

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL

262

FINANCIAL PROBLEMS
OF CONEJO
VALLEY UNIFIED
SCHOOL DISTRICT

APRIL 1975

TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

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April 2, 1975

Honorable Bob Wilson
Chairman, and Members of the
Joint Legislative Audit Committee
Room 4126, State Capitol
Sacramento, California 95814

Dear Mr. Chairman and Members:

Transmitted herewith is our report on the financial problems
of Conejo Valley Unified School District.

Respectfully submitted,

Harvey M. Rose
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INTRODUCTION

In response to a legislative request, we have performed a brief survey of the Conejo Valley Unified School District's financial problems. The survey relates to the district's request for an emergency apportionment from the Legislature of \$1.5 million to finance the district's operations for the balance of the 1974-75 fiscal year. Pursuant to existing state law, and the bill authorizing the emergency apportionment, the district must repay this \$1.5 million to the state over the next three fiscal years.

Conejo Valley Unified School District began operation on July 1, 1974. The formation of the new unified district was comprised of Valley Oaks Union and Timber Elementary School Districts and two high schools from Oxnard Union High School District, Ventura County.

Unification of the districts was approved at a Special Election held September 18, 1973. The organizational meeting of the district Board of Education was held September 25, 1973 and a district superintendent was selected in December of the same year.

During the period January to August 1974, the district budget for the 1974-75 fiscal year was developed by the district superintendent with the assistance of an acting assistant business manager and other staff from the districts being merged.

The district's financial problems were not officially brought to the attention of the district Board of Education until January 22, 1975. At that time, the superintendent of the new school district requested board approval to proceed with a request for an urgency appropriation of \$1.5 million pursuant to Sections 17311 and 17325-17329 of the Education Code. A bill has been introduced (AB 1176) to authorize an emergency apportionment to the district of \$1.5 million.

Vicenti, Lloyd and Stutzman, Certified Public Accountants, were engaged to review the financial controls and procedures of the district and to project the net ending fund balance at June 30, 1975.

Due to the limited time permitted for our review, the financial projections in this report are basically those of the certified public accountants. Mr. Stutzman, a partner in the CPA firm, stated on March 21, 1975 that no significant changes were anticipated from their preliminary projections.

We were allowed free access to the certified public accountant's working papers for the purpose of making independent judgments as to the reasonableness of the income and expenditure projections.

FINDINGS

INEFFECTIVE FISCAL MANAGEMENT OF THE CONEJO VALLEY UNIFIED SCHOOL DISTRICT HAS RESULTED IN A PROJECTED NET ENDING DEFICIT CASH BALANCE OF \$600,000 AT JUNE 30, 1975.

Although the Conejo Valley Unified School District has requested \$1.5 million from the Legislature to finance its operations for the balance of fiscal year 1974-75, it is projected that the district's cash balance as of June 30, 1975 will be a deficit of approximately \$600,000. Ineffective decisions regarding both the district's revenues and expenditures have caused this deficit cash situation.

Revenue Estimates

District administration did not adopt a conservative approach to the projection of budgeted revenues.

The Ventura County Superintendent of Schools computed the district's estimated revenue at approximately \$1,000 per unit of average daily attendance (ADA).

The Conejo Valley Unified School District projected budgeted revenues of \$22,199,734 based on 20,681 ADA. This ADA projection exceeded the projections included in the unification proposal by 1,634 ADA, or \$1,634,000. Prior to adoption of the budget by the school district, the Ventura County Superintendent of Schools advised the district administration that based on historical data,

the ADA which the district was using for budgeting purposes, was overestimated by 1,200 ADA. Nonetheless, the Conejo Valley Unified School District Board of Education adopted the budget based on 20,681 estimated ADA.

The overoptimism of the district in estimating revenue is not as significant to the district's financial problems as the expenditure level of the district. Revised revenue projections to June 30, 1975 indicate revenue will be \$21,864,971, or only \$334,763 less than what the district budgeted. When the district became operational on July 1, 1974, the beginning fund balance was \$668,094, which was sufficient to absorb this shortage in projected revenue.

Expenditures

The independent certified public accountant's projection prepared in March 1975 includes estimates that expenditures to June 30, 1975 will exceed revenue by \$1,185,566.

Budgeted expenditures for the Conejo Valley Unified School District for the 1974-75 fiscal year were \$22,513,953. These budgeted expenditures exceeded budgeted revenues by \$314,219. This excess of budgeted expenditures over revenues was to be funded from the beginning fund balance of the district and would provide an ending fund balance at June 30, 1975 of \$353,875 (see Appendix).

Salary agreements for pay increases to both certificated and classified employees carried no provision for adjustments based on financial capability of the district. Substantial salary increases of 8 to 17 percent for certificated employees and 9 percent for classified employees were granted before the district had any assurance of the reliability of the revenue estimates.

On October 21, 1974, the Ventura County Superintendent of Schools advised the district that the October enrollment figures reflected a drop of 1,208 ADA from that budgeted. The county superintendent suggested that budgeted expenditures must be reduced, since the district did not have sufficient reserve to cover the revenue loss.

In December, the Ventura County Superintendent of Schools advised the district that they were reserving cash accounts of the district by the amount of the July and August 1975 payroll and would not honor warrants for other than payroll expenditures against those reserved funds.

Expenditures of the district were not curtailed sufficiently to stay within the available revenue.

Funds provided by a restricted tax levy of \$183,139 for repayment to the State School Building Aid Fund were used instead to meet current operating expenditures.

As late as February 25, 1975, the district incurred costs of approximately \$1,500 for conference and related travel expenses to Dallas, Texas by the district superintendent and two board members.

At the time of our review, the expenditure projections included an additional \$22,000 for travel and conference expense between February 28 and June 30, 1975.

Resolution of Net Ending Deficit Cash Balance

To resolve its projected deficit cash balance for fiscal year 1974-75, the district has requested authorization from the Legislature for an emergency apportionment of \$1.5 million.

In the past, school districts have been allowed to end a fiscal year with a net ending deficit fund balance to the extent of delinquent taxes. Further, Section 17311 of the Education Code states that it is not the intent of the Legislature to authorize that emergency loans be made to school districts for the purpose of meeting cash flow problems pending the receipt of local taxes and other funds. While it is recognized that the Legislature could authorize apportionment of funds for such purposes, to do so would be inconsistent with previously stated legislative intent.

The fiscal year 1974-75 income and expenditure projection for the school district (Appendix) includes a reduction of the budgeted tax revenue in the amount of approximately \$324,000 for delinquent taxes.

Initial computation of the district tax rate also provides for an additional \$460,905 of delinquent taxes.

The projections make no provision for ending warehouse inventory or prepaid expense. We estimate an ending warehouse inventory of \$100,000, which would reduce the fund deficit a like amount, but which would not provide additional cash.

Therefore, the estimated delinquent taxes of \$784,905 plus the estimated ending warehouse inventory of \$100,000 exceeds the projected cash deficit of \$599,261 (Appendix) by \$285,644.

CONCLUSION

There has been ineffective management of the Conejo Valley Unified School District. The net ending deficit cash balance for fiscal year 1974-75 will not exceed the delinquent taxes and the warehouse inventory. However, the district will have cash flow problems and will receive an estimated \$600,000 less in revenues than its expenditures as of June 30, 1975.

The lack of knowledge of district's financial position is evidenced by the district request for \$1.5 million. Further, since the district's delinquent taxes exceed the projected deficit, under previously expressed legislative intent, an emergency apportionment would not be appropriate.

RECOMMENDATION

We recommend that the requested emergency apportionment of \$1.5 million not be authorized by the Legislature for the Conejo Valley Unified School District.

BENEFITS

Implementation of this recommendation will assure that the state legislative intent for emergency apportionments will be followed by not providing emergency apportionments for cash flow problems of school districts.

OTHER PERTINENT INFORMATION

A February 6, 1975 report on the district's financial controls and procedures prepared by Vicenti, Lloyd and Stutzman noted numerous deficiencies relating to financial matters. For example, the district's accounting system does not contain general ledger control accounts and as of December 1974, complete financial statements had not been prepared for the district since its inception.

Correction of these deficiencies and stringent management controls will be required to place this district on a sound financial basis.

SUMMARY OF COMMENTS OF THE
DISTRICT SUPERINTENDENT AND THE
ASSISTANT SUPERINTENDENT OF BUSINESS SERVICES

1. The district now plans to request a maximum emergency apportionment of \$750,000 rather than \$1.5 million as originally requested.
2. A major problem experienced by the new district during the early phases of unification was a lack of assistance from experienced fiscal staff in the component districts. Two of the component districts did not have business managers.
3. The district has instituted a policy to restrict expenditures for inventory items in order to conserve cash during this fiscal year.
4. The district has instituted restrictions effective April 1 on field trips, conference and related travel expenses. It is estimated that these restrictions will reduce the \$22,000 projected costs to \$8,000. Many of the costs in this category are contractual obligations with employees for travel within the district.
5. In a newly unified school district, by law, two conditions must be met:
 - a. You cannot reduce services, employees, or benefits for a two (2) year period of time.
 - b. Any benefit received by at least one of the component districts must also be awarded the employees of the other component districts. The true costs of salary

schedules were not determined until after school opened due to the complexities of bringing all classified and certificated personnel to a single unified schedule for each group.

6. We feel that if an emergency apportionment is not authorized by the Legislature and the district must make up its cash deficit in a single year, rather than over three years, the district will feel the effects on its educational programs for six to seven years in the future.
7. The school district does not feel that use of delinquent taxes as a resource is justifiable in that the school district cannot borrow against, cannot collect, reduce, or eliminate them as the district has absolutely no control over them.

CONEJO VALLEY UNIFIED SCHOOL DISTRICTProjected Income and Expenditures

	1974-75 Adjusted Budget	CPA Projected July 1, 1974 To June 30, 1975	Projections Over (Under)
<u>Net Beginning Balance</u>	\$ <u>668,094</u>	\$ <u>586,305</u>	\$ <u>(81,789)</u>
<u>Revenues</u>			
Federal income	213,641	390,832	177,191
State income	9,015,844	8,640,218	(375,626)
County income	247,110	144,480	(102,630)
Local income	12,673,139	12,620,441	(52,698)
Incoming transfers	<u>50,000</u>	<u>69,000</u>	<u>19,000</u>
Current period income and incoming transfers	<u>22,199,734</u>	<u>21,864,971</u>	<u>(334,763)</u>
Total net beginning balance, current income and in- coming transfers	<u>\$22,867,828</u>	<u>\$22,451,276</u>	<u>\$(416,552)</u>
<u>Expenditures</u>			
Certified salaries	13,844,066	13,922,249	78,183
Classified salaries	3,294,286	3,376,560	82,274
Employee benefits	2,948,580	2,841,768	(106,812)
Books, supplies and equipment replacement	1,069,780	1,104,065	34,285
Contracted services and other operating expense	1,061,598	1,261,064	199,466
Sites, building, books and media and equipment	71,900	113,752	41,852
Other outgo	<u>223,743</u>	<u>431,079</u>	<u>207,336</u>
Total expenditures	<u>\$22,513,953</u>	<u>\$23,050,537</u>	<u>\$ 536,584</u>
Net ending cash balance	\$ <u>353,875</u>	\$ <u>(599,261)</u>	\$ <u>(953,136)</u>