

**Red Clay Consolidated School District
Corrective Actions - Financial Recovery Team**

Completed	In Progress	Finding	Response
	✓	<p>Finding #1: As of December 4, 2007, 6 of 7 Red Clay board members have not attended Financial Responsibility Training as required by 14 Del. Code §1803.</p>	<p>Response #1 A financial training was presented on December 12, 2007 and five board members attended. The remaining board members will attend the required training in the near future.</p>
	✓	<p>Finding #2: No regular monthly financial reporting has been provided to the local board of education.</p> <ul style="list-style-type: none"> • The Red Clay Consolidated School District Board of Education monthly minutes do not reflect budget updates or budget reviews. 	<p>Response #2 In September 2007, the Board established the Red Clay Community Financial Review Committee and appointed members. The Committee began meeting in October 2007 and is comprised of parents, teachers, community members, and financial professionals. Meetings are held monthly. At the most recent December meeting, committee members received templates of financial reports, including data through the end of November as well as a comparison to last fiscal year. The Committee has made suggestions for improving the reports which will be ongoing and available to the public. The Committee will continue to monitor expenditures and has scheduled a special meeting in January to review the FY08 Final Budget. They will also provide monthly reports to the board based on the committee's review of financial reports prepared by the district.</p>
✓		<p>Finding #3: A pattern of deficit spending was clearly noted in the introduction page for the FY2002 through FY2004 Board approved budgets. The FY2002 Board approved budget stated that "over the past 2 years this surplus has been decreased significantly due to operating deficits". Thus, an activity of deficit spending commenced during FY2000. Moreover, the district has been receiving \$.05 increases (which equal approximately \$2.5 million) annually in their operating tax rate as a result of a 2004 referendum, all the while continuing the practice of deficit spending. State financial records illustrate a declining end of year local fund balance through FY2007.</p>	<p>Response #3 As seen in other districts, referendum plans typically raise revenues with an infusion of funds in the early years and are intended to last over time. As more funds are raised up front, reserves are drawn down and deficit spending occurs. The practice of deficit spending is not new in Red Clay or other districts, but is a necessary function of the referendum process. The FY08 budget presented to the Board is balanced and expenditures do not exceed revenues. This is expected to continue in FY09 and thereafter as the District rebuilds the balance required to fund salaries through October's tax receipts.</p>

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✓		<p>Finding #4: As a result of deficit spending, the Red Clay Consolidated School District was forced to obtain a private loan of over \$2 million in order to support financial obligations through the end of Fiscal Year 2007.</p> <p>Finding #5: Purchase orders were de-encumbered at the end of Fiscal year 2007 to increase cash balances to allow for payroll expenses to be met. \$1,300,000 in vendor payments were deferred until September of 2008 fiscal year.</p> <p>Finding #6: Because of insufficient year end balances, the Red Clay School District has requested the use of State dollars to cover local payroll expenses in Fiscal years 2007 and 2008.</p>	<p>Responses #4, #5, and #6 Preparation for the FY08 budget included significant spending reductions in order to achieve a balanced budget. The FY08 Final Budget meets its obligations for FY07, including repayment of the loan and all deferred vendor payments. Further payment deferrals or loans are not anticipated in the FY08 Final Budget as presented to the Board on Monday, December 17, 2007. As the District recovers from FY07, the Board has been presented with potential revenue options (referendum) and expenditure reduction plans in order to rebuild the cash balance over the next two years and to fully comply with and meet expenses through October's tax receipts.</p>
✓		<p>Finding #7: The budget that was approved by the Red Clay Board of Education was not loaded in its entirety into the financial management system to ensure accurate tracking of expenditures. This made any attempt to track budgeted amounts to actual expenditures impossible.</p>	<p>Response #7 The Director of Finance and the Supervisor of Accounting have been working within the Business Office to reestablish policies and procedures for purchase orders, vendor payments, and expenditure tracking. The FMS financial reporting system has been fully populated and the Business Office as well as the schools and programs have real-time access to financial data. This is the same financial information presented to the Community Financial Review Committee.</p>

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✓		<p>Finding #8: Major budget items, such as substitute teacher expenses, were not included in the budget presented to and approved by the Board of Education.</p> <p>Finding #9: Expenses were not recorded against the appropriate and approved budget units. This severely limited the ability to monitor the budget or track expenses and further impacted the transparency of the district's financial condition.</p> <p>Finding #10: Documentation supporting the approved budget was not maintained or not readily available to the Financial Recovery Team. For example, no documentation was provided to support the local salary budget (IBU 96) of \$38 million.</p>	<p>Responses #8, #9, and #10 The FY08 Final Budget reflects extensive work by the new Director of Finance in consultation with the Financial Recovery Team to accurately represent revenues, expenditures, and final budget estimates. Past budgets were reviewed and corrective actions taken in the FY08 Final Budget to ensure all committed expenditures, such as substitutes, are included in the budget. This also includes extensive monitoring of coding to appropriate budget units. Detailed personnel forecasts, again with the assistance of the Financial Recovery Team, were developed to estimate expenditures.</p>
	✓	<p>Finding #11: The District lacks a clearly defined structure for human resource management that focuses on fiscal impacts on the local budget.</p> <p>Finding #12: Inappropriate and inadequate staff placement documentation created severe issues for financial reporting and monitoring. The Financial Recovery Team needed to meet with individual supervisors of programs to establish or determine actual staffing levels as the district level records were incomplete and inaccurate.</p>	<p>Responses #11 and #12 The District will restructure the management of Human Resources, including the definitions of roles and responsibilities. Mr. Frank Rishel, a member of the Financial Recovery Team, has been on site working with the District since August 2007. As the Financial Recovery Team transitions from direct oversight, the Director of Finance and the Deputy Superintendent will oversee Human Resources management, staffing, and application of units.</p>
✓		<p>Finding #13: Employee records in the state personnel and payroll system were inappropriately coded resulting in local salary dollars being charged against the budget established to track state salary dollars.</p>	<p>Response #13 Expenditure coding is reviewed continuously by the Business Office (Director of Finance and Supervisor of Accounting) to ensure proper charges and tracking. A new IBU77 has been established to track non-Division I state salaries and ensure correct charges are applied to IBU96 Local Salaries and Benefits.</p>

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✓		Finding #14: The application of EPER positions across the district was found to be inconsistent.	Response #14 EPER positions are monitored and reviewed by the Assistant Superintendent for School Services and the Director of Finance, for consistent application of positions and salary calculations.
✓		Finding #15: The District was charging less experienced, less expensive teachers to federal and special fund programs even though more experienced, higher paid staff was working in such programs. This practice was allowed at one point to maximize the use of these resources. This practice is no longer allowed under U.S. OMB Circular A-87 and under the advisement of the FRT, the district has discontinued this practice.	Response #15 As noted, the District did not use replacement teachers in the FY08 Consolidated Grant or other supplemental programs.
✓		Finding #16: The FRT questions the use of secretarial and custodial units to employ district specialists in accordance with the collective bargaining agreements.	Response #16 A comprehensive review of all earned units and their allocations was completed. Staffing adjustments were made based on the September 30 unit count. The District will continue to review staffing allocations and application of units in all areas, both in conjunction with employee contracts and in preparation for school year enrollment projections. The Director of Finance will approve all position allocations and a reorganization of Human Resources will begin in January 2008.
✓		Finding #17: Either the district did not set a sufficient tuition tax rate or the district was deficit spending in the tuition program or both. Local Current Expense funds were used to support tuition based programs for a minimum of two successive years. The FRT was unable to determine whether the board was aware of the impact of this decision on the board approved district operating budget.	Response #17 The tuition tax rate was established in FY08 to make all current year tuition payments from tuition funds as well as repayment of FY07 expenses. The FY08 Budget recommendation to the Board clearly identifies the repayment of tuition funds to Division 32 as well as the balance remaining in payments for FY09.

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	✓	<p>Finding #18: In preparation for the development of the tuition budget, the district could not readily provide a monthly accounting of students who attend programs outside of the district.</p>	<p>Response #18 The Business Office has been working with the Technology Department, Colonial School District, and the Data Service Center to develop an automated system for tracking monthly enrollment of students attending programs outside the District. This is not unique to Red Clay, but an issue across districts and requires a collaboration of efforts similar to the recent automation of choice and charter billings.</p>
	✓	<p>Finding #19: The FRT found severe inadequacies with the development and administration of the tuition budget and billings.</p>	<p>Response #19 Tuition billings for the FY08 school year are currently being prepared based on data from E-School and the Technology Department. Actual expenditures have been reflected in the FY08 Final Budget presented to the Board and will be the basis for tuition billings.</p>
✓		<p>Finding #20: The district has demonstrated non-compliance with the State code, Bid Laws and Department regulations in administering vendor contracts.</p> <ul style="list-style-type: none"> • State Auditor conducted a special investigation concerning NOR Enterprises Inc. • A Friend of the Family Inc., a vendor hired by the district to manage the Central School and the Community School. <ul style="list-style-type: none"> ○ The FRT found no evidence of a Request for Proposal (RPF) for services provided by the A Friend of the Family for the Central School. The contract was awarded to A Friend of the Family for \$541,000. ○ Services continue to be provided by the vendor. • The district has entered into professional service contracts with former employees of the State. The district must demonstrate compliance with the Delaware Code as well as rules and regulations of the Public Integrity Commission. 	<p>Response #20 Contracts are reviewed by the Business Office for compliance prior to any approval. Additional procedures for approval have been developed including a cover page referencing Bid Number or required quotes and contract justification.</p>