its ongoing commitments.

To ensure that Montebello hires the most qualified executives and managers, the district should immediately adhere to its policies for hiring employees, including screening candidates to ensure that they meet the minimum qualifications. In order to rebuild trust with its community, Montebello should fill any vacant executive positions through a competitive hiring process to ensure that it hires and retains the most qualified and talented leaders.

To ensure that Montebello creates employee positions only when necessary, it should create a policy within 30 days that requires a justification for why the district is creating a position.

To ensure that bond funds are spent appropriately, Montebello should immediately ensure that its bond committee meets at least once per year and ensure that the district periodically provides the committee with detailed bond expenditure information.

To ensure that staff who are making decisions are free from perceived or actual conflicts of interest, Montebello should immediately amend and adhere to its policy requiring employees to file statements of economic interests.

To ensure that Montebello spends its funds for allowable and reasonable purposes, it should justify salaries paid with bond funds, implement an inventory tracking system, require approvals for overtime, and require receipts for all purchase card expenditures.

To ensure that state adult education expenditures are reasonable and justified, the board should develop a policy within one year to cancel classes if attendance falls below a certain threshold and require the adult program to annually report to the consortium and the board on the accurate number of students in classes.

To improve the cash collection process for the adult program, within 60 days Montebello should implement policies and procedures that align with best practices for cash collection and cash deposits.

Consortium

To ensure that state adult education funds are used in the most efficient and effective manner, within one year the consortium should determine if it is necessary to recalculate the adult program's fund allocation going forward and develop policies to ensure proper collection and reporting of data used for funding decisions.

Agency Comments

Montebello and LACOE agreed with our recommendations. The consortium stated that it had concerns with implementing one of our recommendations.

Introduction

Background

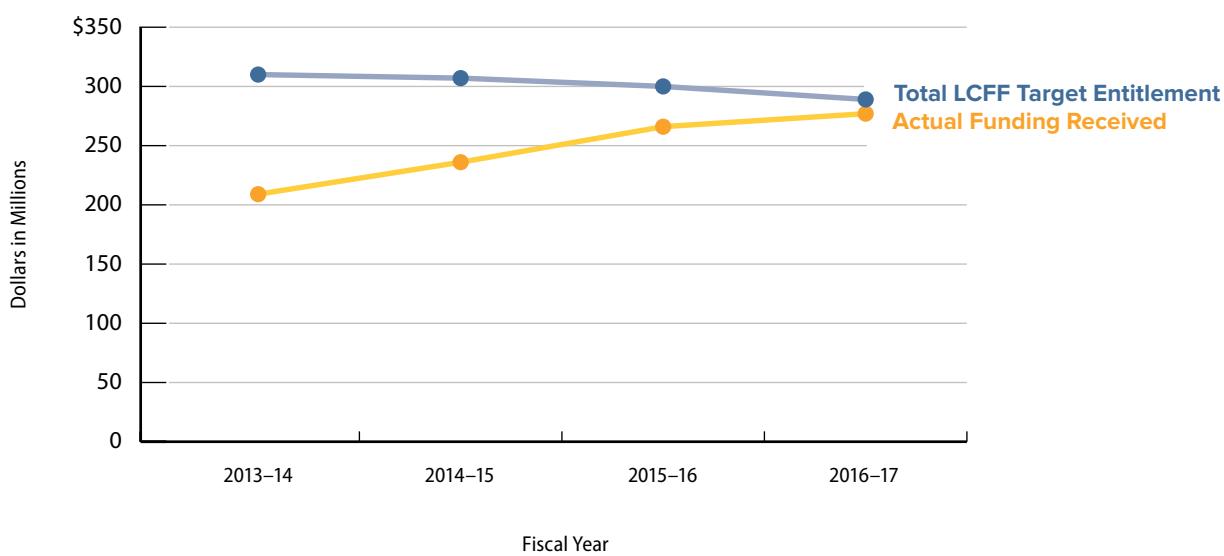
The Montebello Unified School District (Montebello) serves approximately 28,000 students in Los Angeles County. Montebello operates 17 elementary schools, six intermediate schools, four high schools, one alternative education school, and four adult schools. The district is controlled by the Montebello Unified School District Board of Education (board), which is the governing and policy-making body for Montebello. Its five members are elected by district voters and they serve four-year terms. The board's primary role is to establish Montebello's long-term vision, maintain a basic organizational structure, and ensure educational and fiscal accountability to the community while providing community leadership. The board is also solely responsible for employing the superintendent, who is the general administrator of all of Montebello's instructional and business operations. Since January 2017, one employee has been serving as both the interim superintendent and the assistant superintendent of instructional services.

The Los Angeles County superintendent (county superintendent) is responsible for maintaining the fiscal oversight of each school district in Los Angeles County, which she does through the Los Angeles County Office of Education (LACOE). According to LACOE, it is the nation's largest regional education agency, supporting public school districts through a number of means, including fiscal oversight. As part of that fiscal oversight, LACOE reviews districts' annual budgets and interim reports to assess their ability to meet their financial obligations. When a school district may be unable to meet its financial obligations for the current or two subsequent fiscal years, the county superintendent can take actions such as assigning a fiscal expert to advise the district or requiring the district to submit a proposal addressing its fiscal condition. If the county superintendent, in consultation with the state superintendent of public instruction, determines that a school district will be unable to meet its financial obligations for the current or subsequent fiscal year, the county superintendent can develop and impose a budget revision or reject any district action determined to be inconsistent with the district's ability to meet its obligations.

Commencing with the 2013–14 fiscal year, the local control funding formula (LCFF) became Montebello's main funding source. Although LCFF established for school districts new funding levels called a *target entitlement*, the Department of Finance estimated it would take eight years to reach those target levels. However, in 2016–17 the California Department of Education reported that all school districts had received at least 90 percent of their

target funding. LCFF bases funding primarily on average daily attendance, and in fiscal year 2015–16, LCFF provided 76 percent of the funding for Montebello’s general fund while federal sources, other state sources, and local sources provided the remaining 24 percent. Since the district began transitioning to LCFF in fiscal year 2013–14, Montebello’s general fund revenues have increased. As shown in Figure 1, Montebello did not receive its full LCFF funding in past years. However, because of Montebello’s declining student population, its LCFF target entitlement has been steadily shrinking. In other words, the funding Montebello was receiving as part of this transition is going to start declining. As we discuss later in this report, Montebello has not taken appropriate steps to mitigate this expected decline in funding.

Figure 1
While Montebello Has Moved Closer to Its Full LCFF Funding, That Funding Is Decreasing



Source: California Department of Education funding snapshot for Montebello.

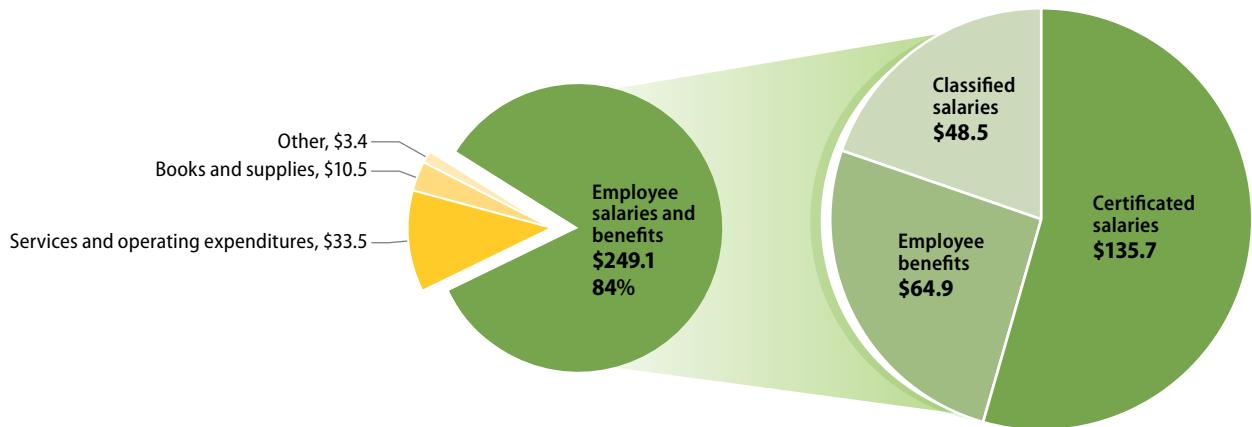
Montebello also receives funds for the construction, reconstruction, rehabilitation, or replacement of school facilities through bond measures. The bonds issued for these purposes required approval from at least 55 percent of district voters. The state constitution restricts these bond funds from being used for any other purpose, including paying for teacher and administrator salaries and other school operating expenses. It also requires that Montebello establish a list of the specific school facilities projects the bond measures will fund. Finally, the constitution requires other safeguards such as an annual financial and performance audit of

bond funds and expenditures. In addition, state law requires the establishment of an independent citizens' oversight committee (bond committee). Montebello primarily had two active bonds as of June 30, 2016: Measure M, approved in 2004 for \$98 million, and Measure GS, approved in 2016 for \$300 million. As of September 2009, Montebello had issued all \$98 million related to Measure M. Although Montebello does not separately track the bond activities in its financial software, its financial statements for fiscal year 2015–16 list a remaining balance of \$17.7 million in the building fund, which contains proceeds from Measure M and any other prior bond issuances. In addition, Montebello issued \$100 million of Measure GS bonds in December 2016, which is now available to spend.

Montebello's main categories of general fund spending include salaries, benefits, services and operating expenditures, and books and supplies. Specifically, as shown in Figure 2, in fiscal year 2014–15 it spent most of its funds on salaries and employee benefits, amounting to \$249.1 million, or 84 percent.

Figure 2

In Fiscal Year 2014–15, 84 Percent of Montebello's General Fund Expenditures Were for Employee Salaries and Benefits (in Millions)



Source: Required supplementary information from Montebello's financial statements for fiscal year 2014–15.

Note: Employees in certificated positions are required by law to possess credentials issued by the State Department of Education for the State of California, while employees in classified positions do not require such credentials.

The Board Is Involved in Hiring Montebello's Employees

Montebello employs certificated and classified personnel. Certificated personnel must hold a valid teaching or school services-related credential that licenses them to do the work required by their positions and may include teachers and certain

administrative positions. Classified personnel are not required to hold credentials for their positions, which include directors, attendance officers, technicians, and custodians. Different policies govern the two personnel types and establish the parties responsible for screening and hiring them.

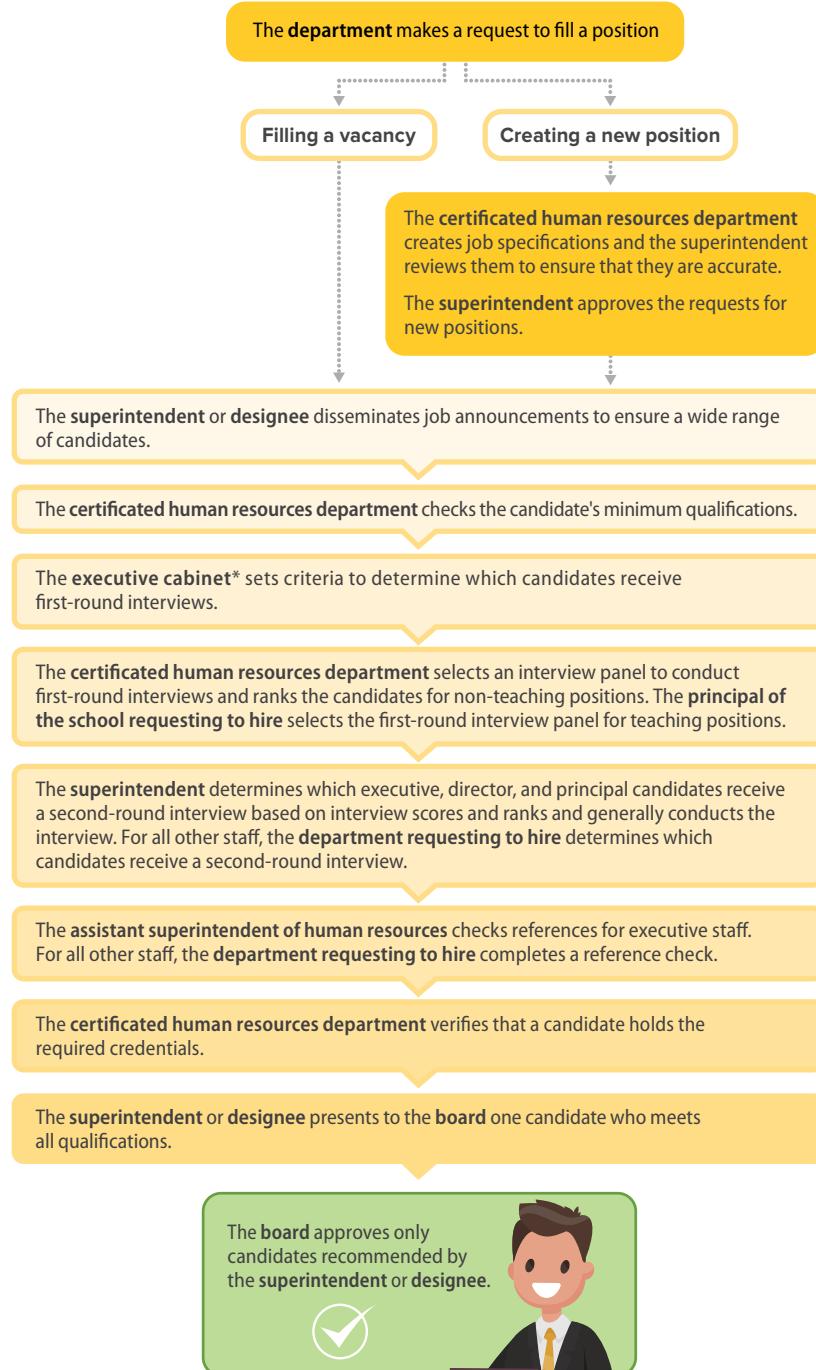
The board has adopted policies that govern the recruitment of certificated staff. As shown in Figure 3, the superintendent or his or her designee disseminates job announcements when Montebello creates a new position or is filling a vacancy. Montebello staff then check applications to ensure that candidates meet the minimum qualifications, conduct interviews, and verify the references and credentials of the candidates. The superintendent then presents to the board one candidate who has met all the qualifications for the position. The board approves only those candidates recommended by the superintendent or the designee.

Classified personnel go through a similar process. However, unlike the certificated process, the classified hiring process includes Montebello's Personnel Commission (commission), which is charged with prescribing and interpreting the rules that pertain to selecting and retaining classified employees according to the merit system. State law established the merit system to ensure that the recruitment of classified personnel is based on merit and fitness. The commission's three members must be registered voters, reside in Montebello, and have given evidence that they support the concept of employment and promotion on the basis of merit and fitness. Members of the commission serve three-year staggered terms, ensuring that only one commission member's term expires each year.

Figure 4 on page 10 shows Montebello's hiring process for recruiting classified personnel. If Montebello is creating a new classified position, the commission must determine the classification, including minimum qualifications and salary ranges based on the position duties established by the board. The commission then announces exams for the classified positions on an employment opportunities bulletin when no eligibility list exists, and a human resources specialist checks applicants' minimum qualifications. Montebello staff may conduct performance exams and interviews. Once interviews are completed, candidates are placed on an eligibility list in final rank order, which the personnel commission approves. Generally, the board and its designated managers interview candidates on the eligibility list and the appointing authority selects the final candidate from the eligible candidates. The director of the personnel commission then certifies that the final selection is in accordance with classified rules and regulations. Finally, the superintendent or designee presents one candidate to the board which it can then approve.

Figure 3

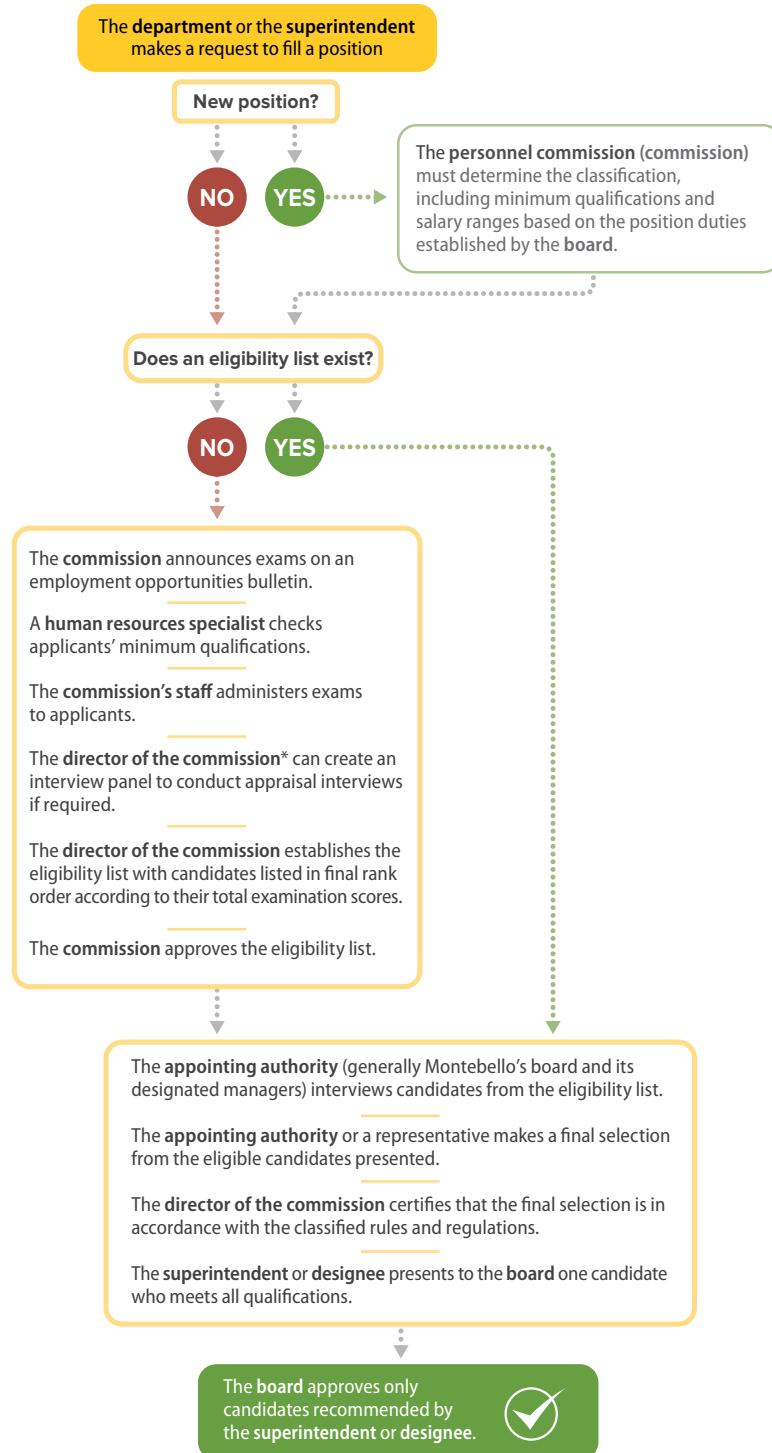
The Board and Superintendent Ultimately Make the Decision to Hire Certificated Employees



Sources: California State Auditor's analysis of board policies and Montebello's hiring practices.

* The executive cabinet generally includes all district executives at or above the assistant superintendent level.

Figure 4
The Board, the Personnel Commission, and the Director of Classified Human Resources All Play a Role in Hiring Classified Personnel



Sources: California State Auditor's analysis of Montebello's classified rules and regulations, classified personnel hiring forms, and board policies.

* The director of the commission is Montebello's director of classified human resources.

According to its policy, the board can employ certificated administrators, supervisors, and classified senior management on a contract basis in order to attract qualified staff. The board contracted with some of Montebello's certificated and classified executives for employment from fiscal years 2013–14 through 2015–16. However, the board's hiring policies do not exempt these contracted executives from meeting the hiring process requirements; Montebello must advertise these positions, ensure that candidates meet the minimum qualifications, and perform interviews. Then the board approves the contracts.

Montebello Claims to Have One of the Three Largest Adult Education Programs in California

The Montebello adult education program (adult program) was established in 1936 and includes four adult school sites that offer a variety of classes to students 18 years or older. The adult program advertises that it is one of the three largest adult schools in California with a total enrollment count of about 22,500 during the 2015–16 school year. Examples of the adult program's courses include English as a second language, citizenship classes, adult basic education classes, and career technical classes. Some of the classes are free, and all classes are free if a student is working toward a diploma, over age 60, or receiving public assistance. In some instances, students must pay tuition and fees to help defray the cost of the class. The adult program charges students tuition and fees that range from \$11 for computer classes to \$750 for pharmaceutical technician classes. Until recently, it only accepted cash payments.

The adult program receives funding from the federal, state, and local sources. In fiscal year 2015–16, federal funding made up 10 percent of the adult program's revenue while state funding made up 89 percent. One percent of the revenue came from local sources, including a small portion from student tuition and fees.

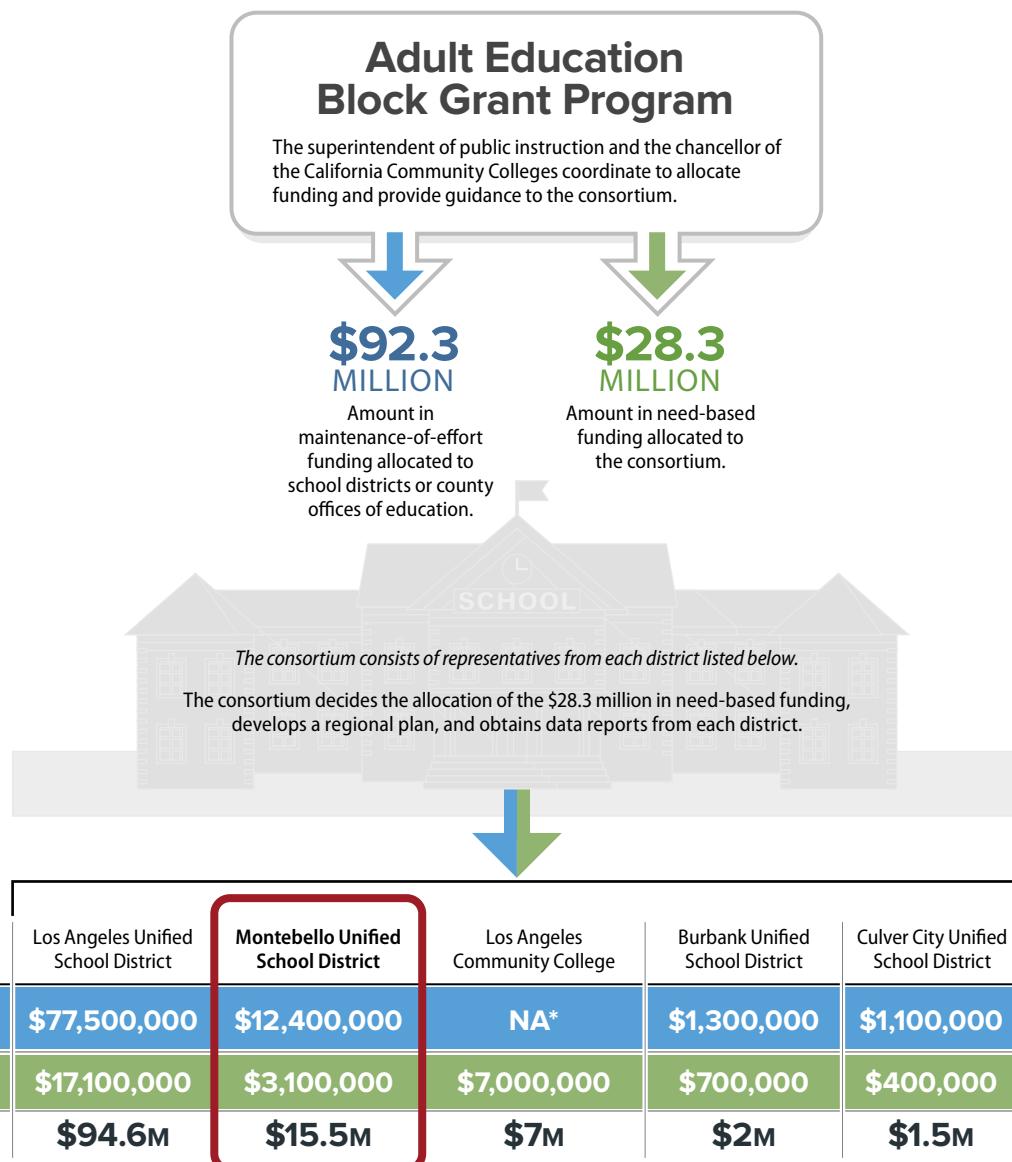
In 2013 the Legislature authorized the creation of regional consortiums of community college and school districts to develop regional plans to better serve the educational needs of adults. Specifically, Montebello's adult education program is now part of the Los Angeles Regional Adult Education Consortium (consortium), whose vision is to sustain, expand, and improve adult education in the Los Angeles region. In 2015 the Legislature established the Adult Education Block Grant Program, which included two types of state adult education funding: maintenance-of-effort funding and need-based funding. The State allocated maintenance-of-effort funding to school districts in amounts equal to those they received in fiscal year 2012–13.

The other source was need-based funding, which the State allocated to each consortium. Members of each consortium then decide how to allocate the funds to participating community college and

school districts. In fiscal year 2015–16, Montebello’s adult program received \$12.4 million in maintenance-of-effort funding and \$3.1 million in need-based funding. Figure 5 shows the oversight and funding structure for the consortium in fiscal year 2015–16.

Figure 5

The Montebello Adult Education Program Is Overseen and Funded by the Los Angeles Regional Adult Education Consortium (Fiscal Year 2015–16)



Sources: California State Auditor's analysis of state law, California Department of Education records of consortium funding allocations, and adult education block grant reports.

* Maintenance-of-effort funding only applies to school districts; community college districts are not eligible for this funding.

Starting in 2016–17, however, the State eliminated the distinction between maintenance-of-effort funding and need-based funding, combining them into one funding source called *consortia funding*. Generally, state law requires a consortium to keep its members' funding relatively stable. However, if the consortium finds that a member has been consistently ineffective at providing services and that reasonable interventions have not resulted in improvements, it can reduce that member's allocation.

Concerns with Montebello and the Board Have Diminished Public Trust

Over the last year, Montebello has been the subject of scrutiny in the face of its deteriorating financial situation. As part of its March 2017 fiscal stabilization plan, Montebello committed to making \$33.4 million in reductions, mainly through staffing cuts. Around the same time, the board approved more than 300 layoffs. Since then, Montebello students, parents, and district staff have protested the potential layoffs and made claims of corruption on the part of board members. Although the board ultimately allowed the rescinding of at least 200 layoff notices, the Montebello community continues to publicly voice its distrust in the board.

Scope and Methodology

The Joint Legislative Audit Committee (Audit Committee) directed the California State Auditor to conduct an audit of Montebello's financial practices and performance. Table 1 on the following page lists the Audit Committee's objectives and the methods we used to address them.

Twice during our audit, Montebello took actions to destroy documents that may have been relevant to our audit objectives. At the beginning of the audit in April 2017, we sent the interim superintendent our standard letter instructing him to notify staff that in anticipation of the audit, they should not purge files or records, make alterations to existing entries in the files or records, or backdate any additions to the files or records. In May 2017, we were notified that Montebello staff had placed documents in a bin to be shredded. However, we were able to intercept the documents before they were shredded. At our request, the interim superintendent emailed the instructions and told the recipients to inform their staff about the protocols. Nevertheless, we were subsequently notified of another shredding incident on a weekend in August 2017. We verified that, in fact, documents were shredded. Although the shredded documents may have been relevant to the audit objectives, we believe we obtained the evidence necessary to support the findings, conclusions, and recommendations we make in this report.

Table 1**Audit Objectives and the Methods Used to Address Them**

AUDIT OBJECTIVE	METHOD
1 Review and evaluate the laws, rules, and regulations significant to the audit objectives.	<ul style="list-style-type: none"> • We reviewed relevant laws, rules, regulations, guidelines, and policies related to the financial and operational administration of school districts. • We interviewed key staff at Montebello who oversee the administration of the school district, including staff in finance, human resources, and the facilities department.
2 For a selection of service contracts, determine whether the policies and practices for soliciting, awarding, and monitoring the contracts comply with laws and regulations related to conflicts of interest and the competitive bidding process for both formal and informal bids. Additionally, evaluate whether Montebello's contracting process meets required levels of transparency throughout the process.	<p>The former superintendent and chief financial and operations officer recently filed a complaint alleging, among other things, that the board and former chief business officer violated various state laws when awarding certain contracts, such as competitive bidding laws and laws governing the disposal of school property. Because audit standards prohibit us from auditing or reporting in a manner that could interfere with pending legal proceedings, we are not reporting on these matters.</p>
3 Review and evaluate Montebello's hiring process. At a minimum, determine the extent to which the following conditions exist: <ol style="list-style-type: none"> a. The hiring policies and practices for executive positions include the appropriate level of screening and evaluation to ensure that individuals hired meet the minimum job requirements and qualifications for the positions. b. The current executives meet the minimum job requirements and qualifications for the positions they hold. c. The hiring policies and practices include protections against nepotism and conflicts of interest. 	<ul style="list-style-type: none"> • To evaluate whether Montebello's hiring process for executives includes an appropriate level of screening and evaluation, we reviewed relevant criteria from Objective 1 related to the hiring of classified and certificated personnel. • For our review, we selected 10 executives and managers Montebello hired from fiscal years 2013–14 through 2015–16. For each of the executives and managers, we reviewed their personnel files and recruitment files in Montebello's certificated and classified human resources departments to assess whether the executives and managers met the minimum job requirements and qualifications for their positions. We also determined whether Montebello followed its established process when it hired or appointed the 10 individuals we evaluated. We summarize the results of our review in Tables 3 on page 25 and 4 on page 30 of our audit report. • To evaluate Montebello's hiring policies and practices that protect against nepotism and conflicts of interest, we reviewed Montebello's policies, policies from other public agencies, and guidance from the California Department of Human Resources. We used the policies from other public agencies and state guidance to identify weaknesses in Montebello's policies. • To obtain perspective related to this objective, we spoke with the board president. We also spoke with the longest-standing board member to obtain historical context.
4 Compare the compensation for executive and administrative positions at Montebello to compensation at other school districts.	<ul style="list-style-type: none"> • We selected four comparable school districts based on the number and type of schools, number of employees, enrollment data, expenditures and revenues, as well as census data of the cities in which they are located. We obtained data related to the size of Montebello and the comparable school districts from their individual school websites as well as the Department of Education. Since these data are public information, and the verification process requires the auditors to go to each site, we determined that it was cost-prohibitive to perform data reliability testing. • We obtained salary information for Montebello executives and the salary ranges for comparable school district positions and compared them. We found that salaries for a selection of administrative positions at Montebello were comparable to the salaries for similar positions at the other districts. We compare executive positions in Figure 10 on page 33, which includes assistant superintendents or their equivalent and above. • We created an organization chart for Montebello and identified the departments that its executives oversee. • We assessed the job descriptions of Montebello's executives to determine whether their responsibilities overlap.
5 Identify Montebello's major categories of spending.	We reviewed Montebello's financial statements to identify its major categories of spending.

AUDIT OBJECTIVE	METHOD
6 For a selection of expenditures, determine whether designated funds, such as maintenance and building funds, as well as nondesignated funds, are spent for allowable and reasonable purposes.	<p>To determine whether expenditures were allowable and reasonable, we performed the following:</p> <ul style="list-style-type: none"> Reviewed 22 expenditures related to various designated and nondesignated funds from fiscal years 2013–14 through 2015–16. We selected the expenditures from Montebello's financial system. To ensure the data was complete, we traced expenditure totals to its audited financial statements and found the amounts materially agreed. Reviewed six expenditures related to purchase cards in fiscal years 2015–16 and 2016–17. Reviewed 42 expenditures related to the adult education revolving fund account from fiscal years 2013–14 through 2015–16. Reviewed overtime payments from fiscal years 2013–14 through 2015–16. Reviewed five bond-funded salary payments in fiscal year 2017–18.
7 Determine how Montebello has responded to declining enrollment, especially as it relates to programs, hiring, staffing, expenditures, and any other areas that may have been impacted.	<ul style="list-style-type: none"> We interviewed key Montebello staff about the district's efforts to counter declining enrollment. We reviewed and analyzed Montebello's budgets to determine the extent to which the district responded to LACOE's concerns, including deficit spending. We reviewed Montebello's most recent bargaining agreement and layoff resolutions to determine if the district implemented its planned cost reduction measures. We reviewed Montebello's audited financial statements and budgets to assess reserves. We also analyzed general fund revenues and expenditures compared to average daily attendance. To obtain perspective related to this audit objective, we spoke with the board president.
8 Assess the adequacy and effectiveness of Montebello's practices for obtaining and monitoring bond proceeds including the following: <ol style="list-style-type: none"> The oversight structure of bond proceeds. The monitoring of the use of bond proceeds to ensure that expenditures are allowable and reasonable. The safeguards in place to avoid abuse and conflicts of interest. 	<ul style="list-style-type: none"> We identified Montebello's active bonds and determined the current funding available. We interviewed Montebello staff regarding bond oversight and the activities of the bond committee. We identified the relevant oversight safeguards over the bond funds and determined whether the district complied. We evaluated Montebello's conflict-of-interest policies for the bond committee and found no issues. We obtained and evaluated the disclosure statements Montebello requires its employees to file including individuals who may approve bond-related expenditures and contracts.
9 Review and assess any other issues that are significant to the audit.	<p>We evaluated the adult program by doing the following:</p> <ul style="list-style-type: none"> Interviewed consortium staff and assessed how the consortium distributes funds to the adult program. Analyzed the adult program's enrollment and attendance reports. Verified the adult program's enrollment and attendance records by surveying a selection of students. Assessed the adult program's cash collection process at two program locations and reconciled cash collected to receipts.

Sources: California State Auditor's analysis of state law and information and documentation identified in the column titled *Method*.

Assessment of Data Reliability

In performing this audit, we obtained electronic data files extracted from the data source listed in Table 2. The U.S. Government Accountability Office, whose standards we are statutorily required to follow, requires us to assess the sufficiency and appropriateness of computer-processed information that we use to support findings, conclusions, or recommendations. Table 2 describes the analyses we conducted using data from the listed source, our methods for testing, and the results of our assessment.

Table 2
Methods Used to Assess Data Reliability

DATA SOURCE	PURPOSE	METHOD AND RESULT	CONCLUSION
Overtime payments from Montebello's payroll system, including time-and-a-half and double-time.	For overtime payments from fiscal years 2013–14 through 2015–16, calculate the increases in overtime during the time period. We present our analysis in Figure 12 on page 40.	We performed data-set verification procedures and electronic testing of key data elements and found no errors. We performed accuracy testing on a random selection of 29 overtime entries by tracing key data elements to supporting documentation and found no errors. We verified completeness by tracing a haphazard selection of 29 hardcopy timecards to the data and found no errors.	Sufficiently reliable for this audit purpose.

Source: California State Auditor's analysis of various documents, interviews, and data from Montebello.

Audit Results

The Board's Poor Fiscal Leadership Has Put Montebello in Financial Peril

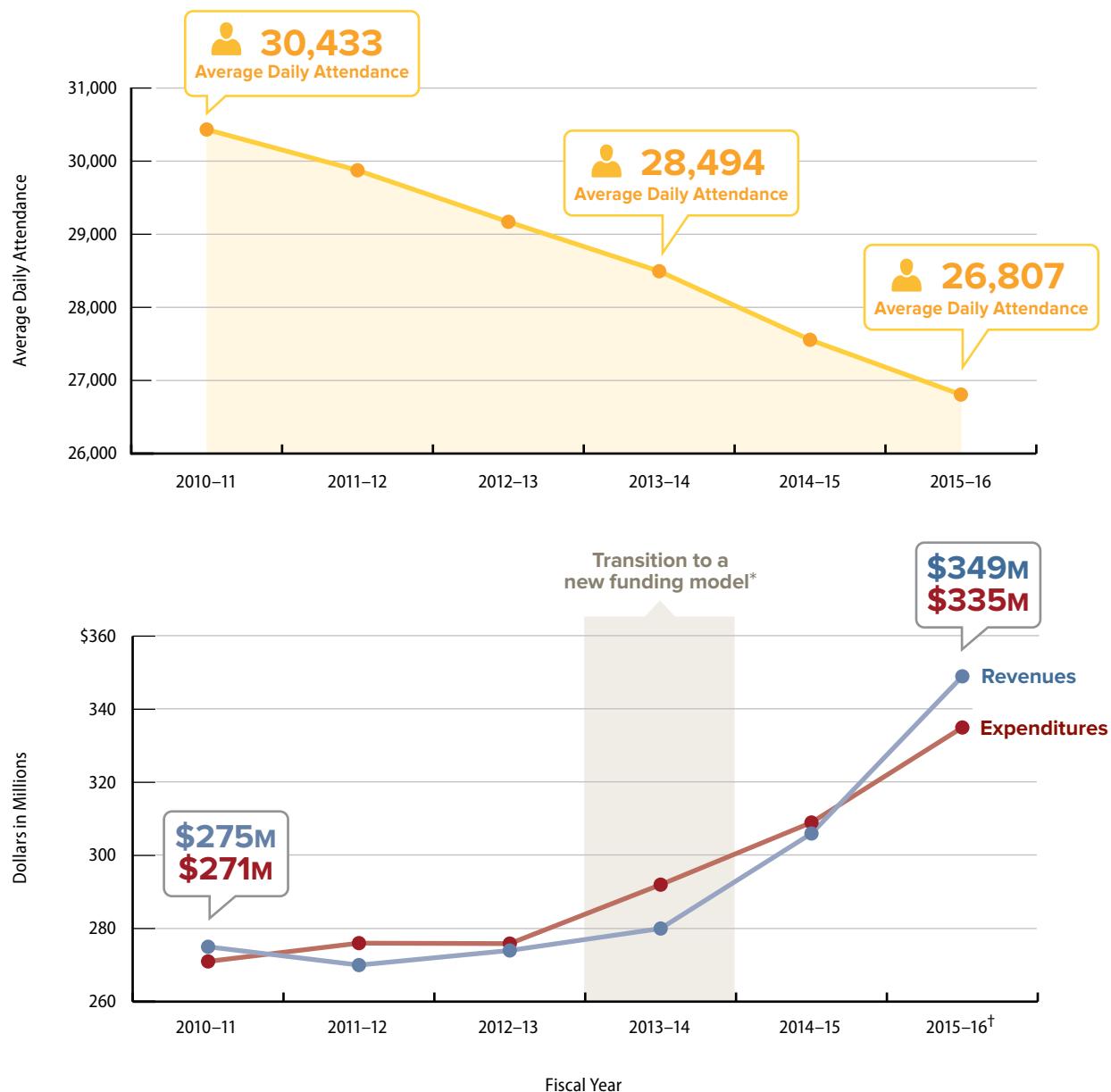
The board's poor financial stewardship has endangered Montebello's financial stability and calls into question whether Montebello can overcome the projected decline in its funding. Specifically, the board has failed to take appropriate action to contain increasing costs in the face of declining enrollment. Enrollment, or more specifically average daily attendance, primarily dictates the level of state funding for Montebello, its largest source of revenue. The board has also continually ignored warnings from its oversight agency, which has repeatedly urged it to curtail deficit spending. Instead, the board has continued to approve budgets in which expenditures exceeded revenues. In August 2017, LACOE rejected Montebello's fiscal year 2017–18 budget because the district projected it would be unable to meet its financial obligations in fiscal years 2018–19 and 2019–20.

Although Montebello has until now avoided losses in funding despite declining average daily attendance, it faces decreasing revenues in the future. As Figure 6 on the following page shows, from fiscal years 2013–14 through 2015–16, Montebello lost 1,687 in average daily attendance, decreasing from 28,494 to 26,807. As we discuss in the Introduction, average daily attendance greatly affects Montebello's funding because it primarily drives local control funding formula (LCFF) funding, the largest source of revenue for Montebello; as a result, Montebello's LCFF revenues will start to decline. We find this of concern because from fiscal years 2010–11 through 2015–16, Montebello's general fund expenditures increased, often exceeding its revenues.

Further, Montebello projects that it will have insufficient reserves in fiscal years 2018–19 and 2019–20, endangering its financial stability. Districts accumulate and maintain reserves to mitigate volatility in funding, cover unexpected costs, and guard against insolvency, among other things. State regulations require all school districts to follow specific standards when developing their annual budgets, including maintaining a reserve for the current year and the two subsequent fiscal years equal to a certain percentage of their total expenditures, which is 3 percent for a district the size of Montebello. However, as Figure 7 on page 19 shows, from fiscal years 2010–11 through 2014–15, Montebello's reserve declined from nearly 12 percent to 3 percent, just enough to meet the state reserve requirements. Although Montebello recovered some of the lost reserves, it still projects a steep decline in reserves in fiscal years 2017–18 through 2019–20. The projected reserves for these years range from 4 percent to a negative 12 percent, a level well below the regulatory requirement and insufficient to meet Montebello's financial obligations.

Figure 6

Montebello's Average Daily Attendance Has Continued to Decline While General Fund Expenditures Have Increased and Often Exceeded Revenues



Sources: Montebello's audited financial statements for fiscal years 2010-11 through 2015-16.

* Commencing with the 2013-14 fiscal year, the local control funding formula became Montebello's main funding source, which has increased Montebello's general fund revenues.

† Montebello's audited financial statements for fiscal year 2015-16 did not receive a clean opinion because auditors were unable to reduce the risk of material misstatement due to potential fraud. As such, fiscal year 2015-16 figures may not be accurate.

Figure 7

Montebello Projects That Its General Fund Reserves Will Significantly Decline in Future Years



Sources: Montebello's audited financial statements for fiscal years 2010–11 through 2015–16 and Montebello's 2017–18 budget.

Note: Actual amounts are as of Montebello's fiscal year end, which is June 30.

* Total expenditures amount includes expenditures and other financing uses.

† As shown in Figure 6, Montebello's average daily attendance exceeded 30,000 in fiscal year 2010–11 and its minimum reserve requirement was only 2 percent of expenditures. Once its average daily attendance dropped below 30,000, its minimum reserve requirement increased to 3 percent.

‡ Montebello's audited financial statements for fiscal year 2015–16 did not receive a clean opinion because auditors were unable to reduce the risk of material misstatement due to potential fraud. As such, fiscal year 2015–16 figures may not be accurate.

§ These amounts are based on Montebello's estimates or projections.

|| Montebello projected an inability to meet its financial obligations for fiscal years 2018–19 and 2019–20.

The board's failure to follow the advice of its oversight agency, LACOE, has brought Montebello closer to insolvency. If Montebello were unable to meet its financial obligations for the remainder of a fiscal year or the subsequent fiscal year, the county superintendent, in consultation with the state superintendent, could veto any of Montebello's actions that were inconsistent with its ability to meet its obligations and could revise Montebello's budget. As Figure 8 shows, since 2010 LACOE has repeatedly warned Montebello and the board about the district's declining enrollment and deficit spending, and LACOE has recommended that Montebello set aside any projected increase in funding. In fact, LACOE has escalated its warnings about Montebello's deficit spending over the last seven years. It suggested in 2010 that Montebello's spending was not sustainable over the long term, and it alerted Montebello and the board in 2017 that it could soon become insolvent.

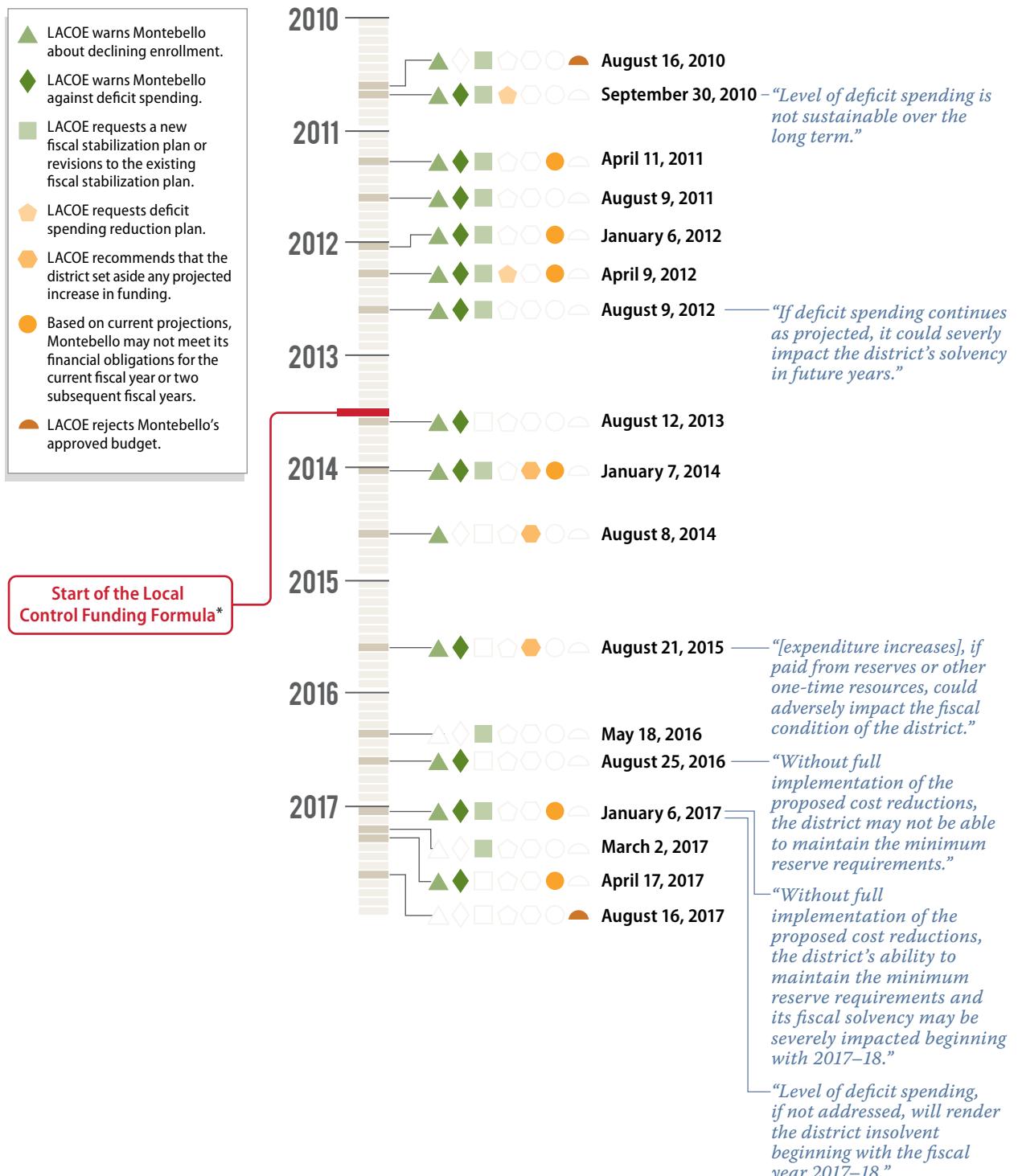
In six of the seven fiscal years from 2010–11 through 2016–17, the board approved budgets in which Montebello planned to spend more than it received, with annual deficits ranging from \$3 million to \$20 million.

However, the board failed to heed any of LACOE's warnings and, instead, it approved deficit budgets. The Government Finance Officers Association recommends that school districts develop structurally balanced budgets, where recurring revenues equal or exceed recurring expenditures. Nevertheless, in six of the seven fiscal years from 2010–11 through 2016–17, the board approved budgets in which Montebello planned to spend more than it received, with annual deficits ranging from \$3 million to \$20 million. Further, the Government Finance Officers Association stresses the importance of evaluating financial performance relative to the adopted budget to detect potential problems and give decision makers time to address deviations from the budget. To comply with this, Montebello sends revisions of its budgets to LACOE twice a year. Instead of using that opportunity to correct its budgets, however, Montebello increased its deficits in those revisions in three of the seven fiscal years.

According to the board president, the board approved those proposed budgets based on what Montebello executives conveyed: that any deficits in the budget would be addressed that same fiscal year by adjusting operating activities in order to close the structural deficit. She also stated that the administration at the time did not provide the board with complete and detailed information about the extent to which the district's reserves would be used to help balance the budget. Regardless, according to its bylaws, the board is accountable to the community for its budget decisions and for Montebello's fiscal integrity. The bylaws also state that the board is to use accountability systems and processes in order to monitor Montebello's fiscal health. Thus, we question why the board approved these budgets without detailed budget information.

Figure 8

LACOE Has Been Warning Montebello About Declining Enrollment and Deficit Spending Since at Least 2010



Sources: A selection of letters LACOE sent to Montebello from August 2010 through August 2017.

* Commencing with the 2013–14 fiscal year, the local control funding formula became Montebello's main funding source, which has increased Montebello's general fund revenues.

The board took other actions that further contributed to Montebello's financial challenges. In May 2016, Montebello entered into a collective bargaining agreement, granting a bonus and permanent salary increases to its teachers. These commitments put further pressure on the district's finances at a most inopportune time to add ongoing obligations. Nevertheless, the board ratified this agreement. However, because Montebello failed to provide specific details on how it would fund the projected increase in compensation of \$5.7 million in fiscal year 2016–17 and \$11.6 million in fiscal year 2017–18, LACOE immediately requested that Montebello prepare a new fiscal stabilization plan to identify where it intended to make the corresponding spending reductions.

After the board failed to heed LACOE's repeated warnings about deficit spending, LACOE contracted with a fiscal expert in February 2017 to assist Montebello in resolving its financial problems.

After the board failed to heed LACOE's repeated warnings, LACOE escalated its involvement with Montebello. Specifically, it contracted with a fiscal expert in February 2017 to assist Montebello in resolving its financial problems. In its March 2017 fiscal stabilization plan, Montebello committed to making \$33.4 million in total spending reductions for fiscal years 2017–18 and 2018–19, mainly through staffing cuts. Around the same time, the board approved more than 300 layoffs. However, the board voted to rescind some of the notices of layoff and delegated the authority to rescind others to the superintendent, ultimately leading the district to rescind at least 200 additional notices, leaving Montebello without a feasible solution to its financial challenges. In August 2017, LACOE notified the board president that it was rejecting Montebello's board-approved budget for fiscal year 2017–18 because Montebello had failed to implement the cost reductions from its fiscal stabilization plan. And because Montebello projected it would fall significantly below its required reserve levels in the following two years, LACOE requested a revised budget along with a new fiscal stabilization plan that would restore the district's reserves to the required levels. If Montebello does not promptly address these ongoing budgeting issues, LACOE could withhold its approval of the budget and assign a budget review committee to recommend the approval or disapproval of the proposed budget. In the event of disapproval, the budget review committee would recommend revisions to the budget that would enable the district to meet its financial obligations.

Montebello is considering other options to reduce the impact of declining enrollment and to avoid deficit spending. The interim superintendent stated that Montebello is reviewing all available options, including repurposing, restructuring, and as a last resort, closing down some school campuses and generating additional revenue through projects that can serve the community and the district, such as installing a billboard on a school campus. The interim superintendent also asserted that

Montebello began creating a list of initiatives in 2017 to respond to declining enrollment. He added that Montebello is still in the process of creating the list of initiatives, but it has implemented some of the planned ideas. For example, the interim superintendent told us that Montebello has implemented an all-day kindergarten program as a way to increase enrollment.

We are concerned about the ability of the board and the district to provide effective fiscal oversight, considering that they have repeatedly made imprudent financial decisions and then failed to take responsibility for their actions. For example, in March 2017, in response to criticisms over layoffs, Montebello issued press releases stating that the previous boards and administrations were to blame for the lack of resources. Some of these press releases also emphasized that the board had to lay off Montebello employees in response to LACOE demands rather than admitting that its own actions had necessitated the deep cuts. In fact, each of the five current board members approved deficit spending at least once during his or her respective terms, which contributed to the lack of resources. These questionable actions, in combination with ignoring LACOE's continual warnings, cast doubt on the board's ability to act as an effective steward for the district and increases the need for external intervention as a solution to Montebello's financial woes.

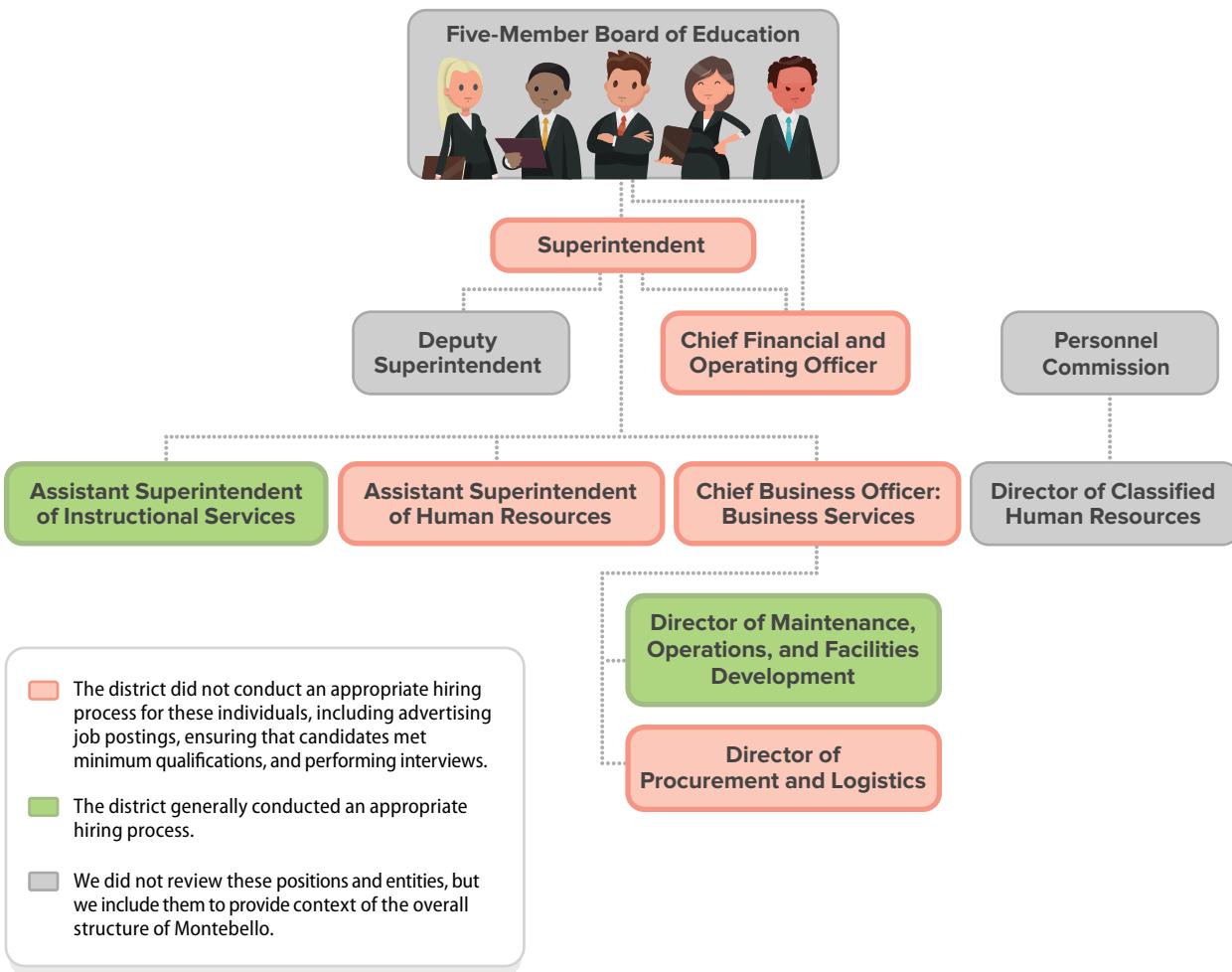
Montebello's Leadership Hired Candidates Who Did Not Meet Minimum Qualifications and It Employed Individuals in Extraneous High-Paying Positions

Montebello exercised poor governance when it failed to consistently follow its hiring processes, which may have inhibited its ability to overcome its financial challenges. Our review determined that Montebello hired employees into positions for which they did not meet the minimum qualifications, including a high-ranking position responsible for overseeing Montebello's roughly \$300 million budget. In other instances, Montebello did not ensure that it hired the most suitable executives and managers. As we discuss in the Introduction, Montebello must conduct a competitive hiring process and formally appoint candidates to positions. However, Montebello failed to follow its hiring processes for eight of the 10 individuals we reviewed—four classified employees and four certificated employees. Five of these eight employees occupied high-ranking positions, which include directors and above as shown in Figure 9 on the following page. Further, although salaries for Montebello executives were generally comparable to other school districts of similar size, we found that Montebello employed individuals in extraneous high-paying positions.

Montebello exercised poor governance when it failed to consistently follow its hiring processes, which may have inhibited its ability to overcome its financial challenges.

Figure 9

Many High-Level Montebello Executives Hired From Fiscal Years 2013–14 Through 2015–16 Did Not Go Through an Appropriate Hiring Process



Sources: California State Auditor's analysis of Montebello's website, personnel files, job specifications, and hiring policies.

Montebello Inappropriately Hired Management Candidates Who Did Not Meet Minimum Qualifications

Montebello bypassed its established hiring policies and, as a result, hired certain individuals for management positions who did not meet the minimum qualification requirements for those positions. Minimum qualifications are the minimum amount of education or experience and the minimum levels of knowledge, skills, abilities, licensures, certifications, and other job-related requirements that must be met for a candidate to be considered for a position. As Table 3 shows, Montebello inappropriately hired four of the five classified employees we reviewed, including three *provisional*—or temporary employees, from fiscal years 2013–14 through 2015–16. State law

defines a *classified position* as one that does not require a teaching or school services-related credential and that is not otherwise exempt from the classified service by state law. These classified positions may include directors, attendance officers, technicians, or custodians. Specifically, in 2015 Montebello hired a candidate who did not meet the minimum qualifications into the role of chief business officer (CBO), a high-ranking position overseeing several departments and earning more than \$186,000 annually. The CBO manages and supervises all financial aspects of Montebello, including supervising all responsibilities associated with accounting, auditing, finance, and investments, among other things. The CBO also oversees several departments, including the maintenance, operations, and facilities department, which in turn oversees millions of dollars in bond funds. Because the CBO had substantial financial responsibilities such as managing Montebello's budget of roughly \$300 million, we question why Montebello did not follow its process to ensure that it hired a candidate who met at least the minimum qualifications.

Table 3
Montebello Hired Classified Employees Who Did Not Meet Minimum Qualification Requirements Into Positions With Substantial Authority and Key Financial Responsibilities From Fiscal Years 2013–14 Through 2015–16

	POSITION	POSITION'S ANNUAL SALARY AT TIME OF HIRE	HIRE DATE	MONTEBELLO ADVERTISED JOB OPENING	MONTEBELLO ENSURED THAT CANDIDATES MET MINIMUM QUALIFICATIONS	MONTEBELLO APPROPRIATELY INTERVIEWED AND RANKED CANDIDATES	THE BOARD APPROVED THE APPOINTMENT BASED ON APPROPRIATE HIRING	AS OF SEPTEMBER 2017 THE CANDIDATE WAS EMPLOYED IN THIS POSITION
CLASSIFIED EMPLOYEES	Director of Maintenance, Operations, and Facilities Development	\$146,220	7/1/2015	YES	YES	YES	YES	NO
	Chief Business Officer	186,479	6/1/2015	YES	NO	NO	NO	NO
CLASSIFIED PROVISIONAL EMPLOYEES*	POSITION	POSITION'S ANNUAL SALARY AT TIME OF HIRE†	HIRE DATE	MONTEBELLO ENSURED THAT CANDIDATES MET MINIMUM QUALIFICATIONS	EMPLOYMENT PERIOD COMPLIED WITH THE LEGAL MAXIMUM OF 126 DAYS*	THE BOARD APPROVED THE APPOINTMENT BASED ON APPROPRIATE HIRING	AS OF SEPTEMBER 2017 THE CANDIDATE WAS EMPLOYED IN THIS POSITION	
	Departmental Finance Manager A	\$84,444	4/8/2016	NO	YES	NO	NO	
	Departmental Finance Manager B	84,444	4/8/2016	NO	YES	NO	NO	
	Director of Procurement and Logistics	93,336	8/1/2013	NO	NO	NO	YES‡	

Sources: California State Auditor's analysis of Montebello's classified personnel and recruitment files, and Montebello classified rules and regulations.

* Provisional positions, which are filled by temporary employees, do not go through the same recruitment process as permanent positions. However, Montebello's classified rules and regulations still require that applicants meet the minimum requirements of the job. State law also restricts employees in these provisional positions to employment for a maximum of 126 working days in a fiscal year.

† Because these provisional employees were not in their positions for the full year, they did not receive the listed annual salary.

‡ Montebello permanently appointed this individual as the director of procurement and logistics in 2015.

Montebello failed to appropriately screen the education credentials of the individual it hired for the CBO position.

Montebello failed to perform the appropriate screening before it hired the CBO. According to Montebello's policy, all applicants for classified positions must meet the requirements that are specified in the qualifications established for the position. However, the district failed to appropriately screen the education credentials of the individual it hired. The position's minimum qualifications require the CBO to have an advanced degree in a related field from an accredited university. However, rather than possessing an advanced degree from an accredited university in a business field, the chosen candidate cited on his application that he held a certificate in school business management and a law degree from a law school that is unaccredited. When we asked the director of classified human resources (classified director) why her staff did not screen out his application, she said that the law degree would provide legal expertise and the certificate in school business management coupled with experience working in public school business offices would provide the technical expertise. However, the minimum qualifications for the CBO position require knowledge of accounting principles and practices, budgeting, and other fiscal procedures as they apply to a school district. Although the certificate in school business management might cover some of these elements, it is not an advanced degree as required. Further, the reason for hiring someone who did not meet the minimum qualifications was not because of a lack of applicants. Montebello noted that of the 31 applicants for the CBO position, 10 applicants had a master's degree in business administration, which meets the minimum qualifications for an advanced degree in a related field, generally covering topics such as accounting, finance, and business operations.

In addition, the former superintendent and chief financial and operations officer (CFOO) recently filed a complaint alleging, among other things, other irregularities with the CBO's application, including that the CBO exaggerated his credentials, falsified letters of recommendations, and concealed his true employment history in order to secure employment with Montebello. Because audit standards prohibit us from auditing or reporting in a manner that could interfere with pending legal proceedings, we are not reporting on these matters.

Montebello also hired two departmental finance managers (finance managers) who failed to meet the minimum qualification requirements into provisional positions in April 2016, calling into question whether the individuals were qualified to perform their required duties. Although Montebello does not require that candidates for provisional positions go through the same recruitment process as those for permanent positions, its classified rules and regulations do require that

applicants meet the minimum qualification requirements for temporary positions. Nevertheless, Montebello appointed two individuals that did not meet these qualifications. While the minimum qualifications required a bachelor's degree or higher, one candidate did not have a bachelor's degree at the time of her appointment. In addition, neither candidate possessed the relevant work experience in accounting or finance; instead, both listed their experience as being largely confined to customer service related to banking. Finance managers, generally mid-level managers, are responsible for managing and monitoring the financial and budget activities of Montebello's largest departments, including analyzing complex financial data and providing expert assistance and support to department managers. In fact, a human resources specialist initially determined that the two applicants failed to meet the minimum qualification requirements, noting that their experience was related to customer service instead of accounting or the higher-level duties associated with financial decisions.

However, the classified director did not enforce Montebello's classified rules and regulations when the district hired these two candidates. When we asked her why these two applications were not screened out, she stated that the former CBO, who would be supervising these two positions, wanted her to hire individuals with banking sector experience and specifically recommended these two individuals. Montebello hired these individuals to help with bond-related projects in addition to the duties of a finance manager. We do not believe the classified director should have allowed the CBO or any other official to influence the decision to hire individuals when they did not meet the minimum qualifications, and it casts doubt on whether Montebello was unbiased in making these appointments. The classified director is responsible for enforcing Montebello's merit system, which includes a requirement that applicants must meet all minimum qualifications for their position. The classified director acknowledged that Montebello should have only hired individuals who met the minimum qualifications.

In addition to the two finance managers, Montebello also hired a director of procurement and logistics in August 2013 as a provisional appointment even though he did not have experience related to procurement as the minimum qualifications required. Further, he was allowed to stay in his position for more than 200 working days in fiscal year 2013–14, well beyond the maximum length allowed. State law restricts provisional appointments to 90 working days or up to 126 working days in any one fiscal year with a justification. When we asked about this apparent exception, the classified director told us that

The classified director did not enforce Montebello's classified rules and regulations when the district hired two finance managers.

Appointment Timeline for the Director of Procurement and Logistics

August 1, 2013—Appointed provisionally.
January 25, 2014—Extended provisional appointment.
April 1, 2014—Extended provisional appointment.
July 1, 2014—Changed to limited-term assignment.
January 1, 2015—Extended limited-term assignment.
May 8, 2015—Appointed to permanent position.

Source: Montebello's personnel request forms for the Director of Procurement and Logistics.

Montebello should have treated his appointment as an out-of-class assignment—a temporary assignment to perform duties and responsibilities that are beyond the scope of duties normally assigned for the employee's position. Nevertheless, according to the board minutes, the board approved his appointment as a provisional employee. Also, as shown in the text box, Montebello extended his provisional appointment twice. Then the district changed the appointment from provisional to limited-term over the course of almost two years before permanently appointing him to the position in 2015. When Montebello extended this appointment, it denied others the opportunity to compete for the position and gave the appointee an unfair advantage in being chosen for that position.

Moreover, Montebello has not provided the personnel commission with enough information for it to effectively serve as one of the district's key checks and balances. As we discuss in the Introduction, the personnel commission ratifies the names on the eligibility list from which Montebello hires classified personnel. However, for the two permanent employees we reviewed, the personnel commission approved the lists without receiving information about how the candidates' education and experience met the minimum qualifications. The chairperson of the commission indicated that the commission formerly "rubber stamped" the eligibility lists. However, he indicated that beginning in July 2017, the commission has started to request more information about the qualifications of the individuals on the eligibility list.

Further, the personnel commission does not review provisional appointments because it is not required to, except in cases where it is extending a provisional appointment. Nevertheless, the personnel commission is responsible for ensuring the selection and retention of classified personnel based on merit and fitness. Given this responsibility and because Montebello appointed three provisional employees that did not meet the required minimum qualifications, we believe the personnel commission should review all provisional appointments.

Montebello also failed to provide—and the board did not ensure that it received—enough information to assist in the decisions to approve appointments for high-ranking positions. According to board policy, for each position, the superintendent or designee recommend one candidate to the board that must meet all qualifications established by law and the board. It further states that no person shall be employed by the board without the recommendation or

endorsement of the superintendent or his or her designee. Also, for classified employees, the classified director must certify that the final selection—made after candidates from an eligibility list are interviewed—is in accordance with classified rules and regulations. Nevertheless, the board approved all three of the high-level classified management positions we reviewed, including the CBO, without being provided information on the individuals' education and experience. The interim superintendent indicated that Montebello should provide the board with a packet of background and qualifications information when considering high-ranking appointments. However, he indicated that to his knowledge this has not been the practice in the past. Further, according to the board's policies, the board is committed to employing qualified individuals to carry out the district's mission. Therefore, we believe the board should have been provided or ensured that it received the qualifications for these individuals when making its hiring decisions because they were high-ranking and critical to the district's leadership team. If Montebello does not provide enough information for its governing body to make sound decisions, the system of checks and balances is rendered ineffective.

Montebello Also Hired Certificated Employees, Including High-Ranking Executives, Without Ensuring That They Were the Best Candidates

Montebello hired some certificated employees, including several high-ranking executives, without a fair and competitive hiring process. We reviewed Montebello's hiring of five executive and management employees, including the former superintendent, the former CFOO, and the assistant superintendent of human resources. These certificated leadership positions are responsible for the overall management and administration of Montebello. As Table 4 on the following page shows, Montebello did not conduct a competitive hiring process—such as advertising job postings, ensuring that candidates met minimum qualifications, and performing interviews—for four of the five certificated positions, including one case in which it could not provide adequate documentation to support the hiring by an external executive search firm. The law requires certificated positions to be held by persons who possess credentials issued by the California Department of Education; these positions can include teachers, school counselors, or certain school administrators. The board's own policies regarding certificated positions require the superintendent or designee to advertise job announcements to ensure a wide range of candidates. Those policies also require the selection process to include screenings, interviews, observations, and the review of recommendations from previous employers, as necessary, to identify the best possible candidates. However, Montebello did not always perform appropriate recruitment, which may have contributed to its ineffective governance structure and compromised its effort to recover from its weakened financial condition.

The board approved all three of the high-level classified management positions we reviewed, including the CBO, without being provided information on the individuals' education and experience.

Table 4
Montebello Hired Certain High-Ranking Certificated Executives Without Advertising the Positions or Performing Screening and Interviews From Fiscal Years 2013–14 Through 2015–16

CERTIFICATED EMPLOYEES	POSITION	POSITION'S ANNUAL SALARY AT TIME OF HIRE	HIRE DATE	MONTEBELLO ADVERTISED JOB OPENING	MONTEBELLO ENSURED THAT CANDIDATES MET MINIMUM QUALIFICATIONS	MONTEBELLO APPROPRIATELY INTERVIEWED CANDIDATES	THE INDIVIDUAL MET MINIMUM QUALIFICATIONS	THE BOARD APPROVED THE APPOINTMENT BASED ON APPROPRIATE HIRING	AS OF SEPTEMBER 2017 THE CANDIDATE WAS EMPLOYED IN THIS POSITION
	Chief Financial and Operations Officer	\$256,504	7/1/2015	NO	NO	NO	YES	NO	NO
	Assistant Superintendent of Instructional Services	165,949	6/16/2014	YES	YES*	YES	YES	YES	YES
	Assistant Superintendent of Human Resources	179,217	7/1/2016	NO	NO	NO	YES	NO	YES
	Superintendent of Schools	265,000	7/1/2015	YES	NO†	NO†	YES	NO†	NO
	Assistant Director of Community Relations and Litigation Support	121,824	4/22/2015	NO	NO	NO	NO	NO	NO

Sources: California State Auditor's analysis of Montebello's certificated personnel and recruitment files, and Montebello board policies.

* State law requires school district superintendents and assistant superintendents to have both an administrative credential and a teaching credential. Although this individual met the minimum qualifications for the position by having both required credentials, staff only verified his administrative credential because they believed that a teaching credential is the prerequisite to the administrative credential. However, an administrative credential may also have other non-teaching credentials as a prerequisite, such as a pupil services credential. Similarly, Montebello also did not ensure that the superintendent of schools and the assistant superintendent of human resources had the appropriate credentials.

† For the individual's appointment to this position in 2015, Montebello could only provide documentation related to its contract with an executive search firm in 2011 to find suitable candidates for the position of superintendent. She was an applicant in the executive search firm's recruitment for the same position. Therefore, we evaluated Montebello's documentation related to the executive search in 2011. Although we found documentation of the firm advertising the position, we were unable to find sufficient evidence about screenings, interviews, or selection of the final candidate.

Specifically, Montebello did not ensure that two of its highest-ranking leaders were the best candidates. The board hired the assistant superintendent of human resources and the CFOO without disseminating job announcements or performing interviews as required. Even though we verified that these two executives met the minimum qualifications, Montebello hired them without advertising the positions or performing screenings to make sure they met the applicable minimum requirements and conducting interviews and thus, did not ensure that it obtained the best individuals to fill these leadership positions. Similarly, Montebello could not demonstrate that it conducted a competitive hiring process when appointing the former superintendent of schools to her executive position in 2015, and it appointed the assistant director of community relations and litigation support without following any hiring process at all.

The assistant superintendent of human resources and the board president provided conflicting views on their respective roles in the hiring process. When we asked the assistant superintendent of human resources why

Montebello appointed individuals into these leadership positions without conducting a competitive recruitment, he stated that the board ultimately has the authority and prerogative to promote individuals as it sees fit. However, the board's president said she understood the individuals presented to her had gone through the appropriate hiring process. She also said that she relies on the recommendations made by Montebello executives. Nonetheless, the board's policy states that it is committed to employing suitable, qualified individuals to carry out the district's mission to provide high-quality education to its students and to ensure the efficient running of Montebello's operations. We believe both appropriate Montebello staff and the board should take responsibility for their respective roles in Montebello's hiring process to avoid the flaws we found. In order to rebuild trust with its community and to ensure that it obtains the most qualified and talented leaders, Montebello needs to adhere to its policies and fill its executive positions through a competitive hiring process.

Montebello Employed Individuals in Extraneous Highly Paid Positions

Montebello created some high-paying positions that may not be in its best interest. In comparing its compensation of executives to those of other school districts, we determined that Montebello had two executive positions that are not common and that may have been unnecessary. Although Montebello's compensation for its most common positions is generally comparable to other districts, as Figure 10 on page 33 shows, Montebello also employed a deputy superintendent and a CFOO—two executive positions that are not common among the four comparable districts. The total annual salary for these two positions is about \$456,000. The deputy superintendent, who was paid an annual salary of nearly \$200,000, separated from the district in March 2016 and, according to the interim superintendent, Montebello does not plan to refill this position.

We also found that the CFOO position was duplicative of the superintendent; in fact, these two highly paid positions had nearly identical job responsibilities. The text box shows two examples of the similar job duties of the two positions. Moreover, we found it curious that many of the CFOO's duties were not financial in nature as his title would suggest. Montebello employed these two highly paid executives with similar responsibilities because

The Board Approved Two Highly Paid Positions With Nearly Identical Job Specifications Effective July 1, 2015

Superintendent Annual Salary \$265,000

Directs, administers, and supervises all divisions and units of the school system with authority to delegate duties and assignments as may be appropriate.

Develops the district's educational policies for recommendation to the board, and enforces all adopted board policies, rules, and regulations.

Chief Financial and Operations Officer Annual Salary \$256,504

Assists in directing, administering, and supervising all divisions and units of the school system with authority to delegate duties and assignments as may be appropriate.

Assists in the development of the district's educational policies for recommendation to the board, and enforces all adopted board policies, rules, and regulations.

Sources: Montebello's job specifications for Superintendent and Chief Financial and Operations Officer. We include only two of the 19 duplicative responsibilities as examples.

the two positions had formerly acted as co-superintendents. As Figure 11 on page 34 shows, the co-superintendent model started as early as 2010 when the former superintendent resigned. At the time, Montebello appointed two interim superintendents who were to keep their former duties and share the responsibilities of the superintendent; they were each contracted to receive \$189,000 annually. We spoke to the longest-standing board member and he indicated that Montebello created co-superintendents as a cost-saving measure because it did not backfill their previous positions—the assistant superintendent of pupil and community services and the director of adult school and liaison to the board. However, two months after the co-superintendent appointments, Montebello backfilled the position of assistant superintendent of pupil and community services with an employee contracted to receive \$158,047 annually. Montebello’s arrangement for co-superintendents continued until July 2015 when its board appointed one of the co-superintendents to the CFOO position and the other co-superintendent as superintendent, increasing both salaries from approximately \$200,000 to more than \$250,000 per year.

However, Montebello did not justify its need for a CFOO position. The classified director indicated that the teachers’ union had complained to Montebello about wasting money on two co-superintendents and Montebello created the CFOO position to appease the union. Nevertheless, the CFOO had the same job duties and was responsible for overseeing the same areas as before. Although the CFOO position was vacant starting in November 2016, Montebello indicated it does not intend to fill the CFOO position again. In fact, the interim superintendent did not think Montebello needed co-superintendents and was surprised Montebello had hired more than one. Montebello’s overuse of executive positions is wasteful, especially in light of its financial struggles.

The interim superintendent did not think Montebello needed co-superintendents and was surprised Montebello had hired more than one.

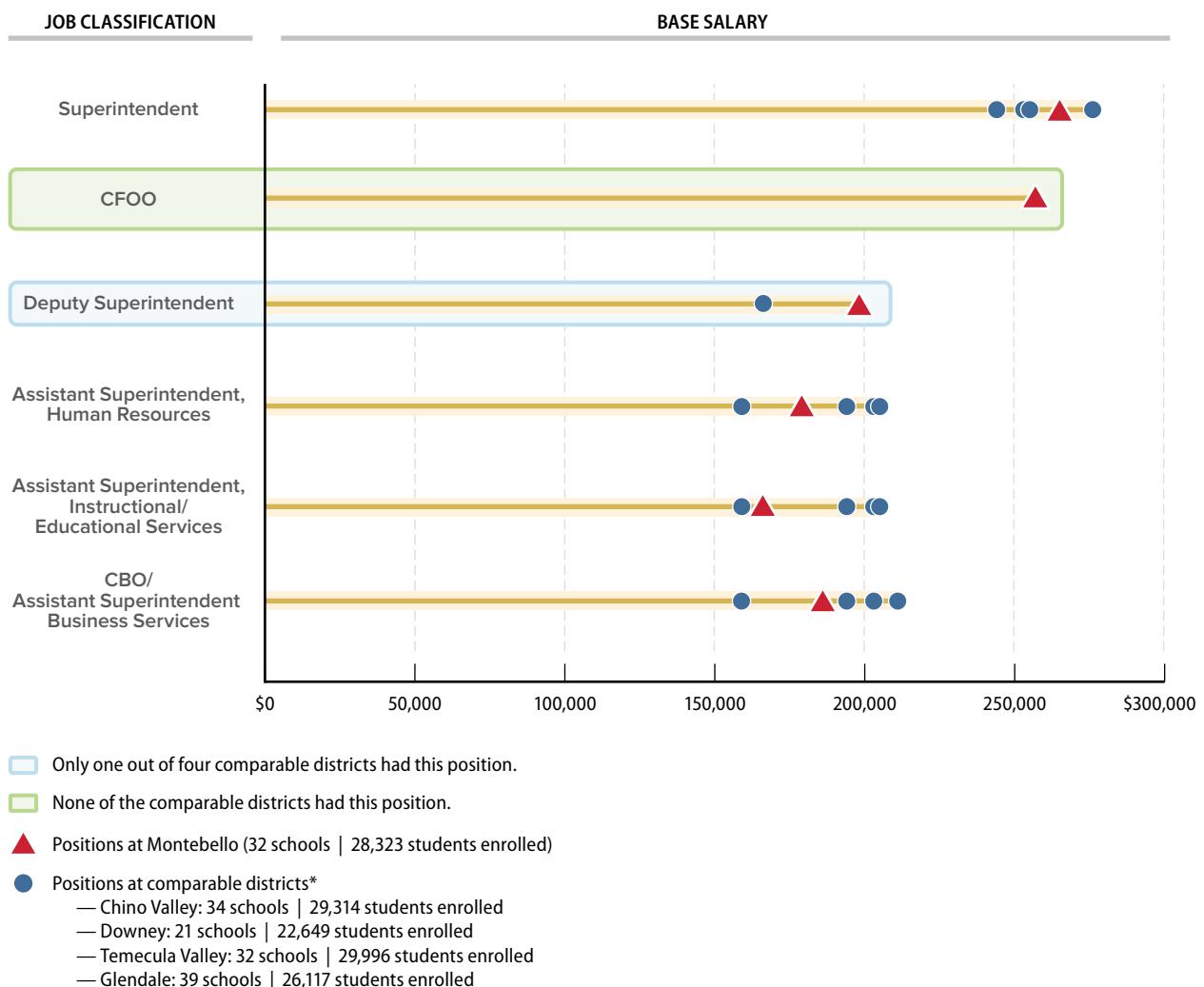
Montebello’s Hiring Policies Are Insufficient to Protect Against Favoritism and Conflicts of Interest

Montebello could strengthen its policies to protect against favoritism and conflicts of interest when it hires certificated and classified employees. While Montebello’s current hiring policies for both classified and certificated personnel focus on the issues of employment of immediate family members and their direct reporting relationships in the workplace, those policies do not address potential conflicts involving family relationships in the hiring process. Other public entities prohibit their employees from engaging in the hiring process, such as participating on a rating panel, or screening and interviewing candidates for a position if a relative has applied. Montebello’s nepotism policies contain no such prohibition and also do not address other personal relationships

of those involved in the hiring process. In addition to addressing family relationships, guidance from the California Department of Human Resources indicates that agencies should have policies that define what other types of personal relationships fall under their nepotism policy, which work relationships the nepotism policy applies to, and what factors to consider when evaluating the potential impact of other personal relationships. If Montebello does not improve its hiring policies, it cannot ensure that its hiring decisions are free from bias or favoritism.

Figure 10

Montebello Had Two Extraneous Positions In 2015 That Were Not Common Among Comparable Districts

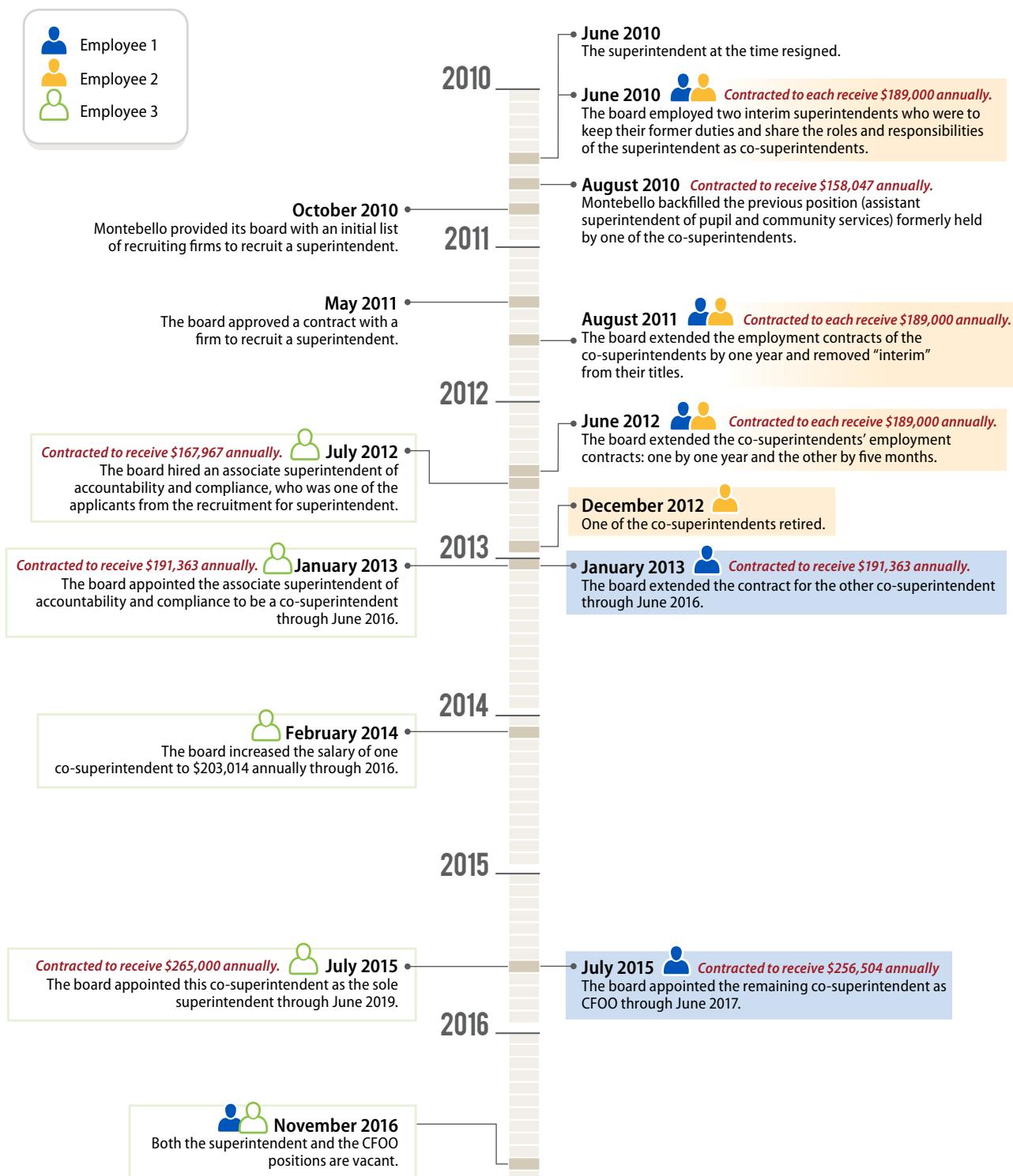


Sources: Montebello's employment contracts and payroll, salary schedules from comparable districts, school district websites, and the Department of Education.

Note: Montebello salaries are generally contracted salaries. For the comparable districts we used the high range of the relevant district's salary schedule for fiscal year 2015–16 or 2016–17 as available.

* We selected comparable school districts primarily based on the number of schools, employees, and students enrolled, as well as the level of revenues and expenditures.

Figure 11
Montebello Employed Co-Superintendents Starting in June 2010



Sources: Montebello employment contracts and other personnel records.

Montebello's Lax Oversight Puts Millions of Dollars in Bond Funds at Risk of Abuse

Montebello's school bond funds can be used for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities.

Montebello primarily has two active bonds as of June 30, 2016: Measure M, approved in 2004 for \$98 million, and Measure GS, approved in 2016 for \$300 million. As discussed in the Introduction, as of December 2016, Montebello had more than \$100 million available to spend from those two bond measures. State law establishes protections for bond funds to prevent abuse and the waste of taxpayer funds. For example, state law requires the governing board of a school district to establish and appoint members to an independent citizens' oversight committee (bond committee), which informs the public about the expenditure of bond funds and actively reviews and reports on the proper expenditure of taxpayers' money for school construction.

According to the bylaws of Montebello's two bond committees, each committee was to meet at least once per year. However, because Montebello's first bond committee—created in 2005 to oversee the Measure M bond—did not meet from October 2013 to March 2017, when Montebello created a new bond committee, the district increased the risk that the bond funds may have been spent for inappropriate purposes during that time. Montebello explained that the first committee did not meet because it struggled to recruit members and to keep the committee positions filled. Although Montebello posted an advertisement and sent a memo to the district community to attract potential bond committee members in May 2014, the interim superintendent was unaware of any other attempts to recruit committee members after that. He agreed that Montebello did not do its due diligence to ensure that the bond committee met.

Montebello created a new bond committee after voters approved the Measure GS bond in 2016 to oversee both the unspent portion of the Measure M bond and the new Measure GS bond. Since its creation, that bond committee has met three times as of September 2017: once to determine the meeting schedule and discuss the conduct of committee officers and twice to provide an overview of the preliminary budget, budget changes, and the projects to be funded under Measure GS. However, the committee did not discuss detailed expenditure information related to either bond measure, inhibiting its ability to effectively safeguard millions of taxpayer dollars. State law requires Montebello to provide the committee with any necessary technical and administrative assistance to further the committee's purpose. Montebello asserted that a construction project management company under contract

Because Montebello's first bond committee did not meet from October 2013 to March 2017, when Montebello created a new bond committee, the district increased the risk that the bond funds may have been spent for inappropriate purposes.

with the district was responsible for providing support to the committee. Montebello's contract with the company requires it to attend bond committee meetings and provide monthly progress reports as requested by Montebello. The contract also states that the contents and details contained within such reports shall be defined and agreed upon by the company's staff and Montebello. When we shared this contract language with Montebello, it claimed it was unaware of its requirement to instruct the company on what to provide to the committee.

As of September 2017, Montebello has yet to release the fiscal year 2015–16 bond audit to the public.

In addition, the state constitution requires the board to have an annual, independent performance and financial audit (bond audit) conducted for the proceeds from the sale of the bonds until all of those proceeds have been spent for school facilities projects. The board contracts with a private CPA firm (auditors) to perform the audits. However, as of September 2017, Montebello has yet to release the fiscal year 2015–16 bond audit to the public. When we asked Montebello about the delay, the interim superintendent claimed that the bond audit is the business services department's responsibility, and the former CBO and CFOO did not ensure that the audit was performed. However, this response does not explain why the same auditors completed the required audit of Montebello's financial statements for the same fiscal year in May 2017 but not the bond audit, as Montebello contracted for both audits in January 2017. State law requires that the auditors submit the previous year's bond audit to the oversight committee at the same time the bond audit is submitted to Montebello but no later than March 31 of each year. Because of the delay in completing the bond audit, Montebello and the public it serves could be unaware of the potential for fraud or other serious issues related to the millions of dollars in bond funds. As we discuss later, we have concerns about certain expenditures related to Montebello using bond funds for salaries.

Further, Montebello failed to ensure that its employees who approve expenditures and contracts related to the bonds did not have conflicts of interest. The maintenance, operations, and facilities development department, which is in charge of projects funded by bond proceeds, approves expenditures and participates in awarding contracts. Because Montebello had millions of dollars available to spend on these bond projects as of December 2016, it is important that all employees involved in making decisions or influencing decisions relating to bond projects disclose their economic interests. State law requires all public agencies, including Montebello, to adopt a conflict of interest code that identifies the positions within the agency that involve the making or participation in the making of decisions which may foreseeably have a material effect on any financial interests. Individuals hired into or occupying

such positions are required to file statements that disclose their reportable investments, business positions, and interests in real property and income within 30 days of being hired, annually thereafter, and within 30 days upon leaving the agency.

However, Montebello failed to ensure that all those employees required to file disclosure statements did so. Therefore, Montebello could not be certain that such employees did not have conflicts of interest when they approved expenditures and contracts. We reviewed a selection of 21 individuals in positions at Montebello that are required to submit a disclosure statement during our audit period and found that the district was missing forms for 14 of those individuals. Of those 14, four individuals were working in departments that make decisions related to bond funds and six were responsible for approving contracts that could be related to bonds. Additionally, some individuals' disclosure statements were not completely filled out, such as failing to indicate on the form which financial disclosures were applicable, and some board members submitted their disclosure statements more than 30 days late. The interim superintendent indicated that he does not have the historical context to explain why this happened but asserted that Montebello would ensure the required employees file disclosure statements in the future.

Moreover, Montebello's conflict-of-interest policy is insufficient to ensure that all individuals who make or influence material decisions submit the required disclosure statements. State law prohibits all public employees from making, participating in making or in any way attempting to use their official position to influence a governmental decision in which they know or have reason to know they have a financial interest, such as making a decision regarding a contract or an expenditure that relates to a business entity in which the employee has an ownership or management interest. Nevertheless, Montebello's policy does not identify all the positions involved in the purchase, contract, and bid processes that could affect the financial interests of those holding such positions. We found four positions whose duty statements include involvement in the purchasing or contracting processes but that are not so designated and thus required by the policy to file a disclosure statement. For example, the facilities projects supervisor is not required to file a disclosure statement, but the job duties for that position include negotiating contracts, evaluating and processing construction disbursements, and acting as the district's owner or agent for assigned projects. Because the duties of this position include making decisions involving the expenditure of Montebello's money and potentially millions of dollars related to projects funded by bonds, Montebello should require the holder of the position to file a disclosure statement.

Montebello's conflict-of-interest policy does not identify all the positions involved in the purchase, contract, and bid processes that could affect the financial interests of those holding such positions.

Montebello's Lack of Oversight Led to Misuse of Restricted Funds and Waste of Resources

Montebello's lack of oversight of its expenditures led to it improperly using restricted funds and wasting public resources during this period of financial distress. In fact, we found that Montebello may have inappropriately paid for salaries using bond proceeds with no documentation, such as time cards, showing how the work of these employees related to bond projects. Also, Montebello's overtime payments more than doubled from fiscal years 2013–14 through 2015–16 because it failed to monitor the use of employee overtime. Additionally, Montebello has not provided effective oversight of the purchase and use of equipment, leading to waste and potential abuse of Montebello resources. Finally, Montebello cannot verify that certain purchases were related to district business.

We reviewed expenditures made in fiscal years 2013–14 through 2017–18 from several funds, including the building fund, which includes proceeds from the sale of bonds; the adult education fund, which accounts for revenues and spending related to the adult education program; and the general fund, Montebello's main operating fund. Our review identified questionable expenditures made from all of these funds.

Montebello could not demonstrate that bond funds used to pay for employee salaries were used for bond-related purposes, which may be a misuse of taxpayer funds and a violation of the California Constitution.

Montebello could not demonstrate that bond funds used to pay for employee salaries were used for bond-related purposes, which may be a misuse of taxpayer funds and a violation of the California Constitution. The constitution requires that bond proceeds, such as Montebello's, be used only for the construction, reconstruction, rehabilitation, or replacement of school facilities and not for any other purpose, including teacher and administrator salaries and other school operating expenses. The California Attorney General's Office has concluded that such bond proceeds may be used to pay the salaries of district employees to the extent that they perform administrative oversight work on construction projects authorized by a bond measure. However, we found that Montebello paid, at least in part, the salaries of four employees in fiscal year 2017–18, totaling nearly \$19,000 for one month using bond proceeds from the building fund. Some of these employees held financial and accounting positions. Montebello paid these salaries with no documentation, such as time cards, showing how the work of these employees related to bond projects. If this trend continues, Montebello could pay about \$228,000 for the four individuals we identified over the course of one year. Even more significantly, our review of the building fund's salaries and benefits funding plan for fiscal year 2017–18 revealed that Montebello planned to pay the salaries of other employees partially through use of bond proceeds instead of charging those expenses to the general fund, as it had in previous years. Montebello could not explain how it

determined that portions of these salaries should be paid for using bond proceeds. This inability to explain its use of restricted bond proceeds raises questions about its compliance with the provisions of its bonds as well as with state law, and casts doubt on its ability to responsibly manage its new bond.

Another area of potential waste is Montebello's lack of an overtime pre-approval and oversight process which we believe may have led to rising overtime costs and likely allowed abusive practices. As indicated in Figure 12 on the following page, from fiscal years 2013–14 through 2015–16, Montebello's overtime payments more than doubled from just less than \$1 million to more than \$2.3 million. During fiscal year 2015–16, Montebello allowed two employees to receive more than \$84,000 and \$58,000, respectively, in overtime compensation from the general fund, essentially doubling their annual salaries. In contrast, these employees received \$8,700 and \$2,400, respectively, in overtime compensation in fiscal year 2013–14. Because Montebello does not require employees to obtain approval before working overtime or to submit information about the work being performed during their overtime hours, it cannot effectively control overtime costs. In fact, when we inquired about the overtime these two employees worked, Montebello was unable to justify the purpose.

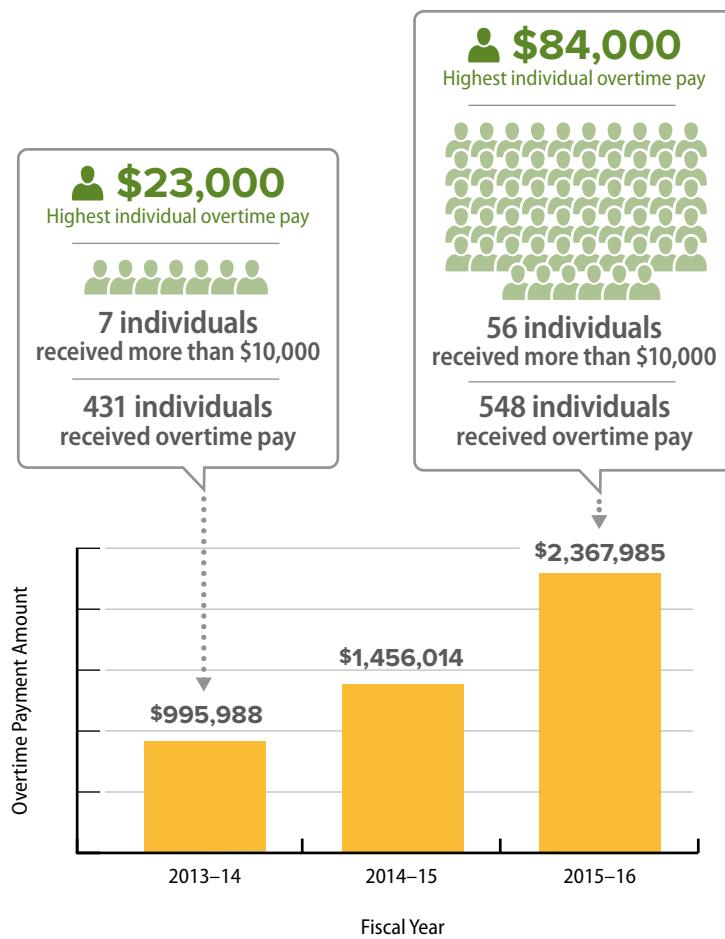
Montebello was also wasteful in spending adult education program (adult program) funds on computers it did not use. We reviewed a May 2016 purchase of 200 Dell computers totaling more than \$215,000, and purchases from 2014 and 2015 of 24 Apple computers, three Apple iPads, and various Apple hardware and software totaling more than \$50,000. As of August 2017, Montebello could not locate 13 of the Dell computers, 162 of them were stored unopened in a warehouse, and the remaining 25 were unboxed in a classroom but not being used. When we shared these concerns with Montebello, the director of adult education stated that the adult program has not had a full time employee to work on their technological needs and, as of October 2017, he was still working on hiring a full time employee to serve these needs. However, this is not a reasonable explanation of why Montebello would make a large purchase and then not ensure that it had staff to install the computers for more than a year. Montebello was also unable to account for 13 Apple computers and the three Apple iPads it purchased in 2014 and 2015, and the district's IT and procurement staff stated that they do not track the location of computers. The lack of a clear chain of custody and inventory control for equipment exposes Montebello to the risk of loss and theft.

Additionally, we found that Montebello misused at least \$42,000 of adult program funds on expenses such as services for non-adult education purposes. For example, Montebello used adult program funds to pay a consultant \$2,100 to be a resource and liaison for special education district staff, parents, and students in

Montebello's lack of an overtime pre-approval and oversight process, which we believe may have led to rising overtime costs and likely allowed abusive practices, is another area of potential waste.

Montebello when this was not an adult education activity. State law prohibits using the adult education fund for purposes other than adult education. Furthermore, according to Montebello's policy, it cannot use the adult education revolving fund account—which functions similar to a petty cash account—for items such as food, beverages, or staff awards. However, we found the adult program spent at least \$3,700 on these types of items. Montebello agreed that it should not have used the fund in this way, and it plans to eliminate the revolving fund account.

Figure 12
Overtime Payments Have More Than Doubled From Fiscal Years 2013–14 Through 2015–16



Source: Montebello overtime payment records obtained from the district's payroll system.
 Note: The information presented includes both time-and-a-half and double-time payments.

Finally, Montebello cannot verify that certain purchases were related to district business. Montebello provides purchase cards to its employees as a cost-effective and timely method for purchasing

goods and services. However, Montebello does not have a clear policy to restrict who has the authority to use purchase cards nor does it adequately monitor their use. In our review of purchase card expenditures from the general fund, we noted that employees failed to provide receipts for their charges as required by Montebello's policy, including payments to PayPal, Domino's, Von's, Walmart, Target, and Amazon. Without receipts, Montebello cannot verify that these purchases were related to district business. This is especially problematic as Montebello charged more than \$750,000 in purchase card transactions in fiscal year 2015–16 alone. Montebello agreed that this is a problem and asserted that it would limit the number of purchase card users in the future. However, only limiting the number of users without requiring receipts for purchases will not address the risk of Montebello's employees making non-business purchases.

Employees failed to provide receipts for their purchase card charges as required by Montebello's policy and thus, Montebello cannot verify that these purchases were related to district business.

The Montebello Adult Education Program Likely Misrepresented Its Enrollment and Poorly Managed Its Funding

The Montebello adult program imprudently managed two of its revenue sources—state funding and student fees—at the expense of the community that it serves. The adult program likely misrepresented its enrollment, a factor the Los Angeles Regional Adult Education Consortium (consortium) used to determine how to allocate state funding for adult schools in the Los Angeles region. The consortium is a governing body with members representing four school districts and a community college district. Further, Montebello's adult program allowed classes to proceed despite low attendance. We also found that an average of more than \$60,000 per year in student fees were at risk because the adult program failed to implement even the most basic cash collection procedures. Ultimately, the consortium and Montebello need to increase their oversight of the adult program to ensure that it justifies its program needs and implements processes that ensure that staff properly collect student fees.

The Adult Program Likely Misrepresented Its Enrollment and Allowed Classes to Proceed Despite Low Attendance

The consortium distributed state funding among the adult education programs of its five district members in a manner that favored the Montebello adult program. As we discuss in the Introduction, the consortium's governing board made certain funding decisions related to adult education programs in Los Angeles for fiscal year 2015–16 that will likely affect the amount of funds apportioned to members in future years. Table 5 on the following page shows that the Montebello adult program received \$15.5 million in state funding in that fiscal year, or \$690 for each class in which a student enrolls. The table also shows that the consortium allocated more than double the amount of funding for

Montebello students than it did for students in the Burbank and Culver City adult education programs. Moreover, the Montebello adult program received \$15 more for each class in which a student enrolled than the largest district in California, the Los Angeles Unified School District (LAUSD).

Table 5
The Montebello Adult Education Program Received More Money Based on Enrollment in Fiscal Year 2015–16 Than Other Programs in the Los Angeles Region

CONSORTIUM MEMBER	2015–16 STATE FUNDING (DOLLARS IN MILLIONS)	2015–16 ENROLLMENT*	2015–16 FUNDING FOR EACH CLASS IN WHICH A STUDENT ENROLLS
Montebello Unified School District	\$15.5	22,479	\$690
Los Angeles Unified School District	94.6	140,172	675
Burbank Unified School District	2	6,593	308
Culver City Unified School District	1.5	5,591	260
Los Angeles Community College [†]	7	151,064	46
Consortium Total	\$120.6	÷ 325,899 = \$370	

Sources: California State Auditor's analysis of California Department of Education's records of consortium funding and consortium enrollment reports for fiscal year 2015–16.

* Enrollment is based on counting each class in which a student enrolls rather than the number of students.

† The Los Angeles Community College district receives less state funding per student because community college districts do not receive maintenance-of-effort funds and only receive need-based funding. Figure 5 on page 12 in the Introduction shows how much maintenance-of-effort funding and need-based funding each consortium member received in fiscal year 2015–16.

What's more, the Montebello adult program likely inflated the enrollment numbers it reported to the consortium. Its total enrollment count of around 22,500 in school year 2015–16 is based on counting each class in which a student enrolls rather than the number of students. For example, if a student enrolled in five classes, the count would be five. This method is called a *duplicated count* and is likely too high, as we discuss below. A second method that counts the number of people enrolling—an *unduplicated count*—yielded 18,315 students for that year but this number also may be high as discussed on page 44. In July 2017, we surveyed 233 students from Montebello's two largest adult schools, Ford Park Adult School (Ford Park) and Montebello Adult School (MOA) and asked them about the number of courses they enrolled in and the amount they paid for those courses. For the 40 students who responded, we were able to identify that the adult program had 83 completed class enrollment cards. However, these students reported enrolling in only 43 classes, calling into question the remaining 40 enrollment cards. For example, one student stated on the survey and during a follow-up phone call that she enrolled in three courses, yet we found eight different enrollment cards for her. In another example, in school year 2015–16, 473 of the

521 students we selected who signed up for on-campus English as a second language courses (ESL) were also enrolled in distance learning ESL classes. We expected that fewer students would have enrolled in both in-class and distance learning classes during the same school year.

If the Montebello adult program reported enrollment numbers that were higher than its actual enrollment, it had an unfair advantage when the consortium determined how to allocate its funding. According to the project manager for the consortium, the allocations of the 2015–16 need-based funding was loosely based in part on district enrollment. The consortium determined need-based funding via extensive negotiations among its members including school district representatives and a representative from the Los Angeles Community College District. When making the decision on how to allocate its funds, the consortium also discussed issues such as the amount of federal funding received by each program, the number of students on wait lists, and the total number of students in each district. However, when we reviewed consortium documents, we found it difficult to determine how the consortium used these criteria, including enrollment, to allocate funding. Regardless, if the Montebello adult program's enrollment numbers are actually lower than it reported to the consortium, it may be receiving more money to serve its students at the expense of other adult education students in the Los Angeles region.

We also have concerns regarding the reliability of the adult program's attendance data. After discovering through our survey the discrepancy between the number of classes students reported enrolling in and Montebello's enrollment records, we followed up with a review of the number of class sessions a selection of students attended. Seven students stated that collectively they attended 12 sessions. However, when we analyzed the attendance records for the class sessions as reported on Montebello's enrollment cards, we found that the teacher had marked those seven students as present in a total of 23 class sessions. One teacher for whom we identified record discrepancies asserted that she only marks students who are present in her class as attending, and was unable to further explain these discrepancies.

Moreover, the adult program does not ensure that it manages its resources prudently. Specifically, the adult program does not cancel classes when attendance is low. State guidance requires that adult education programs use funds prudently and efficiently and that expenditures be consistent with program goals and activities. The adult program's website claims that it may discontinue courses if attendance drops below an acceptable minimum number of students, which is a reasonable policy to ensure the efficient use of resources. However, according to Montebello's director of adult education, there is no board policy to facilitate cancelling a class due to low attendance. The adult program did not cancel at least 20 classes offered in the 2015–16 school year that had fewer than 10 students in attendance. In fact, according

If the Montebello adult program's enrollment numbers are actually lower than it reported to the consortium, it may be receiving more money to serve its students at the expense of other adult education students in the Los Angeles region.

to the director of adult education, the adult program has never canceled a class because of low attendance. In contrast, LAUSD's union contract states that if attendance is fewer than 12 to 15 students, depending on the class, then LAUSD will cancel the class. When we informed the director of adult education that we believed the board should implement a minimum class size policy, he expressed concern that such a policy could become a union issue. Nevertheless, we do not consider this a valid reason for not establishing a reasonable minimum class size policy, especially considering that LAUSD's class size minimums are included in its union contract.

By teaching classes with a small number of students, Montebello's adult program is making a significant investment when another member of the consortium could have potentially used the funds to serve more students. Specifically, in the summer of 2015, Montebello's adult program offered 24 three-week summer school courses with up to 10 students attending. Based on the teachers' hourly salary rates alone, the adult program invested an average of \$308 per student for these summer school courses. In one case, a teacher who made \$57 an hour spent 312 hours teaching nine students, at a salary cost of \$17,784. At \$1,976 per student, this is \$152 higher than a quarter's tuition of \$1,824 for a California State University undergraduate student. Finally, as noted in the previous section on pages 39 and 40, the adult program misused state funds by making unreasonable expenditures in other areas as well.

These issues suggest that the adult program may have received more funding to serve its students at the expense of other schools in the Los Angeles region. For example, when we shared our concerns about the enrollment and attendance data with the current director of adult education, he stated that he believes the actual enrollment numbers are closer to 12,000 to 15,000 students each year. These figures are much lower than both the enrollment and student counts—the duplicated and unduplicated counts—that the adult program reported to the consortium. The consortium project manager stated that although he recognizes that the consortium could increase its oversight of each district by doing things such as reviewing self-reported data, it is difficult to exert this oversight without a specific mandate from the Legislature, the California Department of Education, or the Board of Community Colleges. Nevertheless, state law allows the consortium to reconsider the funding levels if it finds that one of its members has been ineffective in providing services that address the needs identified in the adult education plan and reasonable interventions have not resulted in improvements. State law also requires that each consortium member's adult education plan include, among other things, an evaluation of the educational needs of adults in the region, an evaluation of services available, and actions the members will take to address those educational needs and improve the effectiveness of their services. The adult program's questionable enrollment numbers suggest that an evaluation is warranted by the consortium of the program's ability to effectively provide services. This is

The adult program's questionable enrollment numbers suggest that an evaluation is warranted by the consortium of the program's ability to effectively provide services.

especially true given that funding levels for each consortium member will generally remain consistent into the future, absent a finding by the consortium, as we describe in the Introduction. The Montebello director of adult education stated he would take the steps necessary to justify the costs of the adult program, including implementing a new system to track enrollment and attendance. However, he told us he would also continue to advocate for the district to receive its current level of funding from the consortium.

The Adult Program’s Poor Cash Collection Process Puts Student Fees at Risk of Misuse

Because its adult program lacks basic cash collection safeguards, Montebello adult education staff have the opportunity to divert student tuition and fees. As we note in the Introduction, students must pay for tuition and fees in cash only. The two schools we reviewed—MOA and Ford Park—both had inadequate cash collection practices. While Ford Park provides receipts to its students, MOA does not, which makes it very difficult to reconcile the cash collected with the number of students who enrolled at MOA. At the same time, while MOA deposits the cash collected into a cash register, Ford Park staff keep the money in envelopes in a locked desk drawer. In fact, Ford Park’s cash register is kept in a storage room. Ford Park’s cash collection also lacks proper separation of duties because one individual is generally responsible for collecting student tuition and fees, creating deposit slips, and reconciling the cash collected with the deposit slips. This lack of separation of duties provides the potential for one person to create and conceal the diversion of cash. In fact, the district’s annual financial audit from fiscal year 2015–16 found that the district was at high risk for fraud because of poor internal controls, lack of supervision, and poor business practices, and it cited the adult program as one area for further examination.

Ford Park’s process is particularly concerning because there are numerous opportunities for cash to be misplaced or misused in the cash collection process. Since Ford Park is the largest of the adult program’s schools and collects thousands of dollars each year in student tuition and fees, we expected that management would have established strong cash collection procedures—such as ensuring the separation of duties—that would diminish the opportunity for misuse. However, as Figure 13 on the following page shows, from the time that a student pays tuition and fees through their deposit, multiple opportunities exist for staff to divert the cash. In fact, we found that management did not even fully understand the cash collection process that was currently in use. Ultimately, weak processes create opportunities for individuals to take advantage of those processes for personal gain.

Management did not even fully understand the cash collection process that was currently in use at Ford Park.

Figure 13

Inadequate Cash Collection Safeguards at Ford Park Adult School Create Many Opportunities for Staff to Divert Student Tuition and Fees



Sources: California State Auditor's analysis of the Ford Park cash collection process and the Association of Government Accountants' risks, red flags, and best practices for detecting cash diversions.

Moreover, according to the office assistant who collects the cash, there is an informal policy whereby students do not pay for all classes in which they enroll. Specifically, she only charges students for one class a semester even if they are enrolling for multiple classes that require payment. Although the previous and current directors of the adult program were unaware of this informal policy, the previous director stated that this sounds like a policy she might have given permission for. This explanation highlights the importance of having a documented and consistent policy. Because tuition and fees are paid in cash and the policy is unwritten, there is increased risk that staff could charge a student for all of the classes, inappropriately record the payment amount for one class on the receipt, and keep the extra money collected. Moreover, because the office assistant did not collect and deposit the appropriate amount of tuition and fees because of this informal policy, some of Ford Park's classes are being unnecessarily subsidized by other funding sources.

Of further concern is the fact that we were unable to balance the cash the office assistant kept in her desk with the receipts she issued, which is a red flag for cash diversion. On two occasions, we went to Ford Park unannounced with the intent to balance the cash-on-hand to the amount the receipts she had collected. The first time, we found the school's cash was short by \$6 out of \$222. The office assistant claimed the difference occurred because she sometimes makes change out of her purse. On the second occasion, we determined that the school was short \$40 out of \$490 documented in the receipts. We subsequently observed the office assistant pulling \$40 from her drawer and putting it in the envelope we had already determined was short. She then stated that the cash would balance. Although it is unclear whether any illegal activities occurred, we have concerns that such an environment creates the opportunity for cash diversion.

When we informed the director of adult education about our concerns regarding the lax cash collection process, he claimed that he would fix the process immediately by implementing new procedures. In September 2017 we received a copy of the new cash receipt policies that addressed our concerns with the process. For example, the new policy requires that all staff put cash into a cash register. The director of adult education also stated that he is in the process of implementing a new enrollment system that will allow students to enroll in courses online and pay for their tuition and fees with credit or debit cards.

Additional Oversight Is Necessary to Ensure That Montebello Implements Crucial Reforms

This report identifies numerous concerns, including Montebello's inadequate budgeting and hiring practices. These poor practices have contributed to Montebello's precarious financial situation,

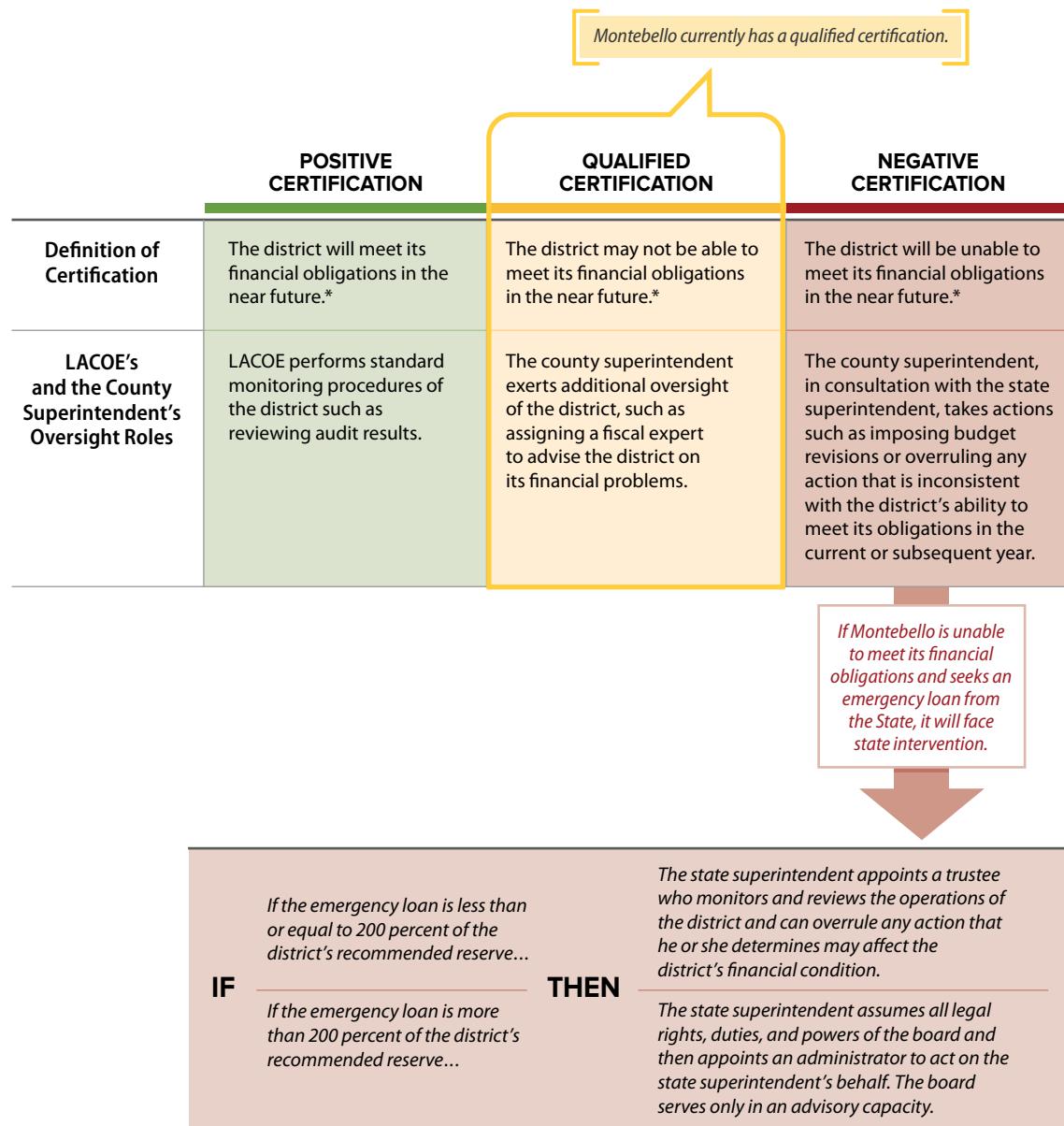
At Ford Park, we were unable to balance the cash the office assistant kept in her desk with the receipts she issued, which is a red flag for cash diversion.

including the board's approval of annual budgets with expenditures that exceeded annual revenue in spite of LACOE's admonitions. Further, Montebello did not follow its hiring processes and it employed individuals in extraneous highly paid positions, which is indicative of poor governance. Taken as a whole, these problems and others we discuss call for significant change if Montebello is to avoid financial insolvency and regain the public's trust. To achieve these changes, we believe the county superintendent should immediately increase her oversight of Montebello.

Based on our analysis and absent significant changes, Montebello could be at risk of state intervention. Figure 14 demonstrates the state's processes for assuming the management of troubled school districts. Montebello projects that the district will not have enough cash to fund its operations beginning in fiscal year 2018–19, which may cause it to solicit funding from the State. If Montebello obtains an emergency loan from the State that is less than or equal to 200 percent of its recommended reserves, the state superintendent will appoint a trustee with expertise in management and finance who will monitor and review the operations of Montebello. That trustee will have the power to overrule any action by the school board that the trustee determines may negatively affect Montebello's financial condition. If Montebello obtains an emergency loan from the State that is more than 200 percent of its recommended reserve, the state superintendent will assume control of Montebello and appoint an administrator to act on his or her behalf at Montebello. This process—sometimes called *state receivership*—requires the state superintendent to assume all legal rights, duties, and powers of the district's board and forces the board to serve in an advisory capacity. The district must also bear the additional costs associated with the emergency loan such as paying for interest on the loan as well as the salaries and benefits of the trustee or administrator and his or her staff.

To avoid the serious consequences of state intervention, the county superintendent should take immediate actions to reverse Montebello's current trajectory.

To avoid the serious consequences of state intervention, the county superintendent should take immediate actions to reverse Montebello's current trajectory. In 2017 Montebello had a qualified certification, meaning that it was at risk of not meeting its financial obligations for the current fiscal year or two subsequent fiscal years. Based on that qualified certification as well as the concerns raised in this report and according to state law, the county superintendent must take all actions necessary to ensure that the district meets its financial obligations. Moreover, we have concerns about Montebello's ability to fix on its own the many issues we identified. For these reasons, we believe the county superintendent should take additional steps to help Montebello regain its positive certification, justify its expenses, and improve its financial standing.

Figure 14**Absent Significant Changes, Montebello Is at Risk of State Intervention**

Source: California State Auditor's analysis of state law.

* *Near future* for positive certifications means the current fiscal year and the two subsequent fiscal years. For qualified certifications it means the current fiscal year or the two subsequent fiscal years. For negative certifications it means the remainder of the current fiscal year or the subsequent fiscal year.

Recommendations

Los Angeles County Superintendent

To ensure that Montebello takes the steps necessary to prevent state intervention and regain its positive financial certification, the county superintendent should do the following:

- Direct Montebello to submit a corrective action plan to address the issues identified in this report including balancing its budget, amending and adhering to its hiring procedures, and establishing adequate safeguards to ensure that policies related to bond proceeds, conflicts of interest, and the approval of expenditures are implemented and followed.
- Assist Montebello in developing a plan to justify its workforce size and cost in terms of its current and projected enrollment, including evaluating the necessity of current staff levels and personnel costs.
- Evaluate the necessity of executive positions and adjust executives' salaries based on an analysis of the number and cost of executives in comparable districts.
- Ensure that Montebello implements all of the recommendations detailed below.

Montebello

To improve its current financial condition and ensure future viability, Montebello should do the following:

- Within 60 days, revise its fiscal stabilization plan and make the necessary cuts to fund its ongoing commitments.
- Create a robust budgeting process within 90 days using best practices of the Government Finance Officers Association to ensure Montebello's ability to meet its priorities while maintaining the required level of reserves that buffers the district from drastic cuts in times of economic instability.
- Within 90 days, implement an effective budget monitoring process with regular budget-to-actual comparisons. This process should include safeguards against spending in excess of budgeted expenditures and require advance board approval of such spending before it occurs. For example, Montebello should require that the budget manager perform monthly reviews of budget-to-actual figures and provide detailed explanations to the board for any variances.

To ensure that Montebello hires the most qualified executive and management staff, Montebello should immediately adhere to its policies for hiring classified employees, including screening candidates to

ensure that they meet the minimum qualifications. Montebello should also hold provisional employees to the same standards for minimum qualifications as its policy requires.

To ensure that Montebello hires qualified classified employees, the personnel commission should, within 90 days, revise its policies to require the classified director to provide it with the education and work experience of any candidates on eligibility lists for high-ranking positions. It should also require the director of the personnel commission—the classified director—to provide it with a list of all provisional appointments, including information on how those employees meet the minimum qualifications.

To ensure that it does not violate state law, Montebello should immediately adhere to its policies and ensure that provisional employees do not work more than the legal maximum number of days of service.

To ensure that Montebello hires executives who meet the minimum qualifications, it should verify that such individuals hold both an administrative and teaching credential before appointing them to a position of superintendent or assistant superintendent.

In order to rebuild trust with its community, Montebello should adhere to its policies for hiring certificated personnel and fill any vacant positions for executives through a competitive hiring process, including advertising the positions, screening to ensure that minimum qualifications are met, and interviewing to ensure that it hires and retains the most qualified and talented leaders.

To ensure that Montebello creates employee positions only when necessary, it should establish a policy within 30 days that requires a justification for why the district is creating a position. Additionally, in order to maintain transparency when creating new positions, Montebello should immediately begin to document its justifications.

To ensure that Montebello hires qualified certificated and classified employees, within 90 days the board should revise its policies to require the superintendent or his or her designee to provide information to the board about recruitments for high-ranking employees. The board should consider, at a minimum, the following information when approving appointments:

- The number of initial applicants.
- The number of candidates who passed the screening and interviewing steps.
- The education and work experience of the final candidate recommended by the superintendent or designee.

To ensure that Montebello is making hiring decisions free of bias or favoritism, within 90 days it should strengthen its hiring policies related to nepotism and conflicts of interest for classified and certificated personnel to include the following: establishing restrictions on immediate family members being involved in the screening and interviewing processes and definitions of what types of personal relationships fall under the nepotism policy, which work relationships the nepotism policy applies to, and what factors to consider when evaluating the potential impact of a personal relationship.

To ensure that bond funds are spent appropriately, the district should immediately do the following:

- Ensure that its bond committee meets at least once per year.
- Ensure that the bond committee member positions are filled.
- Require that its contracted project manager provides detailed bond expenditure reports for all relevant bonds to the bond committee at least biannually.
- Ensure that its contracted auditor delivers a timely bond audit and that Montebello addresses the auditor's concerns and recommendations.

To ensure that staff who make or influence district decisions are free from perceived or actual conflicts of interest, Montebello should do the following:

- Immediately identify all positions whose incumbents make or influence district decisions and designate those not already identified in its conflict-of-interest policy.
- Immediately require designated employees to file statements of economic interests and adhere to its conflict-of-interest policy.
- Within 60 days, expand its policy to require all employees approving contracts or expenditures to be designated and file a statement of economic interests.

To ensure that Montebello spends its funds for allowable and reasonable purposes, it should do the following:

- Require employees whose salaries are funded by voter-approved bond proceeds to fill out detailed timesheets to demonstrate that they work on bond-related activities. Bond proceeds should only be used to pay the portion of the salary relating to bond-funded activities that is supported by the timesheet.
- Implement an inventory tracking system that allows it to know where its equipment is located. Montebello should also periodically review its inventory listing to ensure that equipment is being properly used.

- Close the adult education fund's revolving fund account.
- Require all employees to obtain approval for overtime before performing any overtime work and to submit an explanation of tasks they completed during their overtime work when they submit their overtime timesheet for payment.
- Follow the procedures in its purchase card manual including requiring employees to submit receipts for all purchases made with the card. If in violation of the manual, suspend or cancel the employee's card privileges and require employees to reimburse the district for improper purchases.

To ensure that state adult education expenditures are reasonable and justified, the board should do the following within one year:

- Develop a policy that requires adult education classes to meet specific minimum thresholds for class size. If classes do not meet these thresholds, the adult program must cancel the class.
- Require the adult program to annually report to the consortium and to the board on the accurate number of students in each class, number of hours taught, and cost of the class per student.

To improve the cash collection process, Montebello should ensure that the adult program has adequate safeguards in place to minimize the risk of misuse of funds. It should specifically do the following:

- Within 60 days, implement policies and procedures that align with best practices for cash collection and cash deposits that include robust safeguards such as ensuring separation of duties in the cash collection process.

Consortium

To ensure that state adult education funds are used in the most efficient and effective manner, the consortium should do the following within one year:

- Complete an assessment of Montebello's ability to meet the requirements of its adult education plan to determine whether its use of state funds has been effective. If Montebello is found to be consistently ineffective, the consortium should immediately recalculate the adult program's fund allocation for the future.
- Develop policies and procedures to ensure the proper collection and reporting of enrollment, attendance, and expenditure data by consortium members. Periodically review enrollment, attendance, and expenditure data to ensure their accuracy.

We conducted this audit under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the Scope and Methodology section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

Date: November 2, 2017

Staff: Nicholas Kolitsos, CPA, Audit Principal
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Kevin Wedman

Legal Counsel: Heather Kendrick, Sr. Staff Counsel

For questions regarding the contents of this report, please contact
Margarita Fernández, Chief of Public Affairs, at 916.445.0255.



Los Angeles County Office of Education

Serving Students ■ Supporting Communities ■ Leading Educators

October 11, 2017

Debra Duardo, M.S.W., Ed.D.
Superintendent

Los Angeles County
Board of Education

Alex Johnson
President

Thomas A. Saenz
Vice President

Candace Bond McKeever

Douglas R. Boyd

James Cross

Gregory McGinity

Monte E. Perez

Elaine M. Howle, State Auditor*
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Re: California State Auditor's Report No. 2017-104

Dear Ms. Howle:

Attached is the response of the Los Angeles County Office of Education (LACOE) to the above-referenced California State Auditor (CSA) draft report titled Montebello Unified School District: County Intervention is Necessary to Address Its Weak Financial Management and Governance. We appreciate the work of the CSA audit team members in their development of the audit findings and recommendations. LACOE would like to thank the California State Auditor for the opportunity to respond to the draft report.

Sincerely,

A handwritten signature in black ink, appearing to read "Patricia Smith".

Patricia Smith
Interim Chief Financial Officer
Business Services

PS/KDC

Attachment

cc: Debra Duardo, M.S.W., Ed.D., Superintendent of Schools
Keith D. Crafton, Director, Business Advisory Services

RESPONSE TO CALIFORNIA STATE AUDITOR'S REPORT NO. 2017-104

LOS ANGELES COUNTY OFFICE OF EDUCATION

MONTEBELLO UNIFIED SCHOOL DISTRICT: COUNTY INTERVENTION IS NECESSARY TO ADDRESS ITS WEAK FINANCIAL MANAGEMENT AND GOVERNANCE

LOS ANGELES COUNTY SUPERINTENDENT RECOMMENDATION

Direct Montebello to submit a corrective action plan to address the issues identified in this report including balancing its budget, amending and adhering to its hiring procedures, and establishing adequate safeguards to ensure that policies related to bond proceeds, conflicts of interest, and the approval of expenditures are implemented and followed.

RESPONSE

①② The Los Angeles County Office of Education (LACOE) agrees with the recommendation. On October 5, 2017, the Montebello USD Board approved an updated budget and provided LACOE with a detailed Revised Fiscal Stabilization Plan (FSP) (attachment 1) for 2017-18. This plan addresses the issues mentioned in the above recommendation.

LOS ANGELES COUNTY SUPERINTENDENT RECOMMENDATION

Assist Montebello in developing a workforce plan to justify its size and cost in terms of its current and projected enrollment, including evaluating the necessity of staff levels and personnel costs.

RESPONSE

①② We concur with the recommendation. On October 5, 2017, the Montebello USD Board approved an updated budget and provided LACOE with a detailed Revised FSP (attachment 1) for 2017-18. This plan addresses the issues mentioned in the above recommendation.

LOS ANGELES COUNTY SUPERINTENDENT RECOMMENDATION

Evaluate the necessity of executive positions and adjust executives' salaries based on an analysis of the number and cost of executives in comparable districts.

RESPONSE

①② We concur with the recommendation. On October 5, 2017, the Montebello USD Board approved an updated budget and provided LACOE with a detailed Revised FSP (attachment 1) for 2017-18. This plan addresses the issues mentioned in the above recommendation.

LOS ANGELES COUNTY SUPERINTENDENT RECOMMENDATION

Ensure that the board and Montebello implement all of the recommendations detailed below.

RESPONSE TO CALIFORNIA STATE AUDITOR'S REPORT NO. 2017-104**LOS ANGELES COUNTY OFFICE OF EDUCATION****MONTEBELLO UNIFIED SCHOOL DISTRICT:
COUNTY INTERVENTION IS NECESSARY TO ADDRESS ITS WEAK FINANCIAL
MANAGEMENT AND GOVERNANCE****RESPONSE**

LACOE agrees with the recommendation. Assembly Bill (AB) 1200 provides the county superintendent of schools with the framework for the fiscal oversight of the school districts in his or her county. Under AB1200, the county superintendent reviews district budgets and interim reports to determine whether the district can meet its financial obligations. AB 1200 allows the county superintendent of schools to provide management assistance and progressive intervention to local school districts. As part of LACOE's AB 1200 oversight responsibilities, the county superintendent of schools has assigned a fiscal expert to the district for the remainder of the 2017-18 fiscal year. The County Superintendent will pay for the fiscal expert. The fiscal expert will provide fiscal and financial support to the District and will offer guidance to the District administration for implementation of the FSP during 2017-18. The fiscal expert will be required to provide FSP implementation progress reports to the District's Governing Board and to the County Superintendent.

MEMORANDUM**ACTION**

September 20, 2017

TO: Dr. Anthony J. Martinez, Ph.D., Interim Superintendent of Schools
FROM: Dr. Anthony J. Martinez, Ph.D., Interim Superintendent of Schools
SUBJECT: Approval of Revised Fiscal Stabilization Plan for 2017-18

The Los Angeles County Office of Education (LACOE) has requested that the Board adopt a Fiscal Stabilization Plan to accompany the 2017-18 Adopted Budget. This plan is due October 8, 2017. It restores and maintains reserves at the required statuary level.

We recommend adoption of the following motion:

That the Board of Education of the Montebello Unified School District approve the Revised Fiscal Stabilization Plan for 2017-18 fiscal year.

The District Adopted Budget presents the required statutory reserves for the following Fiscal Years: 2017-18, 2018-19 and 2019-20. The District's change in financial position from June 29, 2017 is due to the commitment to the following actions to support the Budget assumptions:

- The 2017-18 Adopted Budget is projected based on employee costs of those employees on the District payroll as of September 12, 2017.
- All vacancies as of this time are either to be filled as an exchange of dollars elsewhere in the budget or as a compliant charge to a Federal or State grant or entitlement.
- Programs that are budgeted to encroach are not to incur more costs in 2017-18 than in 2016-17, with the exception of increases to step, column and statutory benefits.
- The only vacancies budgeted to unrestricted funds for being filled in 2017-18 are: 1) Superintendent, 2) Assistant Superintendent, Chief Financial Officer, 3) Assistant Superintendent, Facilities, 4) Accounting Leadership position, 5) Transportation Leadership position, and 6) Maintenance & Operations Leadership position.
- The District is to comply with the MTA settlement agreement, signed June 29, 2017. Twenty-nine (29) Montebello Teacher's Association (MTA) members are on the District payroll due to this settlement and are considered to be employed through September 30, 2017. The Adopted Budget discontinues funding for these employees as of October 1, 2017.
- \$1.1 million is budgeted for MTA column movement for MTA employees not already advanced as of September 2017. These dollars are also available to accommodate immediate classroom staffing needs and to support traditional kindergarten.

- For 2017-18 and 2018-19, twelve (12) furlough days for certificated and classified management, and six (6) furlough days for classified supervisors and confidential management.
- A commitment to compliantly utilize the Educator Effectiveness and College Readiness awards to fund employee compensation previously paid from unrestricted funds
- A commitment to monitor the Redevelopment Agency stream of income, reported in Fund 25, so that this funding source may repay all of the debt owed on the 2012 Certificates of Participation (COPs). The District currently has sufficient fund balance in Fund 25 to repay the debt for a minimum of three years, 2017-18 through 2018-19.
- The District will adopt a Board resolution within the next month to transfer the 2016-17 ending fund balance of \$1,014,152 from the Deferred Maintenance fund to the General Fund of the District. The District will transfer the cash no later than December 31, 2017.
- The District will adopt a Board resolution within the next month to transfer the 2016-17 ending fund balance of \$1,989,432.68 from the Adult Education fund to the General Fund of the District. The District will transfer the cash no later than December 31, 2017. (3)
- The District will adopt a Board resolution within the next month to transfer
 - \$717,000 from the 2004 Measure M / 1998 Measure EE General Obligation Bond funds to the General Fund of the District. This transfer will reimburse the General Fund for 2004 Measure M / 1998 Measure EE compliant expenses that were incurred in 2016-17 for facilities – related costs. The District will transfer the cash no later than December 31, 2017.
 - \$2,990,942 from the 2004 Measure M / 1998 Measure EE General Obligation Bond funds to the General Fund of the District. This transfer will reimburse the General Fund for 2004 Measure M / 1998 Measure EE compliant expenses that were incurred in 2015-16 for facilities – related costs. The District will transfer the cash no later than December 31, 2017.
 - \$2,840,063 from the 2004 Measure M / 1998 Measure EE General Obligation Bond funds to the General Fund of the District. This transfer will reimburse the General Fund for 2004 Measure M / 1998 Measure EE compliant expenses that were incurred in 2016-17 for Information Technology (IT) infrastructure – related costs. The District will transfer the cash no later than December 31, 2017.
- The District will no longer fund facilities and IT infrastructure expenditures from the General Fund that are compliant with Bonds passed by the voters. The District will reconsider all 2017-18 costs in process and reclassify them per Board approval.
- The District will prioritize capital needs and spend the most restrictive funds first. Investment in facilities costs will be prioritized so that the following funds are expended in order of restriction and age:
 - Measure M and Measure EE General Obligation Bonds
 - Office Of Public School Construction (OPSC) Funds
 - Measure GS General Obligation Bonds

- Capital Facilities, Fund 25 Developer Fees
- Redevelopment Agency Funds, Fund 25. Sufficient funds must remain available for retirement of 2012 COPS debt through 2029.
- The District will continue to research 2012-2013, 2013-14, 2014-15 and 2015-16 General Fund expenses for facilities and IT-infrastructure costs incurred by the General Fund that should have been the costs of one of the capital funds of the District. These transfers will be brought forward at one time for a reimbursement transfer. Since these items are not quantified at this time, the District has not included them in the Budget Adoption.
- The District is committed to suspending the purchase of textbook adoptions for the three projected years. The textbooks ordered in 2016-17 were not received as of June 30, 2017. Therefore the costs incurred in 2017-18 are for the 2016-17 order.

Approved for presentation to the

Board of Education: October 2, 2017

Anthony J. Martinez, Ph.D.
Interim Superintendent of Schools
Secretary to the Board

Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE LOS ANGELES COUNTY OFFICE OF EDUCATION

To provide clarity and perspective, we are commenting on the Los Angeles County Office of Education's (LACOE) response to our audit. The numbers below correspond to the numbers we have placed in the margin of LACOE's response.

We disagree that the fiscal stabilization plan addresses our recommendations. Specifically, the plan does not address amending and adhering to Montebello's hiring processes, nor does it establish safeguards to ensure that policies related to bond proceeds, conflicts of interest, or the approval of expenditures are implemented and followed. Further, the plan does not address our recommendations that LACOE assist Montebello in developing a workforce plan and that LACOE evaluate the necessity of Montebello's executive positions.

(1)

Because the fiscal stabilization plan does not specifically address our recommendations, we look forward to LACOE's 60-day response to our audit report. The response should specifically describe and provide support for its actions to implement our recommendations, including assisting Montebello in implementing the recommendations we directed to the district.

(2)

Montebello did not provide us with this fiscal stabilization plan during our audit; therefore, we have not analyzed these items. However, we are concerned with Montebello's plan to transfer nearly \$2 million in funds from the adult education fund to the general fund. As we state on page 40, state law prohibits using the adult education fund for purposes other than adult education.

(3)

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MONTEBELLO UNIFIED SCHOOL DISTRICT

**Anthony J. Martinez, Ph.D., Interim Superintendent of Schools
123 South Montebello Boulevard, Montebello, California 90640
(323) 887-7900, ext. 2201 •Fax: (323) 887-5890**

October 11, 2017

Ms. Elaine M. Howle*
State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, California 95814

Response to: Montebello Unified School District: County Intervention Is Necessary to Address Its Weak Financial Management and Governance

Dear Ms. Howle:

On behalf of the Montebello Unified School District (MUSD) Board of Education I would like to thank you for responding affirmatively to the District's request for a forensic audit of its policies, protocols, programs and operations. We believe the audit, coupled with the efforts the District has undertaken over the past year, will result in improved governance and an even stronger, more responsive and transparent District.

①②

Our request for a forensic audit was embedded in the board's desire to improve the programs, services and operations of the district in the aftermath and departure of former administrative officials, and concerns expressed to Boardmembers by employees, parents and stakeholder alleging occurrences of fraud, corruption and misappropriation of funds and resources.

①②

MUSD is pleased that after a thorough and exhaustive review by the Office of the California State Auditor, it appears these allegations were unsupported. In other words, the State Auditor found no widespread evidence of corruption, gross mismanagement, fraud, waste or maleficence at the District. This is an important finding the District would like to highlight to the Joint Legislative Audit Committee.

③

Although we agree with most of recommendations in the audit and have no concerns (principally because they are basically restatements of procedures the district already employs or was in the process of adopting as part of the comprehensive reforms the district has been implementing), we feel there are certain audit areas that merit further discussions because of serious factual errors and mischaracterizations.

④

⑤

Specifically, regarding the area of a viable and approved budget, it's important to point out that the MUSD Board of education has approved a revised multiyear budget and submitted it

* California State Auditor's comments begin on page 69.

- ⑥ to the Los Angeles Office of Education where initial communications indicate a positive response from LACOE. The current budget does not reflect a negative nor does it indicate eminent danger to the District's ability to conduct its business.
- ⑦ Also, addressing the area of auditors' perceived erosion of public trust, public concerns over the future of District teachers and support personnel were expressed during budget discussions, particularly since the District had not experienced a substantial reduction in force since 1991. Given the emotional response by some District detractors, there were initial calls for radical change in our budget process and decisions, however these movements dissolved as teachers were returned to the classrooms, and communications regarding the state of the District increased and improved with employees, parents, students and stakeholders.
- ⑧ We have taken a close look at the areas that you reviewed during the audit and have already or rapidly undertaken steps to improve the particular processes and procedures contained in your recommendations in order to meet the goal of improved governance, financial stability, and a stronger, more responsive and transparent District.

RECOMMENDATIONS

1. To improve its current financial condition and ensure future viability, Montebello should do the following:

- Within 60 days, revise its fiscal stabilization plan and make the necessary cuts to fund its ongoing commitments. Create a robust budgeting process within 180 days using Government Finance Officers Association best practices that ensures Montebello's ability to meet its priorities while maintaining the legally required level of reserves that buffers Montebello from drastic cuts in times of economic instability.
- Implement an effective budget monitoring process with regular budget-to-actual comparisons. This process should include safeguards against spending in excess of budgeted expenditures and require advance board approval of such spending before it occurs. For example, Montebello should require the budget manager to perform monthly reviews of budget-to-actual figures and provide detailed explanations for any variances to the board.

- ⑧ **Response: MUSD agrees with the recommendation.** On October 5, 2017, the Board of Education approved a Fiscal Stabilization Plan and submitted to the Los Angeles County Office of Education (LACOE). As of October 2017, MUSD has implemented a process for reviewing budget-to actual figures on a monthly basis.

2. To ensure that Montebello hires the most qualified executive and management staff, Montebello should immediately adhere to its policies for hiring classified employees, including screening candidates to ensure that they meet the minimum qualifications. Montebello should also hold provisional employees to the same standards for minimum qualifications as its policy requires.

- ⑧ **Response: MUSD agrees with the recommendation.** As of October 2017, MUSD is adhering to hiring practices for executive and management classified employees. Furthermore, as of October 2017, MUSD requires that all employees being considered for

provisional positions be held to the same minimum qualifications as the job description requires.

3.- To ensure that Montebello hires qualified classified employees, the personnel commission should, within 90 days, revise its policies to require the director of classified human resources to provide it with the education and work of any candidates on eligibility lists for high-ranking positions. It should also require the classified director to provide it with provisional appointments and information on how those employees meet the minimum qualifications.

Response: MUSD agrees with the recommendation. As of October 2017, the Director of Classified Human Resources will provide the personnel commission with a revised policy to provide it with the education and work experience of any candidates on eligibility lists for high-ranking positions. The Director of Classified Human Resources will also provide the personnel commission with supporting information on how employees being recommended for provisional appointments meet the minimum qualifications. (8)

4. To ensure that it does not violate state law, Montebello should immediately adhere to its policies and ensure that provisional employees do not exceed the legal maximum number of days of service.

Response: MUSD agrees with the recommendation. MUSD has already addressed this recommendation. As of October 2016, MUSD has worked on ensuring that employees in a provisional assignment do not exceed the legal maximum number of days of service. (8)

5. To ensure that Montebello hires executives that meet the minimum qualifications, prior to appointing them into a position of superintendent, deputy superintendent, associate superintendent, or assistant superintendent, it should verify that the individual holds both an administrative and teaching credential.

Response: MUSD agrees with the recommendation. MUSD has already addressed this recommendation. As of July 2017, the District has implemented a practice to ensure that all candidates for executive positions meet the minimum qualifications prior to appointing them into an executive position. (8)

6. In order to rebuild trust with its community, Montebello should adhere to its policies for hiring certificated personnel and fill any vacant positions for executives through a competitive hiring process, including advertising the positions, screening, and interviewing to ensure that it hires and retains the most qualified and talented leaders.

Response: MUSD agrees with the recommendation. MUSD has already addressed this recommendation. As of July 2017, MUSD has implemented a hiring process which includes advertising the positions, screening, and interviewing to retain the most qualified and talented leaders. (8)

7. To ensure that Montebello creates positions only when necessary, it should create a policy within 30 days that requires valid justification for why Montebello is creating a position. Additionally, in order to maintain transparency when creating new positions, Montebello should immediately begin to document its justifications.

- ⑧ **Response: MUSD agrees with the recommendation.** As of October 2017, MUSD has implemented the practice of requiring a valid justification on the personnel request form for all positions. The justification is included on the agenda items that are presented to the Board of Education for approval in order to maintain transparency.
8. To ensure that Montebello hires qualified certificated and classified employees, the board should, within 90 days, revise its policies to require the superintendent or his or her designee to provide information to the board about recruitments for high ranking employees. The board should consider this information when approving appointments. This information should include at a minimum:
- The number of initial applicants
 - The number of candidates that passed the screening and interviewing steps
 - The education and work experience of the final candidates recommended by the superintendent or designee
- ⑧ **Response: MUSD agrees with the recommendation.** MUSD has already addressed this recommendation. As of July 2017, MUSD provides the Board of Education with the number of initial applicants, the number of candidates who passed the screening, the number of candidates interviewed, as well as providing it with the education and work experience of the final candidates.
9. To ensure that Montebello is making hiring decisions free of bias or favoritism, it should strengthen its hiring policies within 90 days related to nepotism and conflict of interest for classified and certificated personnel to include the following restrictions on immediate family members being involved in the screening and interviewing processes, defining what types of personal relationships fall under the nepotism policy, which work relationships the nepotism policy applies to, and what factors to consider when evaluating the potential impact of a personal relationship.
- Response: MUSD agrees with the recommendation.** MUSD will strengthen its hiring policies within 90 days related to nepotism and conflict of interest for classified and certificated personnel incorporating industry standards and best practices.
10. To ensure that bond funds are spent appropriately, the district should immediately do the following:
- Ensure that its bond oversight committee meets at least once per year
 - Ensure that the bond oversight committee member positions are filled
 - Require its contracted project manager to provide detailed bond expenditure reports to the bond oversight committee at least quarterly for all relevant bonds
 - Ensure that its contracted auditor delivers a timely bond audit and that Montebello addresses the auditor's concerns and recommendations

- ⑧ **Response: MUSD agrees with the recommendation.** MUSD has already addressed this recommendation. As of September 2017, as indicated in the by-laws the Citizens Bond Oversight Committee (CBOC) has already met once during this fiscal year and was provided with a detailed bond expenditure report. Furthermore, should there be a vacant position on the CBOC, MUSD will ensure that it advertises, recruits, and fills the vacant position in a timely manner. As of August 2017, the Board of Education approved an auditor to ensure

that a bond audit is delivered in a timely manner. MUSD is committed to addressing the auditor's concerns and recommendations.

11. To ensure that the staff that make or influence district decisions are free from perceived or actual conflicts of interest, Montebello should do the following:

- Immediately identify all positions that make or influence district decisions and designate those not already identified in its conflict-of-interest policy
- Immediately require designated employees to file statements of economic interests and adhere to its conflict-of interest policy
- Expand its policy within 60 days to require all employees approving contracts or expenditures to file a statement of economic interests

Response: MUSD agrees with the recommendation. MUSD will expand its policy within 60 days to require all employees approving contracts or expenditures to file a statement of economic interests.

12. To ensure that Montebello spends its funds for allowable and reasonable purposes, we recommend that it do the following:

- Require employees whose salaries are funded by voter approved bond proceeds to fill out detailed timesheets to demonstrate they worked on bond related activities. It should only use bond proceeds to pay the portion of the salary that is supported by the timesheet.
- Implement an inventory tracking system that allows it to know where its equipment is located. Montebello should also periodically review its inventory listing to ensure that equipment is being properly used
- Close the adult education fund's revolving fund account
- Require all employees to obtain approval for overtime before performing overtime work and submit and explanation of tasks they completed during their overtime work when they submit their overtime timesheet for payment
- Follow its purchase card manual procedures including requiring employees to submit receipts for all purchases made with the card and not making payments until appropriate officials have reviewed all required documentation

Response: MUSD agrees with the recommendation. By November 2017, MUSD will require employees whose salaries are funded by voter approved bond proceeds to fill out a detailed timesheet demonstrating the work associated with bond related activities. By November 2017, MUSD will initiate the process of evaluating inventory tracking systems to account for its equipment and intends to implement it by January 2018.

MUSD will also engage in implementing periodic reviews of its inventory to ensure that it is being properly used and to identify any obsolete equipment that may need to be replaced. As of October 2017, the adult education fund's revolving fund account has been closed. As of July 2017, all overtime assignments appear on the Board agenda for prior approval including a description of services to be performed and not to exceed hours. By November 2017, MUSD will implement its overtime policy and require that all employees obtain prior approval before performing overtime work.

By November 2017, MUSD will initiate an Administrative Regulation requiring all employees using a purchase card to submit receipts for all purchases, and payments will not be made until approved by an appropriate official.

13. To ensure that state adult education expenditures are reasonable and justified, the board should do the following by November 4, 2018:

- Develop a policy that requires adult education classes to meet specific class size minimum thresholds. If classes do not meet these thresholds, the Montebello adult education program must cancel the class
- Require the Montebello adult education program to annually report to the consortium and to the board on the number of students in each class, the number of hours taught, and the cost of the class per student

Response: MUSD agrees with the recommendation. By November 2017, a policy will be submitted to the Board of Education requiring adult education classes to meet specific class size minimum thresholds. If classes do not meet the minimum threshold, they will be closed. MUSD will submit an annual report to the consortium and Board of Education on the number of students in each class, the number of hours taught, and the cost of the class per student.

14. To improve the cash collection process, Montebello should ensure that the adult education program has adequate safeguards in place to minimize the misuse of funds including the following:

- Implementing policies and procedures by January 5, 2018, that align with best practices for cash collection and cash deposits that include robust safeguards such as ensuring separation of duties in the cash collection process

Response: MUSD agrees with the recommendation. As of October 2017, MUSD adult school has implemented a cash receipt policy and a new enrollment system that allows students extended payment options for their tuition and fees, including credit or debit cards.

(8)

As the Montebello Unified School District moves forward in drafting and implementing a corrective action plan, it is our intent to cooperate with the State Auditor to bring about improved governance and financial stability, but to also further clarify items contained in the report, including any mischaracterizations, inaccuracies and unsupported items.

(5)

Furthermore, the District will address each topic within the report to provide a timeline for the ongoing tasks to be undertaken in the furtherance of the goal to achieve improved policies, protocols and procedures.

If you'd like to discuss the District's response to the audit, please feel free to contact me at (323) 887-7900.

Sincerely,

Anthony J. Martinez, Ph.D.
 Interim Superintendent of Schools

BOARD OF EDUCATION

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 ANTHONY J. MARTINEZ, Ph.D., Assistant Superintendent - Instructional Services

Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE MONTEBELLO UNIFIED SCHOOL DISTRICT

To provide clarity and perspective, we are commenting on the Montebello Unified School District's (Montebello) response to our audit. The numbers below correspond to the numbers we have placed in the margin of Montebello's response.

We performed this audit at the request of the Joint Legislative Audit Committee (Audit Committee), not Montebello.

(1)

Montebello is confused about the type of audit we performed. We conducted a performance audit in accordance with generally accepted government auditing standards based on audit objectives approved by the Audit Committee. The audit objectives focused on Montebello's financial practices, hiring processes, compensation, and related issues. In contrast, forensic accounting services generally involve applying specialized knowledge and investigative skills, and interpreting and communicating findings in the courtroom or in other legal or administrative venues.

(2)

Montebello mischaracterizes our findings. As we state for Objective 2 in Table 1 on page 14, the former superintendent and chief financial and operations officer recently filed a complaint alleging, among other things, that the board and former chief business officer violated various state laws when awarding certain contracts, such as competitive bidding laws and laws governing the disposal of school property. The litigation is pending. Because audit standards prohibit us from auditing or reporting in a manner that could interfere with pending legal proceedings, we are not reporting on these matters. However, we found several areas indicative of Montebello's poor governance and financial management, which we discuss throughout this report.

(3)

Montebello's assertion is misleading. Throughout our report, we highlight instances in which Montebello either lacked sufficient policies and procedures or failed to follow them. Accordingly, we make multiple recommendations to Montebello to correct these deficiencies.

(4)

We disagree with, and are puzzled by, Montebello's assertion that our report contains factual errors and mischaracterizations. In particular, Montebello does not provide any specifics about the aspects of our report with which it disagrees with either the accuracy or the characterization. Further, Montebello indicates

(5)

that it agrees with all of our recommendations. Finally, because we conducted this audit in accordance with generally accepted government auditing standards, which requires us to obtain sufficient and appropriate audit evidence to support our conclusions and recommendations, we stand behind those conclusions.

- ⑥ As stated on page 17, Montebello has continually ignored warnings from LACOE to curtail its deficit spending. We also note on page 22 that Montebello has not followed through with the cost reductions in its previous fiscal stabilization plan. Given its history, it is important that Montebello implement our recommendations on page 50 to improve its financial condition.
- ⑦ Some of the reasons the Audit Committee approved this audit were public concerns expressed regarding the qualifications of administrators hired by Montebello and the potential for conflicts of interest. We believe such public concerns are an exposition of an erosion of the public's trust in the district.
- ⑧ We are pleased that Montebello agrees with our recommendations and asserts that it has either already implemented or has begun implementing them. We look forward to its 60-day response to our audit report, which should include documentation demonstrating the actions Montebello has taken in implementing each recommendation.



October 11, 2017



Ms. Elaine M. Howle, State Auditor*
 California State Auditor
 621 Capitol Mall, Suite 1200
 Sacramento, CA 95814



Dear Ms. Howle,

The Los Angeles Regional Adult Education Consortium (LARAEC) submits this letter in response to the California State Auditor (CSA) confidential draft audit report for Montebello's California State Audit, LARAEC portion. We appreciate the time and effort the CSA office has invested in this process and the recommendations offered.

LARAEC has and will continue to adhere to state law (AB 104). LARAEC's response to the report is as follows:



Figure 5 caption

"The Montebello Adult Education Program is Overseen and Funded by the Los Angeles Regional Adult Education Consortium (Fiscal Year 2015-16)"

Response:

The word "overseen" must be omitted because this word has not been defined in this report. LARAEC does not oversee the MUSD Adult Education Program. The MUSD central office administration and the MUSD Board of Education are responsible for the oversight of the MUSD Adult Education Program.

(1)

Page 3

"The consortium distributed funding among its five district members' adult education programs in a manner that favored the Montebello program".

Response:

LARAEC objects to this statement as it is inaccurate and misrepresents the allocation process.

(2)

(3)

Page 4

"The table also shows that the consortium allocated more than double the amount of funding for each Montebello student than for students in the Burbank and Culver City adult education programs. Moreover, the Montebello program received \$15 more per student than the largest district in California, the Los Angeles Unified School District (LAUSD)".

(2)

Page 1

Vision Statement

LARAEC will provide seamless pathways to workforce and higher education that are efficient, comprehensive, student-centered, and regionally relevant.

Mission Statement

LARAEC will sustain, expand, and improve adult education.

LOS ANGELES REGIONAL ADULT EDUCATION CONSORTIUM

* California State Auditor's comments begin on page 75.



Response:

This sentence misrepresents how LARAEC determined the distribution of funds. The distribution of funds was not based on a formula that included student enrollment.

(4)



Table 5

Table 5
The Montebello Adult Education Program Receives More Money Per Student Than Other Programs in the Los Angeles Region



CONSORTIUM MEMBER	2015–16 STATE FUNDING (DOLLARS IN MILLIONS)	2015–16 ENROLLMENT	2015–16 FUNDING PER STUDENT
Montebello Unified School District	\$15.5	22,479	\$690
Los Angeles Unified School District	94.6	140,172	675
Burbank Unified School District	2	6,593	308
Culver City Unified School District	1.5	5,591	260
Los Angeles Community College*	7	151,064	46
\$120.6		÷ 325,899	= \$370
TOTAL STATE FUNDING		TOTAL ENROLLMENT	OVERALL PER-STUDENT FUNDING

Sources: California State Auditor's analysis of California Department of Education's records of consortium funding and consortium enrollment reports for fiscal year 2015–16.

* The Los Angeles Community College district receives less state funding per student because community college districts do not receive maintenance of effort funds and only receive need-based funding. Figure 5 in the Introduction shows how much maintenance of effort funding and need-based funding each consortium member received in fiscal year 2015–16.

(4)(6)

Response:

This table also misrepresents how LARAEC determined the distribution of funds. The distribution of funds was not based on a formula that included student enrollment.

(2)

Page 5

"According to the project manager for the consortium, the allocations of the 2015–16 need-based funding was loosely based in part on district enrollment."

(4)

Response:

While enrollment was discussed, it was not a factor in determining final allocations.

(2)

Page 7

"The consortium project manager stated that although he recognizes that the consortium could increase its oversight of each district by doing such things as reviewing self-reported data, it is difficult to exert this oversight without a specific mandate from the Legislature, the California Department of Education, or the Board of Community Colleges."

Vision Statement

LARAEC will provide seamless pathways to workforce and higher education that are efficient, comprehensive, student-centered, and regionally relevant.

Mission Statement

LARAEC will sustain, expand, and improve adult education.

**Response:**

The word “difficult” must be changed to “impossible”. The consortium members deem it impossible to “exert oversight without a specific mandate from the Legislature...”. (7)

Page 7

“Nevertheless, state law allows the consortium to reconsider the funding levels if it finds that one of its members has been ineffective in providing services that address the needs identified in the adult education plan and reasonable interventions have not resulted in improvements. State law also requires that each consortium member's adult education plan include, among other things, an evaluation of the educational needs of adults in the region, an evaluation of services available, and actions the members will take to address educational needs and improve the effectiveness of their services.” (2)

Response:

The state has not provided specific guidance to determine what constitutes “ineffectiveness in providing services;” without appropriate state guidance LARAEC cannot unilaterally make an independent determination of “effectiveness”. (7)

Page 8

- “Complete an assessment of Montebello's ability to meet the requirements of its adult education plan to determine whether its use of state funds was effective. If Montebello is found to be ineffective, the consortium should immediately recalculate the program's fund allocation going forward.” (2)

Response:

The state has not defined member “ineffectiveness”; therefore, the consortium cannot complete an assessment that is impartial and fair. The consortium members have expressed concern, absent guidance from the state, about establishing criteria that may result in discriminatory practices. (8)

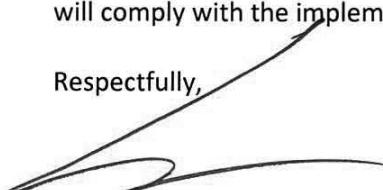
Page 9

- “Develop policies and procedures to ensure the proper collection and reporting of enrollment, attendance, and expenditure data among consortium members. Periodically review enrollment, attendance, and expenditure data to ensure their accuracy.” (2)

Response:

LARAEC, once again, reaffirms that it will continue to adhere to state law (AB 104) and will comply with the implementation of state-developed guidelines as released.

Respectfully,


Lanzi Asturias
LARAEC Project Director

Vision Statement
LARAEC will provide seamless pathways to workforce and higher education that are efficient, comprehensive, student-centered, and regionally relevant.

Mission Statement
LARAEC will sustain, expand, and improve adult education.

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Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE LOS ANGELES REGIONAL ADULT EDUCATION CONSORTIUM

To provide clarity and perspective, we are commenting on the Los Angeles Regional Adult Education Consortium's (consortium) response to our audit. The numbers below correspond to the numbers we have placed in the margin of the consortium's response.

We disagree. The consortium has oversight responsibilities. For example, as we describe on pages 11 and 12 of the report, state law requires the consortium to decide how to allocate funds. Further, on page 13 we describe that state law allows the consortium to reduce funding if it finds that, among other things, a consortium member has been consistently ineffective in providing service and intervention has not resulted in improvement. These actions constitute oversight responsibilities.

(1)

While preparing our draft report for publication, some page numbers shifted. Therefore, the page numbers on the consortium's redacted draft copy of the audit report do not correspond to the page numbers of the final audit report.

(2)

The statement in our report on page 41 is accurate. As we show in Table 5 on page 42, Montebello received more funds based on enrollment than the other districts in the consortium.

(3)

The consortium's response ignores information we included in the report and contradicts earlier statements from the consortium's staff. We acknowledge on page 43 that the consortium determined its need-based funding via extensive negotiations among its members that included several factors. On that same page, we quote the project manager for the consortium as stating that the 2015–16 need-based funding was loosely based, in part, on district enrollment. Finally, as we also state on that page, it is difficult to determine how the consortium used various criteria to allocate its funding.

(4)

In completing our quality control process, we revised the title and a heading for Table 5 on page 42, and added a footnote.

(5)

Table 5 on page 42 is an accurate representation of the funds each district received based on enrollment. Presenting school funding based on enrollment allows for comparisons across districts of disparate sizes.

(6)

- ⑦ As we describe on page 13 and in Comment 1, state law already provides the consortium with the authority to make findings related to its members' provision of adult education services and does not require the consortium to seek an additional mandate from the State. Further, state law establishes certain measures for determining effectiveness such as the number of adults served, job placements, and improved wages. State law further authorizes the California Community College Chancellor's Office and the California Department of Education to identify additional measures for effectiveness, and guidance is being provided through this partnership. Based on the consortium's response, we are concerned that it will not take the necessary actions to ensure that Montebello's adult education program receives an appropriate amount of state funding.
- ⑧ The consortium's response is disingenuous. As we describe on page 44, state law allows the consortium to evaluate the effectiveness of a member in providing services addressing the needs identified in the adult education plan. Further, as we note in Comment 7, state law outlines some measures of effectiveness and state guidance is being provided.