

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**THE OAKLAND UNIFIED SCHOOL
DISTRICT MAY HAVE A GENERAL FUND
DEFICIT BY JUNE 30, 1986**

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

F-572

THE OAKLAND UNIFIED SCHOOL DISTRICT
MAY HAVE A GENERAL FUND DEFICIT
BY JUNE 30, 1986

MAY 1986



Telephone:
(916) 445-0255

STATE OF CALIFORNIA
Office of the Auditor General
660 J STREET, SUITE 300
SACRAMENTO, CA 95814

Thomas W. Hayes
Auditor General

May 29, 1986

F-572

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the fiscal problems at the Oakland Unified School District. We found that although the district may have a \$2 million deficit in its general fund at June 30, 1986, it will have an adequate cash balance to meet its current cash needs. If the district implements our recommendations, the problems that led to this condition should be corrected.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Tom Hayes".

THOMAS W. HAYES
Auditor General

Handwritten initials "fa" in a cursive script.

TABLE OF CONTENTS

	<u>Page</u>
SUMMARY	S-1
INTRODUCTION	1
AUDIT RESULTS	
THE OAKLAND UNIFIED SCHOOL DISTRICT MAY HAVE A GENERAL FUND DEFICIT BY JUNE 30, 1986	5
CONCLUSION	19
RECOMMENDATIONS	20
APPENDICES	
A ASSUMPTIONS USED IN PREPARING THE DISTRICT'S FUND BALANCE PROJECTION	23
B ASSUMPTIONS USED IN PREPARING THE DISTRICT'S CASH FLOW PROJECTION	25
C METHODOLOGY AND ASSUMPTIONS USED IN PREPARING THE PROJECTION OF THE DISTRICT'S GENERAL REVENUES, EXPENDITURES, AND FUND BALANCE THROUGH FISCAL YEAR 1987-1988	27
RESPONSE TO THE AUDITOR GENERAL'S REPORT	
Oakland Unified School District	29
AUDITOR GENERAL'S COMMENTS ON THE OAKLAND UNIFIED SCHOOL DISTRICT'S RESPONSE	39

SUMMARY

RESULTS IN BRIEF

In the current fiscal year and in each of the previous four fiscal years, the Oakland Unified School District (district) has budgeted expenditures that exceeded its anticipated revenues. In addition, the district has failed to adhere to its budget and has bypassed budgetary controls. As a result, unless the district receives additional revenue or substantially reduces its expenditures, it will have a general fund deficit of approximately \$2 million by June 30, 1986. If the district continues to spend more than it receives in revenues, it will incur a deficit of up to \$6 million by the end of 1986-87 and \$14 million by the end of 1987-88.

Although the district may end fiscal year 1985-86 with a deficit in its general fund, it will have adequate cash balances to meet its current needs. If the district complies with our recommendations, it should not require financial assistance in the future.

BACKGROUND

The superintendent of the district, who is appointed by the district's seven-member board of education, is responsible for preparing the district's yearly budget and submitting it to the board for approval. In 1984-85, the district had a general fund operating budget of approximately \$165 million to run 60 elementary schools, 16 junior high schools, 14 senior high schools, 22 children centers, and 4 adult education schools. The district employs 6,000 people to run these facilities.

PRINCIPAL FINDINGS

Since Fiscal Year 1981-82, The District Has Budgeted Expenditures That Exceed Its Revenues

Between June 30, 1982, and June 30, 1985, the district reduced the fund balance in its general fund from \$6.8 million to \$2.1 million because the district planned each year to spend more than it received. Since its June 30, 1985, fund balance will not cover the difference between the current fiscal year's revenues and expenditures, we project that the district will have a deficit of approximately \$2 million in its general fund by June 30, 1986.

The District Does Not Adhere to Its Budget

In fiscal years 1984-85 and 1985-86, the board approved salary increases that exceeded the amounts budgeted for salaries and the resources available to the district. In fiscal year 1984-85, the district spent approximately \$900,000 more than it budgeted in its child development fund for salaries and related benefits. In February 1986, the board approved a salary increase of 20 percent over three years for certificated employees even though, since July 1985, the district has been projecting a deficit in its general fund. Each salary increase has resulted in, or will result in, a deficit in the fund used to pay the increase.

The District Has Bypassed Budgetary Controls

The district does not always comply with procedures it has adopted to control the hiring and transfer of employees. We could not verify that the forms required to request hiring or transferring employees had been completed in 35 of the 90 files we reviewed. Because the

district sometimes bypasses its budgetary controls, the board approved the hiring of at least four employees for whom no formal request had been made. The board also approved the hiring of two employees for whom no authorized budgeted position was available. In addition, the district transferred five employees for whom no authorized budgeted position was available. Finally, the Position Control Budget Report, which the district uses to determine whether an authorized position exists, contains errors that could lead the district to erroneously approve or reject a request for the hire or transfer of an employee.

RECOMMENDATIONS

The Oakland Unified School District should do the following:

- plan to spend less than it receives until its deficit is eliminated and an adequate fund balance is established;
- ensure that the board's policies are followed when employees are hired, transferred, or promoted.

In addition, the Legislature should not provide the district with a loan.

AGENCY COMMENTS

The district believes that if the State provides full funding of the current year's revenue limit, it will end fiscal year 1985-86 with a positive fund balance in its general fund. To further ensure that it avoids a deficit, the district has implemented measures to reduce expenditures and to control its budget. The district agrees with the Auditor General's recommendations.

INTRODUCTION

The Oakland Unified School District (district) is operated by a superintendent in accordance with policies approved by the district's seven-member board of education (board). The board members are elected officials serving four-year terms. The board members appoint the superintendent, who is responsible for preparing and submitting to the board a budget for each fiscal year.

The district operates 60 elementary schools, 16 junior high schools, and 14 senior high schools. The district also maintains 22 children centers and 4 adult education schools. To run these facilities, the district currently employs approximately 6,000 people. In fiscal year 1984-85, the district had a general fund operating budget of approximately \$165 million.

The Alameda County Superintendent of Schools reviews and approves the district's disbursements and deposits the majority of the district's receipts with the Alameda County Treasurer's Office. The Alameda County Treasurer's Office acts as a banker for the district, disbursing cash for outstanding warrants and investing any surplus funds in interest-bearing accounts.

Budgetary Process

The superintendent is responsible for preparing and submitting to the board the district's budget for the upcoming fiscal year. To assist the superintendent, the board has established the Formula Allocation Committee and the District Budget Advisory Committee (DBAC). The Formula Allocation Committee develops staffing formulas based on general directives provided by the board. The DBAC and the district's Office of Budgetary Planning develop a tentative budget using these staffing formulas and revenue projections. The Office of Budgetary Planning then distributes the tentative budget to the district's unit managers, such as school principals and program directors, giving them the opportunity to suggest changes in their unit's budget before returning it to the DBAC and the Office of Budgetary Planning.

The DBAC and the Office of Budgetary Planning review, evaluate, and incorporate into the budget those proposed changes that do not exceed established funding levels. Because the DBAC and the Office of Budgetary Planning may not have sufficient information to project the exact amount of the revenues, the district modifies the budget as additional information becomes available. The superintendent reviews and approves the tentative budget before presenting it to the board. Before adopting a final budget, the board may suggest additional changes to the tentative budget. The board must adopt and file a final budget with the Alameda County Superintendent of Schools on or before September 7th of each year.

SCOPE AND METHODOLOGY

The purpose of our audit was to determine the district's current financial position and to identify factors contributing to the district's financial problems. We did not evaluate the efficiency or effectiveness of the programs administered by the district.

We reviewed the district's audited financial statements for the fiscal years 1981-82 through 1984-85; we reviewed the district's budget preparation process; and we reviewed, evaluated, and tested compliance with budgetary control procedures.

We also prepared a projection of the district's general fund balance for June 30, 1986. In addition, we prepared a projection of the district's cash flow for April 1, 1986, through June 30, 1986. We combined the self-insurance fund with the general fund for both of these projections.

We met with the president and members of the district's board, the Alameda County Treasurer's staff, and the Alameda County Superintendent of Schools' staff. We also interviewed district and State Department of Education staff regarding a school district's accounting and budgeting procedures.

Because the procedures cited above were not sufficient to constitute an examination made in accordance with generally accepted

auditing standards, we do not express an opinion on any of the financial statements referred to in this report.

AUDIT RESULTS

THE OAKLAND UNIFIED SCHOOL DISTRICT
MAY HAVE A GENERAL FUND DEFICIT
BY JUNE 30, 1986

Unless the Oakland Unified School District (district) receives additional revenue or substantially reduces its projected expenditures, it will have a general fund deficit of \$2 million by June 30, 1986.* However, the district will have an adequate cash balance to meet its cash needs. The district will have a deficit because, in the current fiscal year and in each of the last four fiscal years, the district's budgeted expenditures have exceeded its expected revenues. In addition, the district has compounded the problem by failing to adhere to its budget and by bypassing budgetary controls. As a result, the district will have completely exhausted the fund balance in its general fund by June 30, 1986. If the district continues to spend more than its current year's revenues, the district will face a deficit of up to \$6 million by the end of fiscal year 1986-87, and by the end of fiscal year 1987-1988, its deficit will increase to \$14 million.

*In February 1986, Assembly Bill 3293 (Vasconcellos) was introduced. This bill may provide additional revenue for school districts. Because we cannot predict whether this bill will pass, we have not included an adjustment for it in our projection.

The District's Current
Fiscal Situation

The district ended fiscal year 1984-85 with a fund balance of \$2.1 million in its general fund. However, because the district is spending more than its current year's revenues, on February 28, 1986, the district projected a general fund deficit of \$3.8 million by June 30, 1986. We have reviewed the district's revenue and expenditure estimates for the 1985-86 fiscal year and project that the district will have a general fund deficit of approximately \$2 million by June 30, 1986.

Table 1 on the next page presents our projection of the district's general fund balance at June 30, 1986.

TABLE 1
OAKLAND UNIFIED SCHOOL DISTRICT
FUND BALANCE FORECAST FOR JUNE 30, 1986
GENERAL FUND

Sources	District Forecast as of 02-28-86	Auditor General	
		<u>Adjustments</u>	<u>Forecast</u>
Federal revenue	\$ 11,502,788		\$ 11,502,788
Combined federal and state	27,000		27,000
State revenue	134,778,704		134,778,704
State lottery income	4,870,589	\$ 913,656*	5,784,245
County and local income	20,017,907		20,017,907
Transfers from other funds	<u>30,000</u>		<u>30,000</u>
Total Sources	171,226,988	913,656	172,140,644
Uses			
Certificated salaries	86,482,192		86,482,192
Classified salaries	29,980,862		29,980,862
Employee benefits	34,218,366		34,218,366
Books, supplies, and equipment replacement	5,920,599		5,920,599
Contracted services	11,718,343		11,718,343
Capital outlay	2,022,219		2,022,219
Debt service	1,729,379		1,729,379
Other	45,000		45,000
Transfers out	2,297,252		2,297,252
Reserve for ending inventory	<u>1,000,000</u>		<u>1,000,000</u>
Total Uses	175,414,212		175,414,212
Net Increase (Decrease) in Fund Balance at Year End	(4,187,224)	913,656	(3,273,568)
Fund Balance Beginning of Year	363,119	1,767,023**	2,130,142
Prior Period Adjustment		<u>(1,008,260)***</u>	<u>(1,008,260)</u>
Fund Balance End of Year, as Restated	<u>\$ (3,824,105)</u>	<u>\$1,672,419</u>	<u>\$ (2,151,686)</u>

*Adjustment for lottery revenue.
**Adjustment for self-insurance fund.
***Adjustment for expenditures erroneously charged to three other funds
in fiscal year 1984-85.

Our projection of the general fund deficit differs from the district's projection for several reasons. First, our projection includes a \$913,656 increase in the district's revenue from the California State Lottery (lottery). This increase is based on the most recent information available from the California State Lottery Commission. Second, our projection includes an increase in general fund expenditures of \$1,008,260 that were erroneously charged to three other funds. Finally, we have included the \$1.8 million balance in the self-insurance fund in our projection because the district combines the two funds for financial statement presentation. (Appendix A lists the assumptions we used to prepare the fund balance projection.)

The district ended fiscal year 1984-85 with a cash balance of \$7.8 million. To avoid a cash deficit and to generate interest revenue, on December 31, 1985, the district issued "tax and revenue anticipation notes" totaling \$32 million. The district is able to use these notes to generate interest revenue because it can invest the proceeds from the notes at a higher interest rate than it pays for the notes. In our projection of the district's cash flow for the last quarter of fiscal year 1985-86, we predict that, after reserving \$34 million to repay the tax and revenue anticipation notes plus interest, the district will have a cash balance in its general fund of \$9.9 million at June 30, 1986. The district has designated \$1.7 million of the cash balance for its self-insurance fund, leaving an estimated balance of \$8.2 million available for its current obligations.

Table 2 on the next page presents a cash flow projection of all anticipated cash receipts, disbursements, and interfund transfers through June 30, 1986. We determined that the March 30, 1986, cash balance was \$29.2 million. (Appendix B describes the assumptions we used to prepare the cash flow projection.)

TABLE 2
OAKLAND UNIFIED SCHOOL DISTRICT
CASH FLOW PROJECTION
APRIL 1986 TO JUNE 1986*

	<u>April</u>	<u>May</u>	<u>June</u>
Beginning Balance			
General fund	\$ 25,395,264	\$ 12,738,185	\$ 11,581,613
Other funds	<u>3,799,364</u>	<u>3,620,551</u>	<u>4,402,639</u>
Total	\$ 29,194,628	\$ 16,358,736	\$ 15,984,252
Receipts and Transfers In			
General fund	\$ 7,159,413	\$ 20,625,953	\$ 20,447,868
Other funds	<u>3,038,861</u>	<u>2,581,395</u>	<u>1,168,403</u>
Total	\$ 10,198,274	\$ 23,207,348	\$ 21,616,271
Disbursements and Transfers Out			
General fund	\$(19,816,492)	\$(21,782,525)	\$(22,154,676)
Other funds	<u>(3,217,674)</u>	<u>(1,799,307)</u>	<u>(2,758,151)</u>
Total	\$(23,034,166)	\$(23,581,832)	\$(24,912,827)
Net Ending Balance			
General fund	\$ 12,738,185	\$ 11,581,613	\$ 9,874,805
Other funds	<u>3,620,551</u>	<u>4,402,639</u>	<u>2,812,891</u>
Total	<u>\$ 16,358,736</u>	<u>\$ 15,984,252</u>	<u>\$ 12,687,696</u>

*The self-insurance fund is included in the general fund balances. Other funds include the special education, state school building, deferred maintenance, child development, cafeteria, capital projects, and adult education funds.

The District's Expenditures
Exceed Its Revenues

In the 1985-86 fiscal year, the district will not maintain a balanced budget for its general fund because its expenditures are greater than the total of its revenues plus its beginning general fund balance. In its general fund budgets for the current year and each of the last four fiscal years, the district has planned to spend more revenue than it received. Although this is an acceptable budgeting method provided the district maintains an adequate fund balance, this method reduces the fund balance. Between June 30, 1982, and June 30, 1985, the district reduced the fund balance in the general fund from \$6.8 million to \$2.1 million. Furthermore, because the district is not planning to maintain a balanced budget for fiscal year 1985-86, we project a \$2 million deficit in the district's general fund by June 30, 1986.

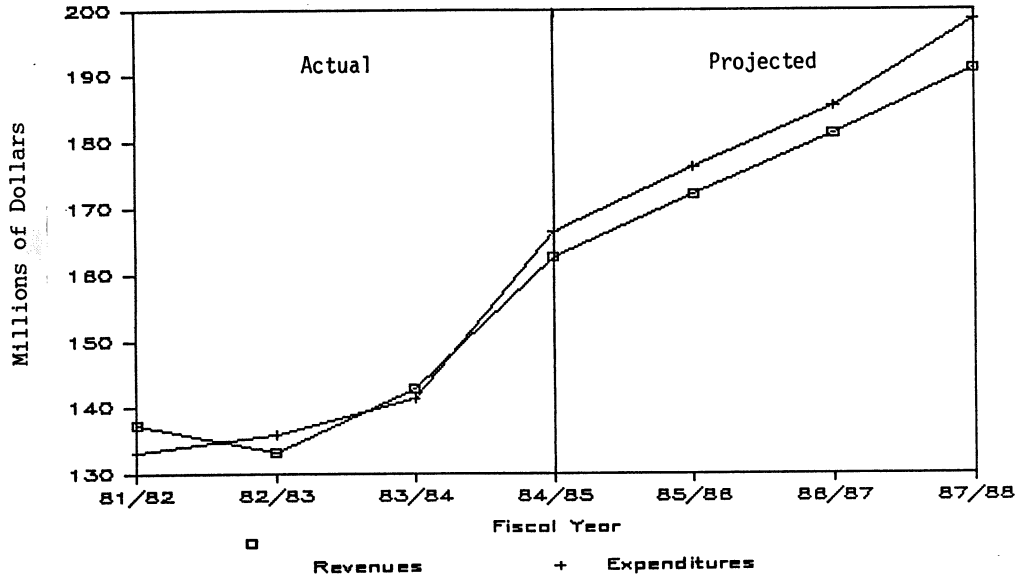
The fund balance represents the difference between the fund's assets and its liabilities. When the fund's expenditures exceed its revenues, the fund balance decreases. When the fund's revenues exceed its expenditures, the fund balance increases. Although the district has planned for a reduction of fund balance each year since 1981, in fiscal years 1981-82 and 1983-84, the fund balance increased. In fiscal years 1982-83 and 1984-85, the fund balance decreased. In its initial budget for 1985-86, the district also planned for a reduction of the fund balance. However, as we point out in the next section of this report, the district is not adhering to the budget, and, as a

result, the reduction in fund balance will be greater than originally budgeted. Because the district's revenue plus the beginning fund balance will not cover its expenditures, we project that the district will end the 1985-86 fiscal year with a deficit of approximately \$2 million.

In our analysis for fiscal years 1986-87 and 1987-88 of the district's general fund revenues and expenditures, we concluded that, if the district continues to spend more than it receives in revenues, it will face a deficit of \$6 million by the end of fiscal year 1986-87 and that its deficit will increase to \$14 million by the end of fiscal year 1987-88. Graphs 1 and 2 on the next page illustrate the results of our analysis. Graph 1 compares the district's revenues and expenditures, and Graph 2 shows the ending fund balances. (Appendix C describes the methodology and assumptions we used in our analysis.)

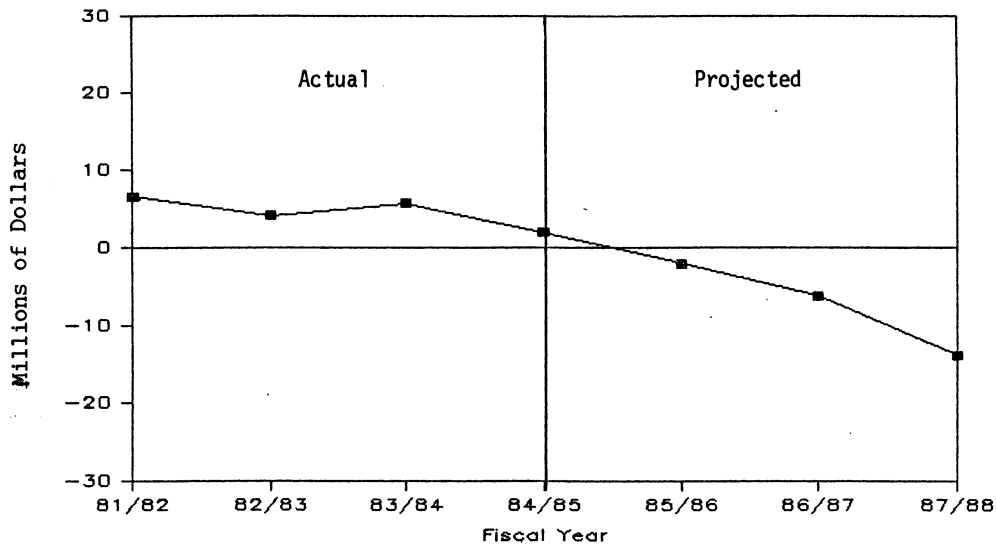
GRAPH 1

**OAKLAND UNIFIED SCHOOL DISTRICT
REVENUES AND EXPENDITURES
FISCAL YEARS 1981-82 THROUGH 1987-88**



GRAPH 2

**OAKLAND UNIFIED SCHOOL DISTRICT
ENDING FUND BALANCES
FISCAL YEARS 1981-82 THROUGH 1987-88**



The District Does Not
Adhere to Its Budget

In fiscal year 1984-85 and fiscal year 1985-86, the board approved salary increases that exceeded the amount budgeted for salaries and the district's available resources. In addition, the board approved the salary increases knowing that they would result in a deficit in the fund responsible for paying for the increase. As a result, the district's child development fund had an \$827,000 deficit at the end of fiscal year 1984-85 and its general fund will have a \$2 million deficit by the end of fiscal year 1985-86.

In fiscal year 1984-85, the board approved a salary increase for child development employees although both the district's business manager and its superintendent indicated that the increase would result in a deficit in the child development fund. In November 1984, the district's superintendent presented to the board a projection showing that, with a 3 percent increase in salaries, the child development fund would have no fund balance at June 30, 1985. In addition, in December 1984, the business manager told the board that any salary increase greater than 3 percent would result in a deficit in the child development fund. The board tentatively approved a 7 percent salary increase for child development employees; the board later reduced the salary increase to 5 percent.

Compounding the problem, the district increased the number of child development staff by 12 percent in 1985. Although other factors

may have contributed, the increase in staff combined with the 5 percent salary increase resulted in the district's spending approximately \$900,000 more than it had budgeted for salaries and related benefits in the child development fund. Further, the staff and salary increase resulted in a deficit in the child development fund of \$827,000 at June 30, 1985. Because of the deficit, the Alameda County Superintendent of Schools directed the district to transfer \$827,000 of general fund monies to the child development fund in fiscal year 1985-86.

In December 1985, the superintendent presented to the board a projection of the general fund's June 30, 1986, fund balance and predicted a deficit of \$2.8 million. This projection did not include an estimate for salary increases or for lottery revenue. Despite the December 1985 projection, in February 1986, the board approved a salary increase for certificated employees of 20 percent over three years. The 6 percent salary increase that becomes effective in fiscal year 1985-86 is expected to cost the district approximately \$5.1 million more than provided for in the district's projection.

The district estimates that it will receive approximately \$4.9 million from the lottery in fiscal year 1985-86 and plans to use this money to pay for the salary increase. Using the district's estimate of lottery revenue, we determined that \$4.9 million would have been enough to eliminate the \$2.8 million deficit in the general fund and provide a 2.4 percent salary increase. However, because the board

approved a 6 percent salary increase, the district predicted on February 28, 1986, that, even with the estimated lottery revenue of \$4.9 million, the district will have a \$3.8 million deficit in its general fund at June 30, 1986.

The District Has Bypassed Budgetary Controls

The district has adopted procedures to control the hiring and transfer of employees; however, the district does not always comply with its established procedures. In addition, the Position Control Budget Report, which the district uses to ensure that an authorized budgeted position exists before hiring or transferring an employee, has a number of errors. As a result, the district has transferred at least five employees and hired at least two employees for whom there were no budgeted positions available. The salaries for these seven employees will cost the district at least \$135,000 in fiscal year 1985-86.

Before hiring a new employee, an administrator must make a formal request for one by completing a Personnel Request Form. The request must be approved by the Personnel Department, the Office of Budgetary Planning, and, finally, the board. The Office of Budgetary Planning is responsible for ensuring that an authorized budgeted position exists before approving the request. It does this by referring to the Position Control Budget Report, a budget report for each unit in the district showing the number of full time equivalents (FTEs) assigned to each employee. An employee who works full

time--eight hours per day, five days per week--is assigned one FTE; an employee working four hours a day is assigned .5 FTE. In addition, the report shows the total number of FTEs authorized, used, and available for each job classification at each site. The Office of Budgetary Planning will approve the hiring or transfer of an employee only if the Position Control Budget Report shows that there is an available FTE for that position and unit. After the Office of Budgetary Planning has approved the personnel requests, the Personnel Department prepares the Board Personnel Action and Recommendation Report, which lists all of the approved requests. This report is then presented to the board for its approval.

We tested a sample of 90 of the 872 employees hired or transferred between July 1, 1984, and January 31, 1986, and found that no Personnel Request Form had been prepared for 4 (4 percent) of these employees. In addition, we were unable to verify whether 35 (39 percent) of the employees had an approved Personnel Request Form because the Certificated Personnel Unit in the Personnel Department had not retained a copy of the form. Although the district had completely bypassed the budgetary control procedure for at least 4 of these employees, they were listed in the Board Personnel Action and Recommendation Report, and the board had approved hiring or transferring them. These 4 employees will earn approximately \$85,000 in fiscal year 1985-86.

We also reviewed all of the Personnel Request Forms that the Office of Budgetary Planning rejected between July 1, 1984, and March 15, 1986, to determine whether the district had hired or transferred employees for whom there was no authorized budgeted position available. Of the 121 requests that the Office of Budgetary Planning rejected, we were unable to test 73 (60 percent) because the district had not included the employee's name on the Personnel Request Forms. In addition, the district transferred 5 and hired 2 of the remaining 48 employees for whom requests had been denied by the Office of Budgetary Planning. The board approved the hiring of the 2 new employees even though there was no authorized budgeted position available for them because the Certificated Personnel Unit included the 2 new employees on the Board Personnel Action and Recommendation Report. The 5 transferred and 2 newly-hired employees will cost the district approximately \$135,000 this year.

To further compound the problem, the Position Control Budget Report, which the Office of Budgetary Planning uses to determine whether an authorized budgeted position exists, contains errors. We tested a sample of 82 employees listed in the report and found that the information for 6 (7 percent) of them was incorrect. The job classification for 3 of the 6 was incorrect, and the number of FTEs for 4 of the 6 was incorrect. If all of the information in the Position Control Budget Report is not accurate, the Office of Budgetary Planning could erroneously approve or reject a request for the hire or transfer of an employee.

CONCLUSION

Unless the Oakland Unified School District receives additional revenue or substantially reduces its projected expenditures, it will have a \$2 million deficit in its general fund by June 30, 1986; however, the district expects to have an adequate cash balance in the fund to meet its current cash needs. The district will have a deficit because it has budgeted expenditures that exceed its revenues, failed to adhere to its budget, and bypassed established procedures.

In its general fund budgets for the current year and in each of the last four years, the district has planned to spend more than it received in revenue, thus reducing the fund balance in the general fund. In addition, the district has granted salary increases knowing that the increase would result in a fund deficit. In 1984-85, the board approved a 5 percent salary increase to child development employees even though both the district's superintendent and the business manager indicated that any increase of more than 3 percent would result in a deficit in the child development fund. Furthermore, in 1985-86, the board approved a 6 percent salary increase to certificated employees even though the district was projecting a deficit in its general fund.

Finally, the district has compounded its problems by bypassing procedures designed to control the hiring and transfer of employees and by basing its hiring decisions on a report that includes numerous errors. As a result, the district has gradually reduced the fund balance in the general fund and is projecting a fund deficit by June 30, 1986.

Although the district may end the year with a deficit in its general fund, it will have adequate cash balances to meet its current needs. However, tight fiscal controls are needed to ensure that a financial crisis does not occur in upcoming years.

RECOMMENDATIONS

To eliminate the deficit and to avoid deficits in the future, the district should plan in its budgets to spend less than the current year's revenue until the deficit is eliminated and an adequate fund balance is established. The district should adopt and adhere to a balanced budget thereafter.

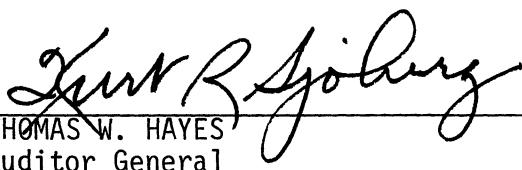
To ensure that employees are hired, transferred, or promoted in accordance with the board's policies, the district should complete a Personnel Request Form for each employee it hires, transfers, or promotes. In addition, the Assistant Superintendent of Human Resources should certify that each

employee included on the Board Personnel Action and Recommendation Report has an appropriately approved Personnel Request Form. Moreover, the Personnel Department should maintain a copy of the Personnel Request Form in the employee's personnel file. Finally, the district's Personnel Department and its data processing unit should identify and correct the errors in the Position Control Budget Report.

Since the district has adequate cash balances to meet its needs, the Legislature should not provide the district a loan. Although a loan would increase the district's cash balance, it would not reduce the fund deficit since the district would have to repay the loan.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,

for 
THOMAS W. HAYES
Auditor General

Date: May 27, 1986

Staff: Sally Filliman, CPA, Audit Manager
Sylvia Hensley, CPA
Denise Vose
William Ashby
Janet Cash
Arturo Ramudo

**ASSUMPTIONS USED IN PREPARING
THE DISTRICT'S FUND BALANCE PROJECTION**

In preparing the fund balance projection for June 30, 1986, we made the following material assumptions and adjustments:

1. In May, the district will receive an estimated \$1.9 million in lottery revenues. In June, the district will accrue approximately \$1.1 million in lottery revenues.
2. We adjusted the district's projection to include \$1,008,260 erroneously charged to the following funds in fiscal year 1984-85: \$827,526 to the cafeteria fund; \$93,064 to the deferred maintenance fund; and \$87,670 to the special education pupil transportation fund. We have determined that these expenditures should have been charged to the general fund.
3. The district did not include the self-insurance fund in its projection. We have determined that the self-insurance fund is part of the general fund.
4. In February 1986, Assembly Bill 3293 (Vasconcellos) was introduced. This bill may provide additional revenue for school districts. Because we cannot predict whether this bill will pass, we have not included an adjustment for it in our projection.

Our financial forecast is based on assumptions concerning future events and circumstances. Because some assumptions may not materialize and unanticipated events and circumstances may occur after the date of this forecast, the actual results during the forecast period may differ from the forecasted results. These differences may be material.

ASSUMPTIONS USED IN PREPARING
THE DISTRICT'S CASH FLOW PROJECTION

In preparing the cash flow projection for April 1986 to June 1986, we made the following material assumptions and adjustments:

1. The forecast includes all funds controlled by both the district and the Alameda County Treasurer's Office. The forecast does not include the debt service fund and the trust and agency fund. Receipts and disbursements are forecast when they are assumed to be actually received and paid, respectively, by the Alameda County Treasurer.
2. In May, the district will receive an estimated \$1.9 million in lottery revenues.
3. In June, the Alameda County Treasurer will restrict \$2.08 million of general fund cash for the interest related to the district's tax and revenue anticipation rates. The basis for this adjustment is a separate cash flow projection prepared by the underwriters of the district's tax and revenue anticipation notes, Erlich-Bober, Co., Inc.

This financial forecast is based on assumptions concerning future events and circumstances. Because some assumptions may not materialize and unanticipated events and circumstances may occur after the date of the forecast, the actual results during the forecast period may differ from the forecasted results. These differences may be material.

**METHODOLOGY AND ASSUMPTIONS USED
IN PREPARING THE PROJECTION
OF THE DISTRICT'S GENERAL REVENUES,
EXPENDITURES, AND FUND BALANCE
THROUGH FISCAL YEAR 1987-1988**

Using general fund expenditure and revenue data from the district's audited financial statements for fiscal years 1981-82 through 1984-85, we prepared a regression analysis to project the district's general fund revenues and expenditures for fiscal years 1986-87 through 1987-88. We used the following material assumptions to adjust the results of the regression analysis.

1. We estimated that the district will receive \$5.7 million from the lottery in 1985-86 and \$7.7 million in each of the following fiscal years.
2. We increased salaries and related benefits by 6 percent in fiscal year 1985-86 and by 7 percent in each succeeding year to reflect the actual increase provided for in the employees' contracts.

This financial forecast is based on assumptions concerning future events and circumstances. Because some assumptions may not materialize and unanticipated events and circumstances may occur after the date of this forecast, the actual results during the forecast period may differ from the forecasted results. These differences may be material.



OAKLAND UNIFIED SCHOOL DISTRICT

OFFICE OF THE SUPERINTENDENT

ADMINISTRATION BUILDING

1025 Second Avenue
Oakland, California 94606
(415) 836-8200

May 19, 1986

Ms. Sally Filliman
Audit Manager
Office of the Auditor General
California Legislature
660 J Street, Suite 300
Sacramento, CA 95814

Dear Ms. Filliman:

Thank you for the opportunity to respond to the Auditor General's draft report on the District's financial position. This report was delivered to our office on May 12. The major points included in this report along with the District's responses are indicated below:

A. Title of Report - "The Oakland Unified School District will have a General Fund Deficit by June 30, 1986." (approximately \$2 million.)

Response - We request that you change the title of report to read, "An Evaluation of the Oakland Unified School District's Financial Position."

We request this change because a 1985-1986 deficit is not anticipated. One reason for this is that the State Department of Finance has recommended full funding of the current year's revenue limit. This would add about \$2 million to District revenues. Since the audit report did not include this \$2 million, full funding of the revenue limit would eliminate the projected deficit. This information was brought out during the May 14 exit interview (1)*

Additional measures to eliminate the projected deficit are listed below.

B. Since Fiscal Year 1981-1982, the District has Budgeted Expenditures that Exceed Its Revenues. . . . we project that the District will have a deficit of approximately \$2 million in its general fund by June 30, 1986." (p. 5-2 and 5-13)

Response - The District acknowledges that expenditures have exceeded revenues during the period indicated. However, with ending balances the District has avoided Fund deficits.

* The Auditor General's comments on specific points contained in the district's response begins on page 39.

Besides full funding of the revenue limit as indicated in Section A above, the District has implemented the expenditure reduction and control measures listed below to further insure avoidance of a 1985-1986 deficit. The Audit Team apparently did not ask District staff members if any steps were being taken to avoid a deficit, and, as a result, the Auditor General's report did not take cognizance of these strategies when it projected a \$2 million deficit. The steps taken were as follows:

1. Layoffs and elimination of more than one hundred positions.
2. Implementation of freeze on most expenditures. (see Superintendent's memorandums of January 28, 1986 and March 7, 1986 - Attachments A and B.)
3. Maintenance of position vacancies.
4. Implementation of special, one-time only early retirement incentive programs (see Attachments C and D).
5. Directive indicating that managers of categorical or specially funded program must insure balanced budgets without general purpose encroachment.
6. Accrual of last quarter lottery revenues as authorized.
7. Fifteen percent reduction in non-salary District Office budget accounts. ②

C. The District Does Not Adhere to Its Budget (p. S-2 and 14-16).

Response - The Auditor General's report implies that the Board of Education approved the 1985-1986 six percent salary increase for employees without having a plan to cover related costs. ③ This is untrue. The plan included the expenditure reduction and control measures indicated in Section B above. The Superintendent apprised the Board of these steps during closed session meetings during the negotiations process. These steps became public through the documents issued as noted above and through presentations made by the Associate Superintendent for Business at regular Board meetings. The audit team apparently did not raise questions in this area with District staff members and, as a result, did not reflect this information in the audit report.

D. The District Has Bypassed Budgetary Controls (p. S-3 and 16-18).

Response - The District acknowledges the comments made in the Auditor General's report in this area. However, it is important to note that the report did not indicate the steps the District has taken and plans to take to improve its position control system. These steps include the following:

1. Immediate - Implementation of new position control system using existing software and procedures (developed subsequent to audit team's visit - see attachment E).

2. Long Range - Implementation of new Integrated Personnel and Financial System. For nearly two years the District has been taking necessary preliminary steps to implement this system including a review of informational and organizational requirements. The District is currently reviewing software proposals submitted by vendors in response to a recent request for a proposal. Implementation of the position control system is presently scheduled for early 1987.

E. Recommendations - "The Auditor General recommends that the District "plan to spend less than it receives until its deficit is eliminated and an adequate fund balance is established." (p. S-3 and p. 20)

Response - Concur.

"The Auditor General recommends that the District "ensure that the board's policies are followed when employees are hired, transferred, or promoted." (p. S-3 and pp. 20-21)

Response - Concur.

Thank you again for providing this report. We appreciate the efforts of the State Auditor General to assist the District analyze its financial position and to make recommendations for improvement in fiscal management. With the addition of the District's responses, we believe the audit report will prove to be of value as we plan for the 1986-1987 fiscal year and beyond.

Sincerely,

Darlene Lawson

Darlene Lawson
President, Board of Education

Joe Coto

Joe Coto
Superintendent of Schools

OAKLAND UNIFIED SCHOOL DISTRICT
Office of the Superintendent
January 28, 1986

ATTACHMENT A

TO: Principals and Office Managers

FROM: Joe Coto *J.C.*

SUBJECT: Required Measures to Eliminate 1985-1986 Deficit

1. ELIMINATING THE DEFICIT - It will be recalled that during recent Board meetings the Administration has indicated that a number of budget reductions are needed to eliminate the District's projected 1985-86 deficit of \$2 million. It is recognized that these budget cuts and cost control measures will cause hardships and make it difficult to realize this year's objectives. However, fiscal solvency must be an overriding goal for the entire District.
2. EXPENDITURE CONTROLS - The following cost control and budget reduction measures are to be implemented immediately:
 - a. Management Vacancies - No vacated management positions will be filled unless specifically approved by the Superintendent. Division heads should not submit any requests to fill vacated administrative positions unless replacements are fundamentally vital to District goals or are needed to meet legal requirements.
 - b. Reductions in Non-salary Budgets: All non-salary District office budgets are being reduced by 15 percent. No actions by managers are needed to implement this step as the Budgetary Planning Office has already been directed to make the appropriate reductions. These reductions may result in suspension of requisitions currently in process for material or services.
 - c. Expenditure Controls - Strict expenditure controls must be implemented by all managers to insure that remaining budget allocations are not exceeded.
 - d. Position Control - All managers, especially those responsible for personnel and budget, are to insure that strict position controls are adhered to, and that position allocations are not exceeded. No employees should be placed in acting positions without prior Board approval.
 - e. Travel and Consultants - Managers are directed to sharply reduce or eliminate entirely travel and consultant services. Authorizations in these areas should be strictly limited to activities vital to District goals.
 - f. Categorical Programs - Specially funded activities must cover all program costs including any potential Board-approved salary increases. No general purpose funds or lottery revenues will be used to cover expenditures for categorical programs.

The cooperation of all employees in implementing the above expenditure controls is deeply appreciated. With everyone's help, I am confident that we can successfully eliminate the projected 1985-86 deficit, and that we can be in a considerably improved financial position during 1986-87. Thank you very much for your personal support.

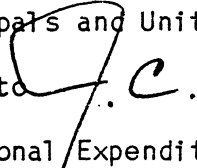
JC:klm

-32-

MISC.492

PLEASE POST

OAKLAND UNIFIED SCHOOL DISTRICT
Office of the Superintendent
March 7, 1986

To: Principals and Unit Managers
From: Joe Coto 
Subject: Additional Expenditure Control Requirements

COST CONTROLS - As indicated during last Wednesday's Board meeting, the District's financial problems continue to be severe. Accordingly, in addition to the expenditure reduction measures included in my January 28, 1986 memorandum (copy attached), the cost controls listed below are effective immediately in order to insure that all of our funds are in balance by this coming June 30 as required by law. These required cost-control steps apply to school sites as well as to District offices.

1. VACANCIES - All Personnel Request Forms (PRF's) to fill vacant positions, including vacancies due to temporary absences, must be submitted to the Superintendent's Office for consideration through regular channels. Division Heads will forward for processing only PRF's to fill positions which are urgently needed or which are required by employee contracts. Acting positions or changes in classification are not authorized without prior approval.
2. OVERTIME - Overtime may be authorized only by division heads.
3. SUPPLIES - Throughout the remainder of this school year, supply usage must be strictly limited, and inventories should be maintained at minimum levels throughout the District.
4. EQUIPMENT - Except for urgent needs, equipment purchases are to be deferred until 1986-1987. Accordingly, requisitions should be dated July 1, 1986 so that these items are charged against 1986-1987 funds. This means that orders now in process may be suspended until July 1.
5. REPAIR OF EQUIPMENT - Continue regular procedures. The Purchasing Department will defer major, costly repairs until 1986-1987 unless an equipment item is essential to this year's instructional program.
6. TEXTBOOKS - No change in existing procedures.
7. TRAVEL, CONFERENCES, CONTRACTS, CONSULTANTS, INSERVICE - None of these areas may be scheduled, agreed to, or implemented without prior approval by the Superintendent's Office.
8. CATEGORICAL PROGRAMS - Managers of these programs are directed to impose rigid controls to insure that expenditures do not exceed grant income or special funding allocations. No general purpose funds will be used to cover overexpenditures in these programs.

The cooperation of all employees in implementing the above cost-control measures is deeply appreciated. With your help, we can balance our 1985-1986 budget, and we shall be in an improved financial position during 1986-1987. Thank you for your personal support.

JC:h

OAKLAND UNIFIED SCHOOL DISTRICT
Department of Personnel

ATTACHMENT C

APPLICATION FOR SPECIAL, ONE-TIME ONLY
EARLY RETIREMENT INCENTIVE PROGRAM
(Paraprofessional Employees Unit)

TO: LaVergne Manuel
Coordinator of Classified Personnel
Room 320
Administration Building

I hereby apply to participate in the one-time Early Retirement Incentive Program indicated below:

(CHECK ONE ONLY)

OPTION A () Health and dental coverage for me only for a maximum of 7 years or until age 65, whichever comes first, plus the following cash bonus:

- () \$3,000 for 15 or more years of service
- () \$2,000 for 10 to 15 years of service
- () \$1,000 for 5 to 10 years of service

OPTION B () Health and dental coverage for my spouse and me for a maximum of 7 years or until age 65, whichever comes first.

I hereby make a firm commitment to retire on _____
and submit my resignation herewith. Date

I certify that I meet all eligibility requirements. I understand that my resignation, once accepted by the Board, may not be rescinded.

Signature _____

Date

Name (Please print) _____

Home Address _____
City Zip Code Phone

Classification _____
Current Assignment

Site _____

MUST BE SUBMITTED ON OR BEFORE 4:30 p.m.

FRIDAY, DECEMBER 13, 1985

OAKLAND UNIFIED SCHOOL DISTRICT
Department of Personnel

APPLICATION FOR SPECIAL, ONE-TIME ONLY
EARLY RETIREMENT INCENTIVE PROGRAM
(White Collar Unit)

To: LaVergne Manuel
Coordinator of Classified Personnel
Room 320
Administration Building

I hereby apply to participate in the one-time Early Retirement Incentive Program indicated below:

(CHECK ONE ONLY)

OPTION A () Health and dental coverage for me only for a maximum of 7 years or until age 65, whichever comes first, plus the following cash bonus:

- () \$4,000 for 25 or more years of service
- () \$3,000 for 20 to 25 years of service
- () \$2,000 for 10 to 20 years of service
- () \$1,000 for 5 to 10 years of service

OPTION B () Health and dental coverage for my spouse and me for a maximum of 7 years or until age 65, whichever comes first.

I hereby make a firm commitment to retire on _____ and submit my resignation herewith. Date

I certify that I meet all eligibility requirements. I understand that my resignation, once accepted by the Board, may not be rescinded.

Signature _____ Date

Name (Please print.) _____

Home Address _____
City Zip Code Phone


Classification _____
Current Assignment

Site _____

MUST BE SUBMITTED ON OR BEFORE 4:30 p.m.
WEDNESDAY, NOVEMBER 27, 1985.

OAKLAND UNIFIED SCHOOL DISTRICT
Divison of Human Resources

April 1, 1986

TO: Division Heads, Unit Managers, Principals
FROM: Nicholas Caputi 
SUBJECT: Position Control Report - Use of Documents

The Position Control Report (PCR) will serve as the exclusive document for accounting for all staff employed at a school or any other site in the District. The report will be published bi-monthly to assist us with maintaining current records.

Site managers, Personnel and DPC will monitor staffing with the PCR.

The Position Control Report (PCR) you will receive consists of four (4) parts. Listed below is a brief description of each part, its inherent responsibilities for managers, and the information provided.

Part 1. WORK SITE EMPLOYEE VERIFICATION REPORT SUMMARY:

Provides the Board of Education, the Superintendent, and managers the total number of people on the payroll at a specific site, in a designated job.

Tasks: If inconsistencies appear, the managers refer to the detailed report (Part 2) to locate the employee's name.

Part 2. WORK SITE EMPLOYEE VERIFICATION REPORT:

Provides principal and unit managers an immediate listing of the names of all employees assigned to their work site (classified and certificated, including custodial, food services, campus supervisors, et al.).

Tasks: Principals and Unit Managers review this report bi-monthly and make any corrections or changes necessary by initiating a Personnel Request Form (PRF)* within five days of receipt of the report.

*All PRFs must contain a beginning date. PRFs for Part 4, b (site allocations for categorical programs), c (funding requirements of special projects), d (special needs [pool positions]), e (directives from the Superintendent and Board of Education) must contain an ending date as well.

Part 3. ACCOUNTABLE UNIT SUMMARY:

Provides the number of budgeted positions and indicates whether any job category is staffed above or below its budgeted positions by accountable unit, for which the manager has budgetary responsibility. (It may not include all employees working at a site or office, if they are budgeted elsewhere.) ALL employees at any site, however budgeted, appear on the work site Employee Verification Report. This summary indicates the number of allocated positions, and any OVERSTAFFING or UNDERSTAFFING.

Tasks: Associate Superintendent assists principals and unit managers to align staffing with allocation by determining from the Accountable Unit Report (Part 4), the specifics about the overstaffing or understaffing.

Part 4. ACCOUNTABLE UNIT POSITION CONTROL REPORT:

Provides the actual "control" of positions. This report by accountable unit or which budget pays for the employee at a site, determines the actual number of classified and certificated positions at a site as compared to the number budgeted for the site.

Tasks: Division Heads notify principals and unit managers when the appropriate program adjustments are to be made and PRF's* are prepared to reduce or add staff, within 5 days. Staffing adjustment decisions can occur at this point (see E below).

Information: Staffing is allocated as follows:

- a. staffing formulas
- b. site allocations for categorical programs
- c. funding requirements of special projects
- d. special needs (pool positions)
- e. directives from the Superintendent and Board of Education

- General Goals:
1. Everyone connected with the PCR UNDERSTANDS HOW to read and use it (DPC has provided specific guides for reading the PCR).
 2. All staffing transactions are referenced in the PCR. The District will consistently use this document.

*All PRFs must contain a beginning date. PRFs for Part 4, b (site allocations for categorical programs), c (funding requirements of special projects), d (special needs [pool positions]), e (directives from the Superintendent and Board of Education) must contain an ending date as well.

3. The PCR will be published bi-monthly.
4. Principals and unit managers will be responsible for notifying the Personnel Office of errors by submitting a PRF within five days of receipt of report.
5. Division Managers will be responsible for correcting overstaffed and understaffed positions within thirty days of discovery.
6. Personnel and DPC will be responsible for processing PRF's in a timely manner so that corrections appear on each subsequent report.
7. When a PRF has been initiated all managers involved in the process are responsible for completing their PRF transactions within 24 hours.
8. The Budget Office will be responsible for updating allocations on a bi-monthly basis.

NC:jc

**AUDITOR GENERAL'S COMMENTS ON THE
OAKLAND UNIFIED SCHOOL DISTRICT'S RESPONSE**

- ① As we state in Appendix A of our report, in February 1986, Assembly Bill 3293 (Vasconcellos) was introduced that may provide additional funding for school districts. However, as of May 20, 1986, the bill had not passed the Legislature. Because we cannot predict whether the bill will become law, or if passed, whether it would benefit the district in fiscal year 1985-86, and because we cannot predict the specific amount of revenue the law will provide to the district, if any, we did not include an adjustment for this bill in our projection.
- ② This paragraph is not accurate. Our staff was aware of the district's expenditure reduction and control measures, and we considered these measures when adjusting the district's fund balance projection.

Items 1, 3, and 4 relate to salary and benefit expenditures, and we considered them in developing our fund balance projection. We tested the district's compliance with the board's directive to reduce staff positions. In addition, we determined that the district's February 28, 1986 fund balance projection reflected the reduction in positions. As a result, we found no reason to further adjust the district's expenditure projections for salaries and related benefits.

Items 2, 5, and 7 relate to nonsalary expenditures. Our projection does not reflect a 15 percent reduction for nonsalary expenditures because our review of the district's original budget (J-41) and its revised budget as of March 31, 1986, revealed that the district actually increased the budget for three of the four nonsalary accounts. In addition, the district reduced the budget for the fourth account by only one percent. Furthermore, the district's own projection does not reflect a 15 percent reduction in nonsalary expenditures. Since the district's own budget and fund balance projection did not reflect the 15 percent reduction, we concluded that it would be imprudent to assume that the district would reduce these expenditures below the budgeted amount.

Item 6 states that the audit staff did not include an accrual of the last quarter lottery revenue. Contrary to the district's assertion, as stated in Appendix A of our report, our projection does include a \$1.1 million adjustment for the accrual of the fourth quarter lottery revenues.

Finally, we presented our projections to district personnel for their review; they did not provide information to refute the results of our projections. Further, they signed the projections, signifying their approval.

- ③ We disagree. Our report does not state or imply that the district granted the 1985-86 salary increase without having a plan to cover the related costs. However, as of the end of our fieldwork, it did not appear to us that the district would be able to reduce expenditures sufficiently to end fiscal year 1985-86 with a fund balance in its general fund. Further, because of the adjustments we made to the district's projection, we predicted a smaller fund deficit than the district itself was projecting. As stated above, we presented our projections to district personnel for their review; they did not provide information to refute the results of our projections. Further, they signed the projections, signifying their approval.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps