

**FINANCIAL RECOVERY TEAM
FINDINGS**

**RED CLAY CONSOLIDATED
SCHOOL DISTRICT**

DECEMBER 13, 2007

**Prepared by the Financial Recovery Team
12-13-07**

On May 7, 2007, the Secretary of Education, with the approval of the Director of the Office of Management and Budget and the Controller General, convened a team of state and school finance experts, referred to as the Financial Recovery Team (FRT), to review the financial condition of the Red Clay Consolidated School District (RCCSD). The FRT conducted their review by interviewing RCCSD staff and analyzing data and information made available through RCCSD staff, the state accounting (DFMS) and payroll (PHRST) systems and the district's financial management systems (FMS).

The FRT has concluded that the Red Clay Consolidated School District Board of Education and Administration are facing major structural problems and organizational issues that will need to be addressed to prevent further financial distress.

At a minimum, minutes of the FY2007 RCCSD Board meetings do not reflect evidence of regular monthly financial reporting. It is not evident to the FRT that the local school board considered the fiscal impact of the various decisions that were being made concerning the management of the district.

In addition, several areas reviewed by the FRT demonstrated inappropriate and inadequate tracking of expenses against the Board approved budget. Such practices impaired the district's ability to determine and measure the financial health of the district. Furthermore, there was a pattern of deficit spending acknowledged in the Board approved budget as far back as FY2000. Such spending activities resulted in the need for salary floats for summer payrolls during FY2007 and FY2008, a private loan of \$2.3 million to meet obligations through June 30, 2007 and the deferral of \$1.3 million of vendor payments to September of FY2008.

Moreover, a staffing analysis revealed that no single individual was in charge of managing and administering human resources and the associated financial obligations, further impacting the financial health of the district.

The FRT continues to work with district staff to determine the most accurate projection for year-end balances of the RCCSD and will provide monthly monitoring and assistance in managing the budget for the remainder of the fiscal year.

FINDINGS AND RECOMMENDATIONS

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. [Attachment 1](#)

Recommendation for Finding #1:

- The Department of Education has been holding training sessions on a regular basis since January 2007. The Board is obligated to comply with Delaware Code.

Finding #2: No regular monthly financial reporting has been provided to the local board of education.

- The Red Clay Consolidated School District Board of Education monthly minutes do not reflect budget updates or budget reviews. [Attachment 2](#)

Recommendation for Finding #2

- The Red Clay Board of Education should require the Superintendent and his staff to provide financial reports to them on a monthly basis.
- The district should develop procedures to insure compliance with all Delaware Code and Department of Education rules and regulations relating to public financial reporting.

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. [Attachment 3](#)

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. [Attachment 4](#)

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. [Attachment 5](#)

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. [Attachment 6](#)

Recommendation for Findings #3-6:

- The Board of Education, Superintendent and administration must develop a responsible budget and spending plan that:
 - Is balanced and structurally sound;
 - Maximizes the appropriate use of state and federal resources and uses local resources in a manner that is sustainable;
 - Maintains sufficient balances to ensure that resources are available to meet all payroll obligations.
 - Brings the district into compliance with 14 Del. Code §1507 requiring that the August 31 financial position report reflects resources to meet all payroll obligations.

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. Attachment 7

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. Attachment 8

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. Attachment 9

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.

Recommendation for Findings #7-10

- The district must utilize the financial tools available to it such as Financial Management System (FMS) and the State accounting system (DFMS) to track expenses relative to the Board approved budget.
- Additional controls need to be developed to ensure that financial documents are coded properly and charged against the proper budgets.

Finding #11: The District lacks a clearly defined structure for human resource management that focuses on fiscal impacts on the local budget. Attachment 10

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.

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. Attachment 11

Finding #14: The application of EPER positions across the district was found to be inconsistent.

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.

Finding #16: The FRT questions the use of secretarial and custodial units to employ district specialists in accordance with the collective bargaining agreements.
Attachment 12

Recommendations for Findings #11-16:

- The District must establish an organizational structure that ensures all decisions related to staffing and personnel are brought to the Board for approval.
- The District needs to establish a “gatekeeper” for the allocation/assignment of all personnel from all sources of funds.
- The District needs to clarify guidelines for all EPER positions and ensure consistent application throughout the district.
- All decisions related to staffing and personnel must be consistent with the Board approved budget. This includes program decisions that may lead to increases in the local tuition tax rate.
- Human resource records must be regularly updated and audited at the district level to ensure accuracy and compliance with approved budgets.
- District administrators must be aware of the impact that federal and state code and DOE federal regulations will have on local decisions, including financial impacts.
- The District needs to review “articles” in the current union negotiated agreements that place restrictions on the Board’s management responsibility/right to “direct the work force”
- The District should return to managing the substitute calling system “in house” rather than using an outside vendor. Such a move should save District resources.

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. Attachment 13

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.

Finding #19: The FRT found severe inadequacies with the development and administration of the tuition budget and billings. Attachment 14

Recommendation for Findings #17-19:

- The district should implement the same principles in developing and managing the tuition programs that the FRT recommends for the operating budget.
- Additional controls need to be developed so that documentation and financial records are accurate and adequately managed to ensure transparency and allow for analysis of the impact on the operating budget.

Finding #20: The district has demonstrated non-compliance with the State code, Bid Laws and Department regulations in administering vendor contracts.

- State Auditor conducted a special investigation concerning NOR Enterprises Inc. Attachment 15
- A Friend of the Family Inc., a vendor hired by the district to manage the Central School and the Community School.
 - 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. Attachment 16
 - Services continue to be provided by the vendor. Attachment 17
- 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. Attachment 18

Recommendation for Finding #20:

- The district should conduct an immediate and comprehensive review of all contracts to ensure compliance with all relevant laws and regulations.
- Additional controls must be established to ensure that compliance with all laws and regulations is made a priority and is ongoing.