SOLANO COUNTY GRAND JURY

Solano County Office of Education: Fiscal Oversight Responsibility

2004-2005 Grand Jury Report

Issued: June 23, 2005

Solano County Office of Education
Fiscal Oversight Responsibility
2004-2005 Grand Jury Report

I. Reason for Investigation

The Grand Jury elected to review the financial oversight responsibility the Solano County Office of Education (SCOE) has for school districts within the county.

II. Procedure

The Grand Jury:

- Interviewed current and former Solano County School Superintendents
- Interviewed two former SCOE Assistant Superintendents for Business and Finance
- Interviewed the current and past board presidents of Vallejo City Unified School District (VCUSD)

The Grand Jury reviewed the following documents:

- *AB1200 & Related Responsibilities: A Guide for Educational Agencies,* February 2000 by Fiscal Crisis and Management Assistance Team (FCMAT)
- *Financial Accountability and Oversight Provisions: Assembly Bill 2756 (Daucher),* July 2004 by Fiscal Crisis Management Assessment Team (FCMAT)
- *Vallejo City Unified School District: Assessment and Improvement Plan*, November 2004, by FCMAT
- *Report on the Actions of the Solano County Superintendent of Schools with Regard to Vallejo Unified School District*, January 21, 2005, by California State Superintendent of Public Instruction
- *Vacaville Unified School District,* 2002-2003 Solano County Grand Jury Report
- *Benicia Unified School District,* 2003-2004 Solano County Grand Jury Report
- *Training School Board Members in Governance: The Need for Continuing Education,* 2002 Monterey County Grand Jury Report
- *Maximizing School Board Leadership: Book 6 - Finance*, 1996 edition by the California School Boards Association
- *AB139 Audit of the Vallejo City Unified School District Final Report,* March 29, 2005 by MGT of America
- Information from the California Department of Education website www.cde.ca.gov on school districts with qualified or negative fiscal reports and on *Criteria and Standards for Reviewing School District Budgets*

III. Background

The California Education Code requires county offices of education to oversee the fiscal health of all public school districts within their county. The law is quite specific about how the process is to be implemented by the county office of education. AB1200, which was enacted by the legislature in 1991, provides a timetable and specific steps that must be taken by a county superintendent of schools in reviewing and approving or disapproving budgets of individual school districts. AB2756 was enacted in 2004 following the state emergency loan to Vallejo City Unified School District. Under AB2756, more authority was given to all county offices of

education to ensure fiscal accountability of emergency loan school districts. In addition, the State Superintendent of Public Instruction will have additional fiscal oversight responsibility for school district budgets commencing with the 2006-2007 fiscal year.

During the past five years, three of the six Solano County school districts have experienced budget problems resulting in "qualified" and/or "negative" budget certifications filed with the California Department of Education. A "qualified" certification means that the district may not meet its financial obligations for the current or two subsequent fiscal years. A "negative" certification means that the district will be unable to meet its financial obligations for the remainder of the current year or for the subsequent fiscal year. Under these circumstances, the county superintendent has considerable discretion about how to respond, including taking any or all of the following steps:

- Assigning a fiscal expert to the district
- Directing the district to submit financial projections
- Conducting a study of the financial condition of the district including a review of internal controls
- Directing the district to submit a plan to address the issues
- Withholding compensation from the governing board and district superintendent for failure to provide requested information.

The last three Solano County Grand Juries have produced reports detailing the fiscal problems at the Vacaville Unified School District (2002-2003 Grand Jury), Benicia Unified School District (2003-2004 Grand Jury) and Vallejo City Unified School District (2004-2005 Grand Jury). In nearly all cases, SCOE appears to have met the minimum legal requirements for fiscal oversight, but was not aggressive in requiring school district administrations and school boards to address the fiscal condition of their districts.

School board members are key players in making and approving school district budgets. Board members are elected and are entrusted by law to oversee fiscal activity in their school districts. In order to be effective, board members need to have an understanding of school district finances and be knowledgeable enough to ask key questions of staff. The important role of school board members is highlighted in recent financial reviews of troubled districts. For example, the 2003 financial review of the Benicia Unified School District by School Services of California noted: "The District has not had in place Board policies and budget development and monitoring practices that can prevent and provide early detection of financial issues." The 2004 FCMAT report on Vallejo City Unified School District stated: "The district does not have a set procedure, either verbal or written, that outlines steps occurring during budget development, what is to be included in the budget and/or what is to occur in budget maintenance during the fiscal year."

Training for school board members is available through a number of sources, one of the most comprehensive being the California School Boards Association (CSBA) *Masters in Governance* program, which is an eight-day training series in all aspects of school board governance. One of the eight training modules deals with school finance and includes an explanation of the board's budget and fiscal accountability role and training in school finance, fiscal impacts of board actions and internal fiscal controls. The 2002 Monterey County Grand Jury did a study of training for school board members and recommended that the Monterey County Office of Education take a more active role in providing training to school board members and create a training program for potential school board candidates. They also recommended that

certificates of completion be awarded and publicized so that the importance of training would be more widely known and those who participate in training would be recognized. We concur.

IV. Findings and Recommendations

Finding #1 – Although it has met most of the statutory requirements for fiscal oversight, the previous Solano County Office of Education administration was not always aggressive in addressing fiscal problems at local school districts.

Recommendation #1 – The Solano County Office of Education should take more prompt, insistent and decisive action as provided in the Education Code to assist school districts in financial distress. SCOE administrators should present financial concerns at local school board meetings in open session.

Finding #2 - According to the State Superintendent of Public Instruction's report, the County Superintendent did not appear as required before the Vallejo School Board in public session by September 8, 2003 to report on the school district's disapproved budget.

Recommendation #2 – Whenever a school district's budget is disapproved, the County Superintendent must comply with state law and appear before the school board in open session by the legally required deadline of September 8.

Finding #3 - School board members have not demonstrated the fiscal leadership needed to insure that their districts do not get into financial difficulties. Training in school financial governance is needed.

Recommendation #3 – All school districts need to invest in training for all of their board members to enhance their knowledge of school governance, particularly in financial matters. The Solano County Superintendent of Schools should make board member training sessions available to all candidates seeking school board positions prior to the election and publicize the names of candidates who have completed the training. This would signify to the voters the willingness of candidates to learn about the fiscal responsibilities of being a trustee.

V. Comments

The Fiscal Crisis and Management Assistance Team has identified a number of predictors of school districts that may be facing a fiscal crisis and may need intervention. These are listed in Appendix A. They are reprinted because the Grand Jury believes they are useful for school boards, SCOE and the general public to identify problems before they reach a crisis stage.

VI. Affected Agencies

- Solano County Office of Education
- Benicia Unified School District
- Dixon Unified School District
- Fairfield-Suisun Unified School District
- Travis Unified School District
- Vacaville Unified School District
- Vallejo City Unified School District

Appendix A. FCMAT Predictors of School Agencies Needing Intervention

1. Leadership Breakdown*
    a. Governance crisis**
    b. Ineffective staff recruitment
    c. Board Micromanagement and special interest groups influencing boards
    d. Ineffective or no supervision
    e. Litigation against district

2. Ineffective Communication*
    a. Staff unrest and morale issues
    b. Absence of communication to educational community**
    c. Lack of interagency cooperation**
    d. Breakdown of internal systems (payroll, position control)

3. Collapse of Infrastructure
    a. Unhealthful and unsafe facilities and sites
    b. Deferred maintenance neglected
    c. Low Budget Priority
    d. Local and state citations ignored
    e. No long-range plan for facility maintenance

4. Inadequate Budget Development*
    a. Failure to recognize year-to-year trends**
    b. Flawed ADA projections**
    c. Failure to maintain reserves**
    d. Salary and benefits in unrealistic proportions
    e. Insufficient consideration of long-term bargaining agreement effects**
    f. Flawed multi-year projections**
    g. Inaccurate revenue and expenditure estimation**

5. Limited Budget Monitoring*
    a. Failure to reconcile ledgers
    b. Poor cash flow analysis and reconciliation**
    c. Inadequate business systems and controls
    d. Inattention to COE data
    e. Failure to review management control reports
    f. Bargaining agreements beyond state COLA**
    g. Lawsuit settlements

6. Poor Position Control*
    a. Identification of each position missing
    b. Unauthorized hiring
    c. Budget development process affected
    d. No integration of position control with payroll**

7. Ineffective Management Information Systems*
    a. Limited access to timely personnel, payroll, and budget control data and reports**
    b. Inadequate attention to system life cycles
    c. Inadequate communication systems

8. Inattention to categorical Programs*
    a. Escalating general fund encroachment**
    b. Lack of regular monitoring**
    c. Illegal expenditures
    d. Failure to file claims

9. Substantial Long Term Debt Commitments
    a. Increased costs of employee health benefits
    b. Certificates of participation
    c. Retiree health benefits for employees and spouse
    d. Expiring parcel taxes dedicated to ongoing costs

10. Human Resource Crisis
    a. Shortage of staff (administrators, teachers, support, and board)
    b. Teachers and support staff working out of assignment
    c. Students/classrooms without teachers
    d. Administrators coping with daily crisis intervention
    e. Inadequate staff development

11. Related Issues of Concern
    a. Local and State audit exceptions
    b. Disproportionate number of under performing schools
    c. Staff, parent, and student exodus from the school district
    d. Public support for public schools decreasing
    e. Inadequate community participation and communication

* Highlights the seven conditions consistently found in each district requesting an emergency loan or dealing with a "fiscal crisis"

**Represents the 15 conditions that have been found most frequently to indicate fiscal distress and are those referenced in AB2756 and recently amended Education Code Sections 42127 and 42127.6