

# Vacaville Unified School District 2002-2003 Grand Jury Report

## Reason for Investigation

The Grand Jury investigated citizens' complaints alleging fraud and budgeting mismanagement by the Vacaville Unified School District Administration and Board of Education for the 2001-2002 school year. Over two million dollars were alleged to be missing and layoff notices were sent to 49 teachers in March 2002.

## Procedure

The Grand Jury:

Reviewed:

- Citizens' complaints
- Vacaville Unified School District (VUSD) 2001-2002 Budget

Interviewed:

- Members of VUSD Administrative and Budget office
- Current members of VUSD Board of Education
- Vacaville Teachers Association member
- Solano County Office of Education Administrative Services personnel
- Toured VUSD Administrative offices

## Background

1. Testimony indicates a series of events beginning in 1999 resulted in the shortfall of monies in the later years. From 1999 to 2002, revenues decreased and expenditures increased, resulting in the decline of the District's unrestricted fund balances. Two major components that affect a school district's revenue and costs are students' average daily attendance and the cost of employees' salaries and benefits.

2. During teacher union contract negotiations in the 1999-2000 school year, a salary increase of 2% above the original salary offer with a corresponding cap on future medical benefits costs was agreed upon through mediation. This affected other district employees due to the "me-too clause," which also increased personnel costs. The increase was paid for out of non-recurring funds with the thought that California had a surplus and was expected to give a generous increase in revenue limit per student, which would cover these budget shortfalls for the future. In addition to the additional 2% increase negotiated in 1999-2000 budget year, a grievance was brought forward regarding an incorrect future medical benefits formula. This resulted in an additional 1.5% salary increase in the 2000-2001 budget year. The "me-too clause" also affected other district employees and was paid out of non-recurring funds. These increased costs would have to be paid out of recurring monies in 2001-2002 budget year.

3. Testimony indicated other significant events took place which contributed to the budget shortfall. Personnel changes in the district office took place creating vacant positions in late November 2000 and January 2001. Testimony stated that important monitoring of attendance and cash flow was

not being accomplished in a timely manner. Account books were delayed in being closed and consequently the time had passed when actions could be taken to cut spending, freeze purchase orders and freeze hiring replacements for vacant positions. Partnered with attendance going down, budget projections resulted in shortfall of revenues. In November 2001 when the account books were closed for the year, a restated accounting resulted in a \$1.8 Million reduction of unrestricted funds for the 2000-2001 fiscal year.

4. Testimony indicated that enrollment and attendance projections for fiscal year 2001-2002 were based on a best-case scenario. The attendance increases became less than projections. Given the restated final books for 2000-2001, the 2001-2002 budget was fast becoming a concern. In January 2002 the State made heavy midyear cuts to revenue already appropriated to schools. The VUSD “self-qualified” their 2002 projections based on not meeting the mandatory 3% reserve. The first interim budget report, which was due in December of 2001, was not submitted until February of 2002. New accounting procedures directed by the State were put in place and caused a delay in the report. The second interim budget report, which was submitted in March 2002, adjusted for mid-year cuts and loss of attendance revenues. At this point, the Administration recommended staff and program reductions in order to balance the budget and restore the mandated reserve for the 2002-2003 budget. Layoff notices were issued, but no actual layoffs took place. Reductions were made through attrition, “Golden Handshake” retirements and resignations.

5. Testimony and facts indicated there was no money missing or unaccounted for in the VUSD 2001-2002 budget. The lack of timely communication and understanding of the budget shortfalls appeared to be an issue among employees, the Board and the Administration that contributed to mistrust and misunderstanding.

#### IV. Findings and Recommendations

*Each finding is referenced to the background paragraph number*

**Finding #1** - Salary increases were paid for with non-recurring funds with the expectation of additional funding from the State for the two years (1999-2000 and 2000-2001). (2,3)

**Recommendation #1** -VUSD not commit non-recurring funds for recurring requirements.

**Finding #2** - Enrollment and attendance projections for determining the fiscal year 2001-2002 budget assumed a best-case scenario. (4)

**Recommendation #2** - The VUSD develop a realistic model to predict enrollment and attendance for budget planning.

**Finding #3** - No money was missing or unaccounted for in the 2001-2002 VUSD budget. Layoff notices were issued, but no actual layoffs took place. (4,5)

**Recommendation #3** - No action required.

#### V. Comments

Investigations and interviews revealed a lack of timely and/or accurate information and communication. This created mistrust among teachers, Administration and the Board. The economy, projected enrollment, reductions in state programs, new accounting procedures, vacant strategic

positions and the limited ability to monitor and provide timely reports contributed to the budget shortfalls.

The VUSD should prepare simple and up-to-date monthly reports showing actual expenses to budget, forecasts for the year given, highlights of budget issues and reasons why. These reports should be available on the District's website and copies distributed to the Teachers' Union officers. Meetings should be held with Board, Administration and the Union so all employees are informed and understand the budget process. Public information meetings should also be held.

#### Affected Agencies

- Vacaville Unified School District
  - Solano County Office of Education
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