

Dixon Unified School District

2007-2008 Solano County Grand Jury

Reason for Investigation

The 2007-2008 Solano County Grand Jury received a citizen complaint regarding a budget deficit approaching \$1 million within the Dixon Unified School District. The complaint requested that the Grand Jury determine where the money went and who was responsible for the deficit. Pursuant to Penal Code section 925, the Grand Jury elected to investigate the complaint.

Grand Jury Actions

- Interviewed Complainant
- Interviewed members, Dixon Unified School District Governing Board
- Interviewed former Superintendent, Dixon Unified School District
- Interviewed former Chief Business Official, Dixon Unified School District
- Interviewed Superintendent of Schools, Solano County Office of Education
- Interviewed Acting Superintendent, Dixon Unified School District
- Interviewed Assistant Superintendent for Business and Administrative Services, Solano County Office of Education
- Interviewed Acting Chief Business Official, Dixon Unified School District
- Reviewed Agendas and Minutes, Dixon Unified School District Governing Board
- Reviewed Agendas and Minutes, Dixon Unified School District Budget Advisory Committee
- Reviewed June 2006 and June 2007 year end Financial Statements and Independent Auditor Reports
- Reviewed newspaper articles regarding budget deficit, Dixon Unified School District

Background/History

The Dixon Unified School District (District) is small with approximately 3,977 students in grades K-12. As the Grand Jury's investigation began, the District consisted of four elementary schools, one middle school, two high schools, one charter school and one continuation school. The District Governing Board (School Board) consists of five elected members who live in the District.

Within any school district, the role of a school board is to set overall policy and to provide oversight over district operations. With the assistance of his or her staff, the superintendent is responsible for overseeing day-to-day operations in the district. Major areas of responsibility may include curriculum and instruction, budgeting, human resources, and facility management. Budgeting and financing activities are primarily the responsibility of a chief business official

“A Definitive Moment”

The following narrative is based on testimony or official records reviewed by the Grand Jury. Regarding critical facts, the Grand Jury relied on what it considered credible evidence from more than one source.

On Friday, September 28, 2007, the School Board announced that it had accepted the resignation of its Superintendent “for the purposes of his retirement.” As part of an agreement, the Superintendent was to be paid his base salary and retirement benefits through June 2008 and he and his family were to receive full medical and dental benefits through September 2012. The Superintendent left his office immediately.

That same morning, the District’s Chief Business Official (CBO) contacted two members of the School Board and asked whether the Superintendent had told them about the District’s current financial situation before he resigned. He had not. The CBO indicated she had not been aware the Superintendent was about to resign. She told the School Board members that a First Interim Report was still being prepared, but that it would show that the District would have a budget deficit approximating \$850,000. Until that “definitive moment,” members of the School Board were apparently unaware that the District suddenly was facing a severe financial crisis. The CBO presented the full details of the District’s budgetary deficits to the School Board at its October 18, 2007 meeting.

The Budget Deficit

How did the budget crisis arise? Where did the money go? Who was responsible for the deficits?

At its twice-monthly meetings, the School Board typically received financial reports from the CBO. During the period before the financial crisis arose, these reports were apparently in a format which did not provide the School Board members with the complete and accurate information they needed to make fully informed decisions.

In retrospect, it appears that several factors contributed to the budget shortfalls. These included:

- a decline in the average daily attendance
- unbudgeted expenses for transportation contract services and personnel training costs
- improper handling of accounts payable, and
- increases in salaries and benefits without proper budget planning

Despite the fact that the City of Dixon and the surrounding area is undergoing a period of growth, school enrollment in the District has actually started to decline in the past few years. State funding to school districts is based heavily on Average Daily Attendance (ADA). In October 2006, enrollment had declined about 40 students from the preceding year. In October 2007, enrollment was down by approximately 100 students. More students have been graduating than are entering the system. As the number of overall students and ADA decreases, the revenues received from the State also decreases. In a time of declining enrollment, school districts must be particularly watchful about keeping their budgets in balance. At the October 18, 2007 meeting of the School Board, the CBO reported that the projected enrollment figures for School Year 2007-2008 was approximately 100 students off in the budget estimates.

If a superintendent wishes to authorize an expensive activity not previously provided for in a given budget, the proper procedure is to ask the governing board to authorize a budget revision. There was testimony that the former Superintendent instead approved costly activities without ensuring that monies were allocated for those activities.

In one instance, the Superintendent made changes in transportation contract services, resulting in an unexpected overall billing of at least \$130,000, which was paid. There was also testimony that the Superintendent authorized a teacher training activity that required the hiring of substitute teachers to fill in the vacuum while the regular teachers were away from their classes attending the training. The Superintendent authorized this activity without checking with the CBO, resulting in billings of \$90,000 not provided for in the budget.

The Grand Jury also heard statements about the lack of other financial internal controls. Some stated that the Human Resource Director and Facility Manager operated budgets outside the control of the Superintendent and CBO. For example, a person could be hired with a compensation package that may not be within the budget and without input from the Superintendent and CBO.

There was testimony that the CBO allowed accounts payable to accumulate, leaving many bills unpaid until such time as improved cash flow made payment of those billings possible. At times, the delay in payments amounted to tens of thousands of dollars.

Also, the Board itself approved significant increases in salaries and benefits without ensuring that funds for that purpose would be available. In a typical school district, personnel costs may approximate as much as 85 percent of the overall budget. In early 2007, the CBO prepared the salary and benefit projections for the School Year 2007-2008. Shortly thereafter, the School Board, on March 15 and April 16, 2007, approved raises for teachers and support staff, respectively, in the amount of four percent, retroactive to January 2007, with an additional two percent added to the salary schedule on July 1, 2007.

The impact of these salary increases was as follows: Since the initial four percent was made retroactive to January 2007, its impact on the July 2006- June 2007 School Year budget was to raise the overall salary burden by only two percent for that year. In School Year 2007-2008, however, the budget for the first time would reflect the full four percent. With the additional two percent to be added to the salary schedule on July 1, 2007, the overall increase in salaries approved during School Year 2006-2007 was a total of six percent over the previously existing salary schedule (or slightly more to allow for compounding).

There was testimony that at the time of the negotiations, the CBO advised some School Board members that there would not be enough money to fund the entire salary increase. The CBO believed there were funds available only to support an overall two percent increase. The Human Resource Manager, however, expressed a contrary opinion -- that there would be enough funds to support the entire increase. It should be noted that the Human Resource Manager, among others, would also benefit from any eventual pay raise. At least one Board member acknowledged that the Superintendent originally objected to the overall increase because funding would not be available. The Superintendent initially would not sign papers required to be forwarded to the County Board of Education when such raises are approved. The School Board nevertheless approved the salary increases, which after July 1, 2007 totaled at least six percent. The estimated dollar impact of these overall salary increases was approximately \$600,000 in

School Year 2007-2008. The CBO did not initially add that amount to the projected budget for School Year 2007-2008.

To summarize, it appears that everyone involved may have contributed to some extent to the eventual budget shortfall:

- The CBO allowed accounts payable invoices to accumulate, leaving many bills unpaid in a timely fashion.
- The CBO provided financial reports to the School Board in a format that did not give it the complete and accurate financial information the Board members needed to make informed decisions.
- The School Board did not take proactive measures to ensure it had the reliable financial information its members needed before acting.
- The Superintendent made costly decisions without first informing the CBO or seeking budget revisions from the School Board. This resulted in major financial obligations not provided for in the approved budget.
- The School Board may have approved salary increases over the objections of the Superintendent and CBO, the staff members most responsible for the finances of the District.

During the fall of 2007, the estimated amount of the projected budget shortfall increased. Estimates of the budget deficits within the District itself ran as high as \$1,300,000. Thereafter, a proposed reduction in State revenues to the District increased the potential total deficit to the District at approximately \$2,000,000.

Aside from the Grand Jury's own investigation, an Independent Auditor's Report for 2005-2006 was prepared and presented to the School Board on February 1, 2007. The following is information from that report and reflects matters known to the School Board as of that date:

School Year 2005-2006 Independent Audit

An independent audit was performed to assess the accounting principles used and the significant estimates made by management. The results of the 2005-2006 fiscal school year audit stated that the District suffered recurring losses, had negative unrestricted assets, and had available reserves well below the State required three percent.

Additionally, the District's General Fund balance decreased in the last three fiscal years by more than \$1,100,000. Several Audit Findings and Questioned Costs were found in the areas of Average Daily Attendance tracking which could result in a loss of over \$300,000 to the District. Other findings that could adversely impact the District were for the improper use of Proposition 20 Lottery Funds for teacher training rather than its intended use for instructional and technology-based materials. The auditors also found a lack of internal controls and tracking to reduce the risk of misappropriation of Associated Student Body funds.

Responses by the County and the Community

After the former Superintendent resigned, the School Board requested support and assistance from the Superintendent of Schools for Solano County who stepped in effective October 1, 2007.

By October 4, 2007, the School Board announced that it had asked the County Superintendent to serve as the “Acting Superintendent” for the District. On October 18, 2007, the CBO and Acting Superintendent provided a full accounting to the School Board concerning the 2006-2007 shortfalls. Shortly thereafter, the CBO resigned, and the County Board of Education then provided an “Acting CBO” to assist the District. A broadly based Budget Advisory Committee (BAC) became more active and, at a series of meetings held throughout the fall and winter, the BAC and the School Board identified many potential cuts in an attempt to bring the budget back into balance.

On February 4, 2008, the Acting Superintendent outlined an extensive array of cost saving measures, including reductions in District and site staffing, program adjustments, cuts in transportation, and closure of one of the elementary schools. On February 11, 2008, the School Board held a special budget workshop meeting at which the public was invited to comment on proposed cuts. That night, and in the ensuing weeks, the School Board approved a series of drastic budget cuts in an attempt to bring its budget into balance.

Among other things, the School Board closed an elementary school and merged its pupils into another elementary school. It reduced pay for support staff, secondary school staff, and elementary school staff. It also reduced funding for athletics, music and other programs. In total, the budget was reduced by more than \$1,370,000.

Other measures have been taken in an attempt to bring the 2007-2008 budget into balance. At an earlier date, a developer donated \$375,000 to a restricted fund. To rebuild its reserves, the School Board and the developer agreed that the Board could move those monies from restricted funds to the general fund. Legislation has been introduced (AB 1908) which would authorize the District to sell 40 acres of farmland and to place the proceeds into the general fund to help reduce the budget deficit and build the District’s reserve.

The Grand Jury also reviewed the 2006-2007 Independent Auditor’s Report, issued on April 4, 2008. The following information is taken from that report:

School Year 2006- 2007 Independent Audit

The auditors found a continued decrease in the General Fund balance and a failure to meet the three percent reserve requirement. As of June 30, 2007, the District was \$968,019 below the required reserve level. The auditors identified one deficiency in internal control over financial reporting that it considered to be a material weakness.

The unaudited actual financial statements and the government auditing standard entries presented to the auditors to begin the audit omitted several significant transactions and contained numerous misstatements. Some examples of omissions and misstatements by the District from the audit were as follows:

- issued General Obligation Bonds totaling \$3,019,000 in July 2006 and the proceeds and activity related to these bonds were booked incorrect and incomplete
- issued Certificates of Participation (COP) totaling \$5,450,000 in January 2007 and the proceeds and activity related to them were not booked at all by the District
- issued COPs totaling \$6,330,000 in May 2007 and the proceeds and activity related to them were not recorded
- pre-existing 1997 COPs Cash with fiscal agent activity for them has not been recorded

- pre-existing 2001 COPs Cash with fiscal agent activity was not recorded. Additionally, these COPs were cancelled when the January 2007 COPs were issued. The cancellation was not recorded.
- issued \$1,915,000 Tax and Revenue Anticipation Notes on July 6, 2006 that matured on July 6, 2007 but the activity and balances related to them were not recorded for the 2007 fiscal year end.

According to the auditors report, District management did not design nor operate the system of internal control over financial reporting in a manner that would prevent or detect misstatements in financial statements on a timely basis.

Other areas of omission and misstatements stated in the auditor's report may be reviewed through public records.

Recent District Activities

The Acting Superintendent and her staff have recently been identifying various financial checks and balances and putting them into place. This includes a "position control" system to ensure that no significant actions are taken within the District Office without taking into consideration the financial impact of those actions. The formats for financial reports to the School Board are now more meaningful.

In March, the District advertised for a new Superintendent. On April 24, 2008, the School Board selected the new superintendent, to begin serving on May 1, 2008. Meanwhile, the Acting Superintendent and Acting CBO are continuing their duties through the end of the School Year to assist in an orderly transition.

Findings and Recommendations

Finding 1 – The Dixon Unified School District has shown a lack of control in oversight of the school budget.

Recommendation 1 – The District should continue identifying and implementing strict internal controls to avoid mismanagement of the budget.

Finding 2 – Members of the Dixon Unified School District Governing Board appear to have an inadequate knowledge and understanding of financial statements pertaining to the budget.

Recommendation 2 - The Governing Board members should be trained or re-trained to understand financial statements and budgets. Training should be mandatory for all School Board members.

Finding 3 - Members of the Dixon Unified School District Governing Board did not exercise sufficient oversight and control of the Superintendent and Chief Business Official in their budget activities.

Recommendation 3 - The Governing Board should be more proactive in ensuring that the internal mechanisms within its financial operations are accurate.

Finding 4 - The Dixon Unified School District Human Resource Director and Facilities Manager appeared to have had separate budgets or spending allowances outside the control of the Superintendent and Chief Business Official.

Recommendation 4 - The Governing Board should place all budgets and spending under the authority of the Superintendent and Chief Business Official with appropriate oversight to strengthen internal controls.

Finding 5 - The Governing Board appears to have approved teacher salary increases beyond budget capabilities and against the advice of the Superintendent and Chief Business Official.

Recommendation 5 - The Governing Board should follow the advice and recommendations of its Superintendent and Chief Business Official in budgetary matters to avoid future shortfalls.

Finding 6 - The Governing Board's policy for management and other unrepresented employees is to match the salary increase percentages given to bargaining units.

Recommendation 6 - Management negotiators should not benefit from negotiated salary increases. The Governing Board should change this policy to the extent that it applies to management employees. The salary increases for management employees should be merit and performance based.

Comments

Those who testified from the District before the Grand Jury denied any responsibility for the serious financial situation within the Dixon School District. These witnesses believed that the responsibility for the deficit was with someone else. The Grand Jury feels that each party involved should share blame. The findings of the 2005-2006 and 2006-2007 independent audits relating to a lack of internal control over financial reporting confirmed the information and testimony obtained from individuals from the District.

The Grand Jury is concerned that the budget problems and lack of internal controls is a growing trend among school districts locally and throughout the State.

Our concern and empathy goes to the citizens, school staff, and students in the Dixon community who continue to be impacted by decisions made outside their control. The Dixon community must ensure that those that they have chosen to represent them in the community take responsibility for their actions.

We commend the Solano County Office of Education for its ongoing efforts to assist the District with managing their budget challenges.

One juror did not participate in the investigation due to a conflict.

Affected Agencies

- Dixon Unified School District - Governing Board
- Dixon Unified School District - Superintendent of Schools
- Solano County Office of Education - Superintendent of Schools

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- Solano County Board of Supervisors