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STATE OF CALIFORNIA GEORGE DEUKMEJIAN, Gove.

COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY
1303 J Street, Suite 270, (916) 445-2125
Sacramento 95814



# A REPORT ON THE FINANCIAL MANAGEMENT AND ACCOUNTABILITY IN THE STATE'S K-12 PUBLIC SCHOOL SYSTEM

NOVEMBER 1987

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FINANCIAL MANAGEMENT AND ACCOUNTABILITY
IN THE STATE'S K-12 PUBLIC SCHOOL SYSTEM

A Report of the
Commission on California State Government
Organization and Economy

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November 17, 1987

The Honorable George Deukmejian
Governor of California

The Honorable David A. Roberti
President pro Tempore of the Senate
and the Members of the Senate

The Honorable Kenneth L. Maddy
Senate Minority Floor Leader

The Honorable Willie L. Brown, Jr.
Speaker of the Assembly
and the Members of the Assembly

The Honorable Patrick Nolan
Assembly Minority Floor Leader

Dear Governor and Members of the Legislature:

The Commission on California State Government Organization and Economy, also known as the Little Hoover Commission, has completed its nine-month review of the financial management and accountability in the State's kindergarten through grade 12 (K-12) public school system. This study represents a continuation of the on-going effort that the Commission has made in the past decade to bring attention to the need for a basic level of financial accountability for the funding of the K-12 public school system.

The core issue that the Little Hoover Commission has been concerned with is the need for ultimate accountability at the State level for K-12 spending. While the Commission has issued a series of reports and held numerous public hearings on this issue, the Commission is frustrated that only limited authority and responsibility exists at the State level for the funding of the K-12 public school system. The Commission firmly believes that the State can no longer afford to allow this situation to persist.

California's K-12 public school system spends nearly $20 billion per year to serve approximately 4.3 million students. This represents a tremendous educational programmatic endeavor, but it also is a massive business undertaking that dwarfs the business activities of most Fortune 500 companies. While the Commission clearly recognizes that education is more than a business venture, many of the same business principles and practices that are followed in large corporations can and should be applied to the management, accountability and control of the State's funding of the K-12 public school system.

The Little Hoover Commission's study revealed that the State's lack of accountability and control over the expenditure of K-12 funds is not only poor business, but can result in severe hardships to educational programs due to irresponsible financial management

practices in some K-12 school districts. Considering the size and the importance of the State's investment in K-12 education, the lack of strong financial accountability and control at the State level is inexcusable.

At the present time, the control at the State level over the use of K-12 funds is so restricted that the only time the Superintendent of Public Instruction can intervene in a school district's financial affairs is after a district has received a bail-out loan from the Legislature. Oftentimes, this is too late to correct financial problems that may have been averted through earlier intervention. Although other states have taken action to provide their Superintendents with the authority to intervene in a district's financial affairs if a district is being fiscally irresponsible, California has not done so.

The Commission's study showed that there are a large number of school districts whose current financial management practices indicate that they may be headed for financial problems in the near future. Without a concerted effort to increase the accountability and control over K-12 funds and improve the financial management in school districts, the State's taxpayers will have little assurance that funds appropriated for K-12 education are being well-spent.

The Commission's report presents five findings regarding the financial management, accountability and control in the State's K-12 public school system, including:

- o There is increasing evidence of poor financial health and inadequate financial management in some K-12 school districts;
- o The financial and compliance audit reports prepared for school districts are frequently substandard and late and vary greatly in cost;
- o The State Department of Education receives inadequate information to assess the financial condition and performance of school districts;
- o The State Superintendent of Public Instruction has insufficient authority to intervene in school districts that are not operating in a financially responsible manner; and
- o Certain school districts in the State are potential candidates for consolidation.

To address the problems identified in the report the Commission presents eight recommendations. These are:

1. Provide the Superintendent of Public Instruction with greater authority to intervene in school districts that fail to act in a financially responsible manner;

2. Increase the number of financial management assistance reviews conducted by the State Department of Education in school districts;

3. Require that the annual audits of school districts contain additional information on a district's financial condition and performance;

4. Provide the Superintendent of Public Instruction with greater authority to impose sanctions on school districts that do not provide timely, accurate, or complete financial reports;

5. Increase sanctions against certified public accounting firms whose work fails to meet State standards;

6. Require that school districts establish broad-based audit selection committees;

7. Expand the fraud and abuse review component of school district audits; and

8. Conduct expanded training for independent auditors of school districts.

The Commission believes that the implementation of these recommendations will provide additional financial management, control and accountability in local school districts and at the State level for K-12 expenditures.

Respectfully,

ALBERT GERSTEN, Chairman
K-12 Financial Management
and Accountability Study
Subcommittee

M. Lester Oshea
Richard Terzian

NATHAN SHAPELL, Chairman
Haig Mardikian, Vice Chairman
Senator Alfred Alquist
Mary Anne Chalker
Senator Milton Marks
Assemblywoman Gwen Moore
George E. Paras
Abraham Spiegel
Barbara Stone
Assemblyman Phillip Wyman

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# EXECUTIVE SUMMARY

California's kindergarten through grade 12 (K-12) public school system is made up of 1,028 local school districts which operate more than 7,000 schools and serve approximately 4.3 million students.

In recent years, the source and amount of funding received by local school districts has undergone considerable change. Proposition 13 resulted in a shift of the primary responsibility for funding school districts from the local to the state level. Prior to Proposition 13, 53.9 percent of the total K-12 revenues came from local sources and 39.1 percent came from the State. Since the passage of Proposition 13, local revenues have decreased to 25.6 percent of total K-12 revenues and State funds have increased to 67.9 percent of all K-12 monies.

Due to the recent educational reforms in the K-12 public school system and associated funding increases, total K-12 revenues increased from $12.8 billion to $19.5 billion between fiscal year 1982-83 to fiscal year 1986-87, an increase of more than 50 percent.

In the past decade, the State of California has begun to initiate additional monitoring and control over the financial management of local school districts. The growing role of the State in the financial monitoring and control of local school districts is consistent with the fact that the majority of the funding for the K-12 public school system now comes from the State.

The Little Hoover Commission initiated its study of financial management and accountability in the State's K-12 public school system to determine the extent of current problems and to identify opportunities to improve and strengthen the use and control of funds in California's schools.

The Commission found that there is increasing evidence that a growing number of K-12 school districts are in poor financial health and have inadequate financial management. For example, 260 of the State's K-12 school districts and county offices of education, or 24 percent, engaged in deficit spending in their General Fund in fiscal year 1985-86. In addition, approximately 291 school districts in the State, or 26.8 percent, had General Fund balances of less than five percent at the end of fiscal year 1984-85. The poor financial management practices have resulted in some school districts seeking bail-out loans from the Legislature and may have contributed to the number of incidents of theft, fraud, and financial abuse in school districts. Moreover, it may result in an increasing number of districts seeking bail-out loans from the Legislature in the near future.

The Education Code requires that every school district have an independent financial and compliance audit each year. Since California's K-12 public school system is based on local control, the annual financial and compliance audits are the backbone of the State's oversight of district expenditures. The Commission's study revealed that the financial and compliance audit reports frequently do not meet minimum reporting standards established by the State Controller's Office. For example, the State Controller's Office rejected 173 financial audit reports, or 16.3 percent of all audit reports submitted by school districts in fiscal year 1985-86.

The study also showed that these audit reports are often submitted late, even though audit report submission deadlines are quite generous. For example, 457 districts, or 42 percent, submitted late audit reports for fiscal year 1985-86. Furthermore, the study indicated that the cost of performing financial and compliance audits of similar size districts varies as much as seven-fold.

The Commission's review showed that the State Department of Education has two major systems in place to collect management information used in assessing the financial condition and performance of school districts. However, the information provided by school districts to the Department is frequently inaccurate, incomplete or late. As a result, the usefulness of these systems as management tools at the state level is severely undermined.

The study revealed that the Superintendent of Public Instruction does not have sufficient authority to intervene in school districts that are not being fiscally responsible. For example, while the Superintendent has the authority to review and analyze financial reports and projections provided by school districts, the Superintendent does not have the authority to compel a school district to adopt or implement fiscally responsible corrective action plans. Although other states have provided their Superintendents the authority to intervene in school district financial affairs when the districts fail to be financially responsible, California has not done so. As a result, the State Superintendent of Public Instruction can only intervene in the financial activities of a school district after a school district has received a "bail-out" loan from the Legislature. By then, it may be too late.

The Commission's review indicated that there are a number of school districts which offer potential savings through consolidation. Specifically, the study identified 275 school districts that have enrollment of less than 300 students which potentially may be candidates for consolidation. In addition, the study showed that 114 school districts which spent less than the statutorily required percentage of expenditures on teachers' salaries in fiscal year 1985-86 also may offer some benefits through consolidation, such as cost savings or improved levels of service.

The Commission's report presents eight recommendations for improving the financial management and accountability in the State's K-12 public school system, including:

1. Provide the Superintendent of Public Instruction with greater authority to intervene in school districts that fail to act in a financially responsible manner;

2. Increase the number of financial management assistance reviews conducted by the State Department of Education in school districts;

3. Require that the annual audits of school districts contain additional information on a district's financial condition and performance;

4. Provide the Superintendent of Public Instruction with greater authority to impose sanctions on school districts that do not provide timely, accurate, or complete financial reports;

5. Increase sanctions against certified public accounting firms whose work fails to meet State standards;

6. Require that school districts establish broad-based audit selection committees;

7. Expand the fraud and abuse review component of school district audits; and

8. Conduct expanded training for independent auditors of school districts.

# I. INTRODUCTION

California's kindergarten through grade 12 (K-12) public school system is comprised of 1,028 local school districts. These districts operated more than 7,000 schools and served approximately 4.3 million students in fiscal year 1986-87.

During the past decade, there has been a major change in the method of financing K-12 school districts in California due to the implementation of Proposition 13. This has been accompanied by a large increase in the overall level of K-12 funding. At the same time, the State has adopted some measures to provide additional financial controls over K-12 school district expenditures.

Due to the significant changes that have occurred in the source and amount of funding received by school districts in recent years, the Little Hoover Commission initiated a study of the financial management and accountability in the K-12 public school system.

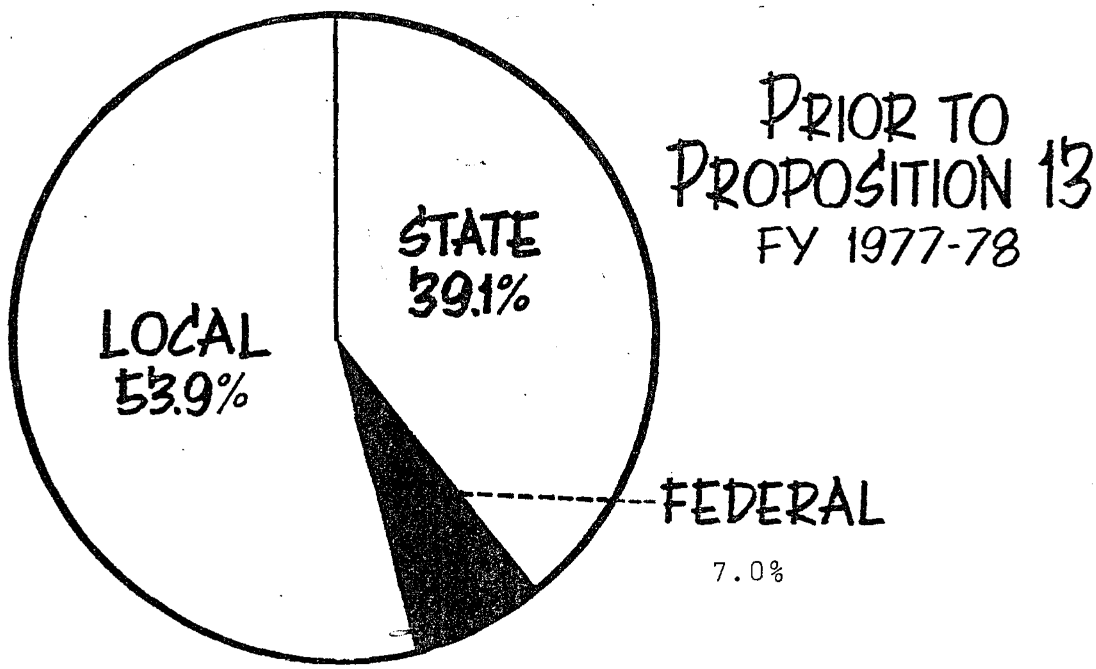
## INCREASES IN K-12 FUNDING

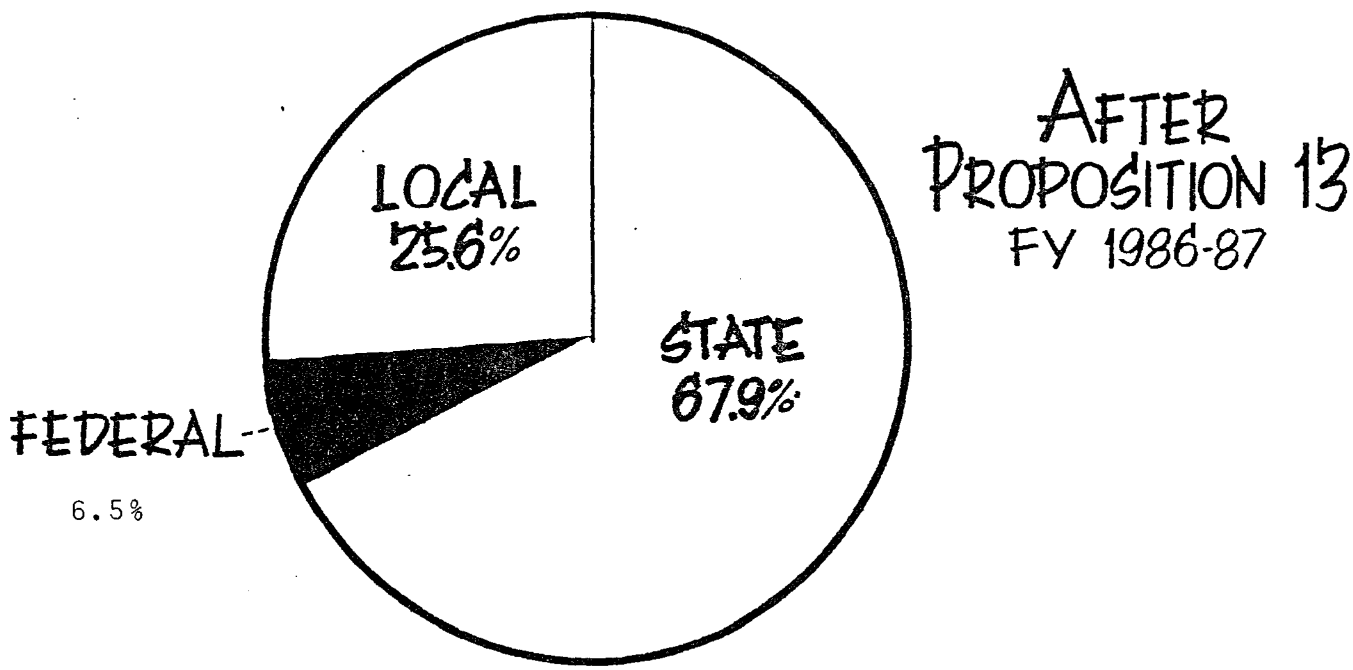
The financing of the K-12 public school system in the State has changed dramatically since the passage of Proposition 13 in 1978. Prior to the passage of Proposition 13, the State's K-12 public school system received the majority of its funding from local revenues. After the passage of Proposition 13, the primary responsibility for funding the K-12 public school system shifted from the local level to the State level. Exhibit I.1 illustrates this change.

Exhibit I.1 shows that in fiscal year 1977-78 local funding comprised 53.9 percent of all K-12 revenues, state funding made up 39.1 percent, and federal funding comprised 7.0 percent. However, due to the shift in funding responsibility resulting from Proposition 13, the composition of K-12 funding was altered. As Exhibit I.1 shows, by fiscal year 1986-87, state funding comprised 67.9 percent of all K-12 revenues, local funding made up 25.6 percent, and federal funding accounted for the remaining 6.5 percent of the revenues.

EXHIBIT I.1

SOURCES OF K-12 REVENUES
BEFORE AND AFTER PROPOSITION 13



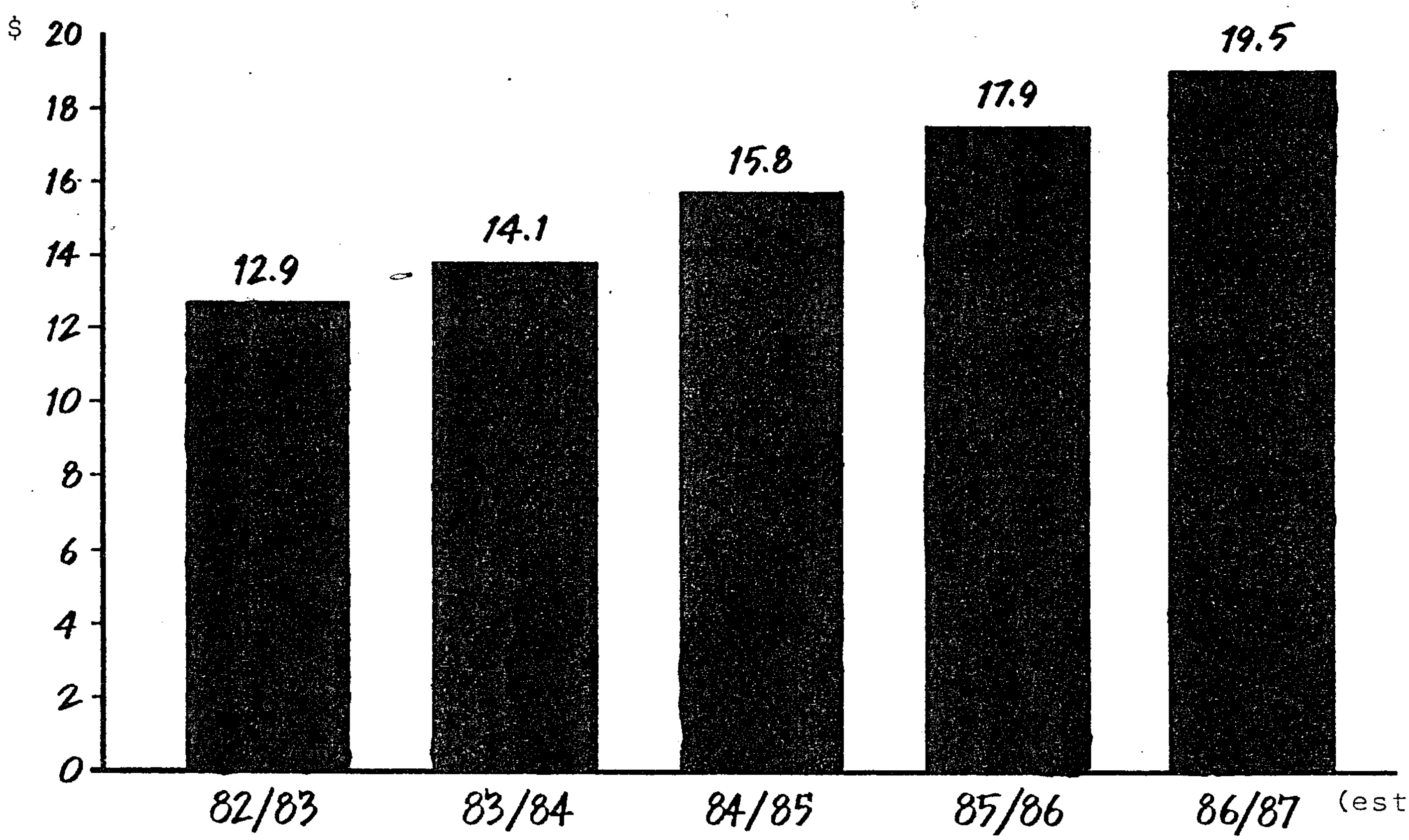




SOURCE: Legislative Analyst's Office

Accompanying this change in revenue source, particularly over the last five years, has been a major increase in the amount of revenue dedicated to K-12 public education in the State. Exhibit I.2 illustrates the growth in total K-12 revenues during this period of time.

EXHIBIT I.2

TOTAL K-12 REVENUES
FISCAL YEAR 1982-83 THROUGH 1986-87
(In Billions)




SOURCE: Legislative Analyst's Office

Exhibit I.2 shows that the total funding for K-12 education increased from approximately $12.9 billion in fiscal year 1982-83 to an estimated $19.5 billion in fiscal year 1986-87. This represents an increase of approximately $6.6 billion, or 51 percent, over the five-year period.

There are a number of factors that have contributed to the growth in total K-12 public school system revenues, including: augmented State funding; additional revenues available to schools from the commencement of the State lottery; and the authorization of new local revenue sources. Exhibit I.3 provides an analysis of the total K-12 revenues by funding source in the past five years.

EXHIBIT I.3

TOTAL K-12 REVENUES BY FUNDING SOURCE
FY 1982-83 TO FY 1986-87
(In Millions)

| | 1982/83 | 1983/84 | 1984/85 | 1985/86 | Estimated 1986/87 | Percent Change 1982-83/86-87 |
|---|---|---|---|---|---|---|
| LOCAL | | | | | | |
| Property Tax Levies[1] | 2675.3 | 2869.5 | 3192.9 | 3482.3 | 3719.8 | 39.0 |
| State Tax Subventions | 266.5 | 114.2 | 112.4 | 103.7 | 105.3 | (40.5) |
| SUBTOTAL | 2941.8 | 2983.7 | 3305.3 | 3586.0 | 3825.1 | 30.0 |
| STATE[2] | 8100.7 | 9191.8 | 10400.7 | 11607.4 | 12855.2 | 58.7 |
| FEDERAL | 967.6 | 1032.7 | 1096.2 | 1115.8 | 1262.9 | 30.5 |
| MISCELLANEOUS[3] | 854.0 | 941.8 | 1010.9 | 1642.5 | 1557.2 | 82.3 |
| TOTAL | $12,864.1 | $14,150.0 | $15,813.1 | $17,951.8 | $19,500.4 | 51.6 |

SOURCE: Legislative Analyst's Office, Analysis of the 1987-88 Budget Bill.

NOTES:

1. Includes local debt.

2. Includes all General Fund and Special Fund monies, State Teachers Retirement System contributions, and state capital outlay funds.

3. Includes lottery revenues, combined state/federal grants, and other miscellaneous income.

Exhibit I.3 shows that the largest portion of the increase in the total K-12 revenues is attributable to the rise in State funding. State funding has increased from approximately $8.1 billion in fiscal year 1982-83 to approximately $12.9 billion in fiscal year 1986-87. This represents an increase of $4.8 billion, or approximately 59 percent.

The primary reason for the increase in State revenues for the K-12 public school system during the past five years has been the enactment of Senate Bill 813, Chapter 498, Statutes of 1983. This measure increased the funding levels for K-12 education and instituted major reforms in an effort to improve the quality of education in California's schools.

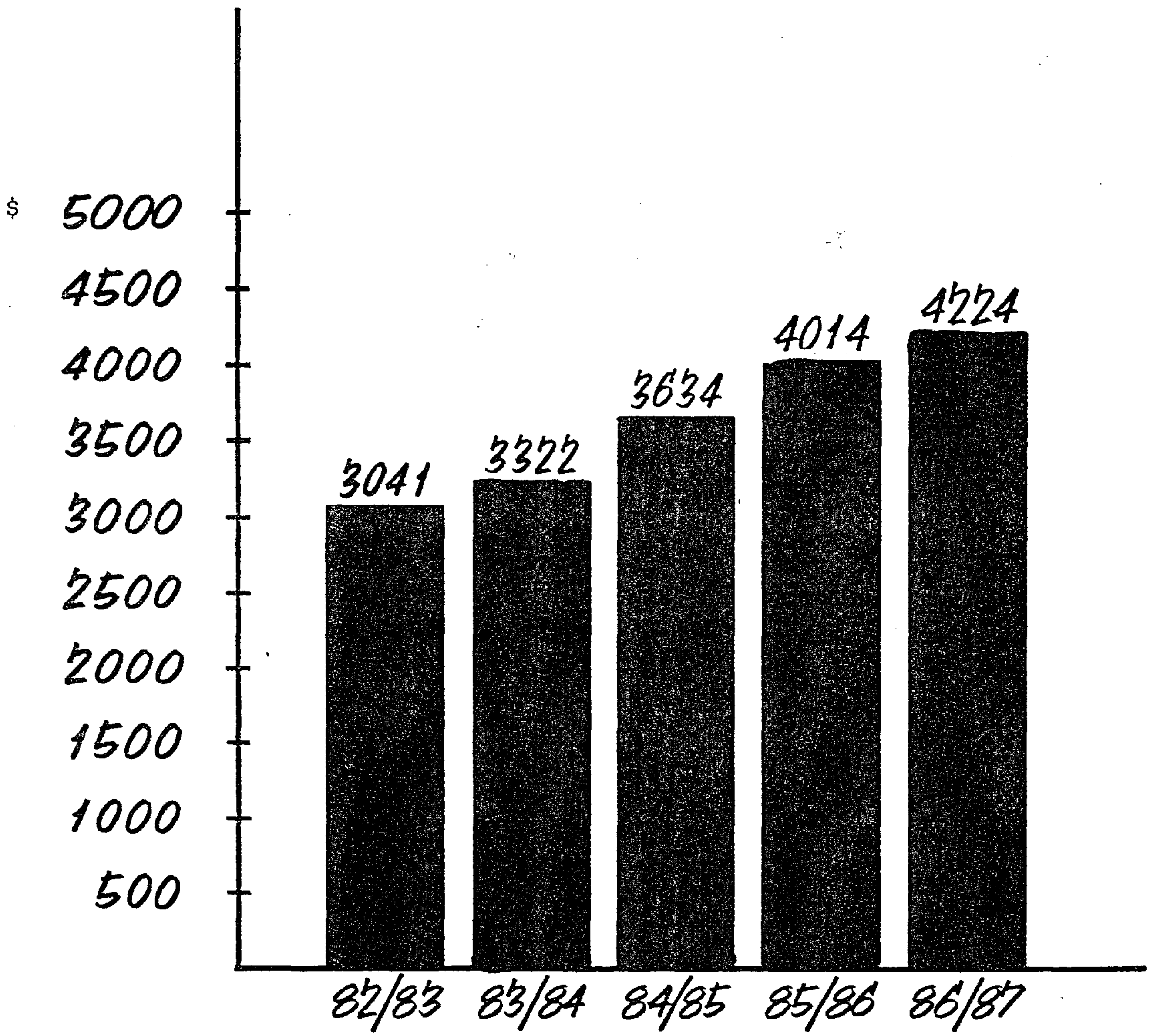
Another reason for the increase in the total revenues available for the K-12 public school system was the passage of Proposition 37 in November 1984 which established the California State Lottery. The Lottery began selling tickets in October 1985 and provided an additional $555.5 million for K-12 public education in fiscal year 1985-86 and $410.9 million in fiscal year 1986-87. Local school districts have complete control over how lottery funds are spent, provided they are used for educational purposes. For example, the Commission found that some school districts were using a portion of their lottery monies to fund Drug Abuse Resistance Education (DARE).

Beginning on January 1, 1987, K-12 public school districts in California were granted access to two new revenue sources, both for capital construction. AB 2926, Chapter 887, Statutes of 1986, established a fee on newly developed property that can be levied by local school boards without voter approval. This fee may range up to $1.50 per square foot for residential property and up to $.25 per square foot for commercial property.

While the overall amount of funding available for K-12 public school education has increased in the last five years, so has the average amount of funding spent on each pupil. Exhibit I.4 provides information on the increases in funding per each unit of average daily attendance.

EXHIBIT I.4

K-12 FUNDING
PER AVERAGE DAILY ATTENDANCE
FISCAL YEAR 1982-83 THROUGH 1986-87




SOURCE: Legislative Analyst's Office

Exhibit I.4 shows that the funding for each unit of average daily attendance in California's K-12 public school system has increased from $3,041 in fiscal year 1982-83 to $4,224 in fiscal year 1986-87. This represents an increases of $1,183, or nearly 39 percent.

## FINANCIAL ACCOUNTABILITY IN K-12 EDUCATION

The K-12 public school system is administered at the state level by the State Department of Education (Department) under the direction of the State Board of Education and the Superintendent of Public Instruction. The Department is responsible for administering and enforcing those powers, duties, and responsibilities that are established in the Education Code. As part of its responsibilities, the Department establishes standards, procedures, and practices to be used by local school districts in carrying out their budgeting, accounting, and financial management functions.

There are 58 county offices of education in the State. Each of these offices is operated by a county superintendent of schools in accordance with the rules and regulations approved by the county board of education. The county superintendent of schools has specific responsibilities for assisting local school districts to carry out their financial management and accountability responsibilities. These include the distribution of laws, circulars, instructions, and other materials to local school district superintendents. In addition, the county superintendent of schools has some specified financial monitoring responsibilities for the local school districts in the superintendent's county.

California's 1,028 local school districts each have a separately elected governing board that is responsible for the overall management and control of a district's operation. The locally-elected school boards each have the authority to prescribe and enforce rules as long as such rules are consistent with the Education Code and the rules prescribed by the State Board of Education. Each local school board is responsible for appointing a district superintendent of schools. The district superintendent of schools is responsible for preparing and submitting a budget to the school board for adoption and carrying out the policies adopted by the school board.

In the decade since the passage of Proposition 13, the State of California has begun to initiate stronger monitoring and control over the financial management of local school districts. The growing role of the State in the financial monitoring and control of local school districts is consistent with the fact that the majority of the funding for the K-12 public school system now comes from the State. Among the major changes in the financial management and accountability in the K-12 public school system are the following:

- Senate Bill 1379 (Alquist), Chapter 268, Statutes of 1984, contained a number of significant changes concerning K-12 financial accountability, including the transfer of the responsibility for developing the K-12 education audit guide from the Department of Finance to the State Controller. It also expanded compliance auditing of school districts by independent public accounting firms;

- Assembly Bill 1366 (Hughes), Chapter 741, Statutes of 1985, provided a basic reporting mechanism to ensure that local boards of education, the State Controller, and the Superintendent of Public Instruction would have at least the minimum financial budgetary information that they need to more effectively oversee the financial viability of local educational agencies. However, the bill did not provide the State Department of Education with sanctions which could be used in the enforcement process;

- Assembly Bill 2861 (O'Connell), Chapter 1150, Statutes of 1986, clarified provisions of Assembly Bill 1366 and provided $100,000 for the State Department of Education to facilitate the use of micro-computers in school business applications. This bill also provided for the withholding of district superintendent and school board member salaries in districts which failed to submit required financial reports to the State; and

- Assembly Bill 1926 (Bader), Chapter 990, Statutes of 1987, specifies various financial and administrative conditions for the receipt of an emergency apportionment by a school district. These conditions include the appointment of a trustee to monitor and review district operations. Assembly Bill 1926 also provides for increased review of audit reports and for the reporting of substandard work by independent school district auditor's to the State Board of Accountancy.

In addition, the State Department of Education has been developing and implementing an expanded financial management system in school districts through a Financial Management Advisory Committee (FMAC). The system being put in place by FMAC is comprised of three major components, including:

- A new program cost and reporting system;

- A new interim reporting system to assess the financial well-being of school districts; and

- A restructured set of school district financial statements.

The State Department of Education plans to expand FMAC to 230 districts in fiscal year 1987-88 and implement it statewide in fiscal year 1988-89.

## SCOPE AND METHODOLOGY

In February 1987, Chairman Shapell and the members of the Commission initiated a study of financial management and accountability in the K-12 public school system. Chairman Shapell appointed Commissioner Albert Gersten as the Chairman of the Subcommittee responsible for overseeing the detailed study fieldwork. In addition, Commissioners M. Lester

Oshea and Richard Terzian were appointed as members of the Subcommittee.

The purpose of the study was to determine the extent of financial management and accountability problems in the K-12 public school system and to identify opportunities to improve and strengthen the use and control of funds in California's schools. Specifically, the Commission and the Subcommittee assigned to direct and oversee the study focused on the following issues in conducting the study:

- Who is responsible for how the State spends its funding for K-12 education?
- Who is accountable for the expenditure of State funds for California's K-12 public school system?
- What financial management controls currently exist in the K-12 public school system?
- What authority and responsibility does the State have to monitor and control school spending and intervene in a district's management, if necessary?
- What additional measures can be undertaken to strengthen K-12 financial management and ensure that local school district's expend state funds in a financially prudent and responsible manner?

As part of the study, the Commission held two public hearings: one on March 23, 1987 another on June 23, 1987. At these hearings, the Commission received testimony from the Superintendent of Public Instruction, the State Department of Education, the State Controller, the Auditor General, and individual school districts. The information collected at the public hearings was supplemented with data collected by the Commission's staff related to the financial management and performance of K-12 public school districts in the State.

REPORT FORMAT

The report is divided into three chapters. Chapter II of the report presents the Commission's study findings, while Chapter III of the report provides the Commission's overall study conclusions and detailed recommendations for addressing the problems identified in the report. Finally, there are two appendices attached to the report which provide additional information in support of the report.

# II. STUDY FINDINGS

This chapter presents the Commission's five study findings relating to financial accountability in the State's K-12 public school system. Each of these findings are presented separately in the sections that follow.

## FINDING #1 - There is Increasing Evidence of Poor Financial Health and Inadequate Financial Management in Some K-12 School Districts

A growing number of K-12 school districts are in poor financial health as attested to by recent studies performed by the State Controller's Office and the Auditor General's Office. For example, 260 of the State's 1086 K-12 school districts and county offices of education, or 24 percent, engaged in deficit spending in their General Fund in fiscal year 1985-86. In addition, approximately 291 school districts in the State, or 26.8 percent, had General Fund balances of less than five percent at the end of fiscal year 1984-85. The poor financial health of these K-12 public school districts is partially due to inadequate financial management. As a result, an increasing number of districts have been seeking and may in the near future need to seek bail-out loans from the Legislature to support their operation. Moreover, the lack of sound financial management practices may have contributed to the number of incidents of theft, fraud, and financial abuse in school districts.

### Deficit General Fund Spending by School Districts

The State Controller's Office is responsible for developing and conducting a program to review and report on the financial and compliance audits of school districts. The State Controller's Office provided testimony at both of the Commission's public hearings in the spring of 1987. Specifically, testimony provided by the State Controller's Office identified the number of districts that allowed expenditures to exceed revenues, commonly known as "deficit spending." Deficit spending is a traditional indicator of potential financial management problems. While a planned operating deficit is sometimes appropriate and necessary, normally deficits indicate the failure of a district's financial management system to ensure that expenditures equal or are less than revenues. Exhibit II.1 provides information on the number of districts that reported deficit spending.

EXHIBIT II.1

SUMMARY OF SCHOOL DISTRICTS
REPORTING DEFICIT GENERAL FUND SPENDING
FISCAL YEAR 1985-86

| Category | Number of Districts | Percent of Districts* |
|---|---|---|
| Deficit Spending in Fiscal Year 1985-86 | 260 | 24.0 |
| Deficit Spending in Fiscal Years 1985-86 and 1984-85 | 103 | 9.5 |
| Deficit Spending in Fiscal Years 1985-86, 1984-85, and 1983-84 | 36 | 3.3 |

* Based on the certification of 1,083 audit reports submitted to the State Controller's Office

SOURCE: State Controller's Office

Exhibit II.1 shows that 260 of the K-12 public school districts in the State reported deficit spending practices in their General Fund in fiscal year 1985-86. What is of even greater concern is that 103 of these districts had engaged in deficit spending for two years in a row and 36 districts had done it for three consecutive years.

The Auditor General's Office recently conducted an analysis of the spending patterns of 124 local education agencies (LEAs), including school districts, community college districts, and county offices of education. The Auditor General's analysis showed that 25 of the 124 LEAs reviewed engaged in deficit general fund spending in fiscal year 1985-86.

The Auditor General's Office also performed a more detailed analysis of the spending patterns of 25 LEAs that had poor financial conditions at the end of fiscal year 1985-86. Exhibit II.2 displays the results of this analysis.

EXHIBIT II.2

SUMMARY OF THE AUDITOR GENERAL'S ANALYSIS OF
25 LOCAL EDUCATIONAL AGENCIES IN POOR FINANCIAL CONDITION
FISCAL YEAR 1985-86

| Extent of Deficit Spending Between Fiscal Year 1983-84 and 1985-86 | Number of Districts | Percent of Districts |
|---|---|---|
| No Deficit Spending in Any Year | 3 | 12 |
| Deficit Spending in One Year | 8 | 32 |
| Deficit Spending in Two Years | 13 | 52 |
| Deficit Spending in Three Years | 1 | 4 |
| TOTALS | 25 | 100 |

SOURCE: Auditor General's Office

Exhibit II.2 shows that all but 3 of the 25 LEAs reviewed engaged in some deficit spending. In fact, 14 of the 25 LEAs in poor financial condition that the Auditor General's Office analyzed, or 56 percent, had engaged in deficit spending in at least two or more of the three years analyzed.

The Auditor General's Office provided a number of reasons why LEAs have had these financial problems, including:

- LEAs base their budgets on inaccurate estimates of revenue and expenditures;
- LEAs use General Fund monies to pay for overspending in other funds; or,
- LEAs have granted salary increases that are larger than the increase in the revenues used to pay for salaries.

In addition, the Auditor General's Office said that excessive administrative costs and declining attendance have also contributed to the financial problems of some LEAs.

An example of such practices was outlined in a report issued by the Auditor General's Office in May 1986. The Auditor General's report documented financial problems in the Oakland Unified School District. The report identified a projected $2 million deficit in the District's General Fund in fiscal year 1985-86 because the district had budgeted expenditures that exceeded its revenues, failed to adhere to its budget, and bypassed established procedures. The report went on to say that the District planned to spend more than it received in revenue in fiscal year 1985-86 and each of the prior four years. In addition, the report cited the District for granting salary increases knowing that the increases would result in a fund deficit.

Large Number of School Districts with Low General Fund Balances

The State Controller's Office monitors the financial information contained in K-12 school district financial audit reports to determine if school districts are having financial problems. One indicator that the State Controller's Office reviews is the amount of financial reserves maintained by a district. A low financial reserve in a district's General Fund balance is a potential indicator that a district may be facing severe financial difficulties.

Exhibit II.3 provides information on the General Fund balances of the State's K-12 public school district's at the end of fiscal year 1984-85.

EXHIBIT II.3

ANALYSIS OF K-12 SCHOOL DISTRICT
YEAR-END GENERAL FUND BALANCES
FISCAL YEAR 1984-85

| Size of General Fund Balance As a Percent of Annual Expenditures | Number of Districts | Percent of Districts* |
|---|---|---|
| Deficit Balance | 28 | 2.6 |
| Less than 1 Percent Reserve | 43 | 4.0 |
| Less than 2 Percent Reserve | 37 | 3.4 |
| Less than 3 Percent Reserve | 61 | 5.6 |
| Less than 4 Percent Reserve | 62 | 5.7 |
| Less than 5 Percent Reserve | 60 | 5.5 |
| TOTALS | 291 | 26.8 |

* Based on the certification of 1,083 audit reports submitted to the State Controller's Office

SOURCE: State Controller's Office

Exhibit II.3 indicates that 291 districts, or 26.8 percent, reported General Fund balances amounting to less than five percent of the district's annual expenditures. Moreover, 28 school districts reported a deficit General Fund balance at the end of fiscal year 1984-85.

As part of its recent study of local educational agencies, the Auditor General's Office reviewed the Fund balances as of June 30, 1986 of 124 LEAs. The fund balances represent the difference between an LEA's assets and its liabilities. Generally speaking, the fund balance at the end of a fiscal year can be used to measure the ability of a LEA to fund a portion of its operations for the succeeding fiscal year and to deal with unforeseen changes in economic conditions.

The Auditor General's Office found that 25 of the 124 LEAs it reviewed had low fund balances as of June 30, 1986. The fund balances of three of these LEAs showed a total deficit of approximately $899,000. In addition, 25 of the LEAs engaged in deficit spending in fiscal year 1985-86.

## Some K-12 School Districts are Seeking Bail-Out Loans from the Legislature to Overcome Financial Problems

Due to their poor financial health or financial management problems, some school districts are relying on loans from the State General Fund to continue their operations. This loan is made by a special legislative appropriation and includes specific terms for repayment and use of the loaned funds.

Exhibit II.4 provides a summary of the school districts that have been granted emergency loans from the State General Fund since 1981.

EXHIBIT II.4

SUMMARY OF K-12 SCHOOL DISTRICTS
RECEIVING LOANS FROM THE STATE GENERAL FUND
DUE TO FINANCIAL PROBLEMS SINCE 1982

| District | Loan Amount | Authorization |
|---|---|---|
| Stockton Unified | $4,733,000 | Chapter 318/1982 |
| Westwood Unified | 80,000 | Chapter 171/1983 |
| Val Verde Elementary | 96,000 | Chapter 171/1983 |
| Emery Unified | 600,000 | Chapter 38/1983 |
| Pacific Grove Unified | 1,800,000 | Chapter 61/1984 |
| Berkeley Unified | 3,000,000 | Chapter 1858/1986 |
| Val Verde Elementary | 500,000 | Chapter 34/1987 |
| West Covina Unified | 3,900,000 | Chapter 34/1987 |
| TOTAL | $14,709,000 | |

SOURCE: State Controller's Office

Exhibit II.4 shows that the Legislature has granted eight loans to school districts totalling approximately $14.7 million since 1982. These loans were granted for a variety of reasons, including abrupt changes in pupil population and funding, or poor financial management by the school districts.

While the number and amount of the loans to school districts from the State General Fund is relatively small at this time. There is concern that the frequency and amount of these loans may increase. For example, the State Controller testified at the Commission's public hearing in June 1987 that 29 school districts had fund balances of less than one percent and potentially were facing a financial crisis. Similarly, the Auditor General's Office projected in its March 1987 report that as many as 12 of the 124 LEAs it reviewed would have deficit fund balances totalling approximately $16.6 million as of June 30, 1987 if the LEAs expenditures continued at the same pace.

As a result of the poor financial practices of some school districts that the State Controller's Office and the Auditor General's Office documented, potentially as many as two-dozen school districts may need to seek bail-out loans from the Legislature in the near future.

Continuing Incidents of Major Theft, Fraud, and Financial Abuse in K-12 School Districts

In recent years, there have been a series of incidents of major theft, fraud, and financial abuse in some K-12 school districts from throughout the State. While the fact that these incidents were brought to light indicates that the State's financial controls in school districts are working to some extent, there is concern regarding the deficiencies in the current financial management and accountability systems in school districts that allowed these incidents to occur in the first place. In addition, there is some evidence that such deficiencies are continuing to persist.

One incident that occurred in December 1986 was the arrest of a high-ranking Los Angeles Unified School District official in connection with an alleged scheme to embezzle at least $500,000 by stealing and reselling supplies. Los Angeles County District Attorney, Ira Reiner, was quoted in the Los Angeles Times as saying that the investigation that began in February 1986 was hampered by "the school district's almost non-existent controls over their assets, at least over the assets that were involved here." District Attorney Reiner went on to say that "in response to our investigation and and our arrest, the school district conducted an internal audit of their procedures and assets to determine what exactly had happened. Unfortunately, their audit revealed that they had so few controls over their assets that they simply could not tell what had been stolen from them or what had not been . . ."

Another incident occurred in January 1987 when a Newark Unified School District employee was arrested and charged with felony grand theft for allegedly transferring district money to her savings account. The district employee admitted to police taking $40,000 to $65,000 from the district payroll over a four-year period ending in December 1986.

Similarly, four people were indicted in April 1987 for taking part in an alleged $3 million bid-rigging scheme for school district contracts in the Orange County Unified School District. The alleged bid-rigging occurred from 1980 through 1984 and involved an elaborate scheme in which dummy bids were made by several firms but a pre-selected contractor got the award. Among those indicted was the school district's former maintenance supervisor who is accused of receiving kickbacks in the form of money, property, or services.

In the Alisal Union School District, three senior District employees involved in the District's financial operations pleaded guilty in 1985 to charges of grand theft, conspiracy, submitting false claims, and embezzlement. The certified public accounting firm conducting the District's annual financial audit for fiscal year 1984-85 stated that the District's system of internal accounting and administrative controls could not provide reasonable assurance that assets were safeguarded against unauthorized use or disposition. In addition, the public accounting firm said that the District did not maintain adequate financial records for the Cafeteria Fund and the Student Organization Fund.

The fiscal management and accountability problems in the Stockton Unified School District date back several years. In December 1982 and January 1983, 16 district administrators, employees, and contractors were indicted on charges ranging from fraud, grand theft, theft and misuse of government property and tax evasion. Twelve of these individuals were convicted on these or lesser charges. The total loss of funds and property to the District have been estimated at approximately $2.9 million. These losses have been attributed to the lack of, and the failure to adhere to, standard financial controls over purchases, inventory and supplies, and disbursement of funds. Regrettably, some of the same internal control problems which led to the abuses in the Stockton Unified School District have not been corrected more than three years later.

For example, a financial audit report issued by the State Controller's Office on December 31, 1982 which covered fiscal years 1980-81 and 1981-82 stated that "the District's inventory system does not provide any assurance that inventory transactions are properly authorized nor does it assure that inventory account balances accurately reflect the actual inventory on hand." Unfortunately, a financial audit report issued by the State Controller's Office on May 15, 1987 covering fiscal year 1985-86 indicated that these same problems had not been completely resolved. Specifically, the report identified the following problems:

- Certain items purchased through the warehouse were not received by the central receiving department. This practice decreased control over items purchased and thereby increased the likelihood of unauthorized purchases, misappropriation of goods, and errors in inventory accounting;

- There was no physical inventory taken of the corporation yard. Without a physical inventory count, errors and misappropriations could occur without detection; and

- The District did not perform periodic reconciliations between the perpetual inventory records and the general ledger inventory account. This necessitated a $402,406 adjusting entry at the end of the year.

Moreover, in December 1983, the State Controller's Office found that the Stockton Unified School District did not provide adequate cash control and its cash receipts system needed to implement proper procedures. In May 1987, the State Controller's Office made a similar finding--thus, the problems identified more than three years earlier still had not been resolved.

FINDING #2 - The Financial and Compliance Audit Reports Prepared for School Districts are Frequently Substandard and Late and Vary Greatly in Cost

The Education Code requires that each school district have an independent audit performed annually of its financial activities and education program compliance. Since California's K-12 school system is based on local control, the annual financial audits are the backbone of the State's oversight of district expenditures. The Commission's study determined that the financial and compliance audit reports frequently do not meet minimum reporting standards established by the State Controller's Office. The study also showed that these audit reports are routinely submitted late, even though audit report submission deadlines are quite generous. In addition, the study revealed that costs to school districts of performing annual audits vary greatly among districts. As a result, there is a lack of assurance that the financial audit reports furnished by some school districts are accurate and that program funds are expended for their intended purpose.

Substandard Audit Reports

The Education Code requires that each school district must submit an annual audit report to the State Controller's Office for review and certification. The State Controller's Office reviews the audit reports submitted by school districts and determines whether the reports meet the reporting standards prescribed in the audit guide that is prepared by the State Controller's Office.

During the Commission's study, the State Controller's Office reported that a large number of the audit reports submitted by school districts contained deficiencies and did not meet minimum state requirements. Exhibit II.5 summarizes the number of audit reports submitted with deficiencies in fiscal years 1984-85 and 1985-86.

EXHIBIT II.5

SUMMARY OF ANNUAL AUDIT REPORTS
IN K-12 SCHOOL DISTRICTS SUBMITTED
WITH REPORTING DEFICIENCIES
FISCAL YEARS 1984-85 AND 1985-86

| | FY 1984-85 | | FY 1985-86 | |
|---|---|---|---|---|
| Category | Number of Reports | Percent | Number of Reports | Percent |
| Rejected | 77 | 7.1 | 173 | 16.3 |
| Accepted with Deficiencies | 913 | 84.3 | N/A | N/A |
| No Deficiencies | 93 | 8.6 | 886* | 83.7* |
| | 1,083 | 100.0 | 1,059 | 100.0 |

* In fiscal year 1985-86, the State Controller's Office did not separately report the number of audits accepted with deficiencies and the number with no deficiencies.

SOURCE: State Controller's Office

Exhibit II.5 shows that the number of reports rejected by the State Controller's Office increased from 77 to 173 between fiscal year 1984-85 and 1985-86. Thus, in fiscal year 1985-86, 16.3 percent of the audit reports were rejected by the State Controller's Office for failing to meet minimum State requirement.

In testimony before the Commission, the State Controller stated that common deficiencies in the fiscal year 1985-86 reports were:

- Inadequate reporting on state and federal assistance programs;
- Inadequate financial statement note disclosure;
- Inadequate or omitted auditor's reports on internal controls and state and federal compliance; and
- Discrepancies or errors within financial statements.

In addition, the State Controller said that the sharp increase in the number of unacceptable reports resulted from certified public accounts having problems adjusting to the new single audit requirements and disclosure review of the reports by the State Controller's Office. Moreover, the State Controller expressed concerns with the quality of the district audit work being performed by some independent auditors, as well as with the quality of the audit reports.

For example, the State Controller's Office conducted quality control reviews of four certified public accounting firms that performed audits of 139 school districts in fiscal year 1984-85. These firms were selected because their audit reports were consistently substandard. The State Controller's Office found that three of the four firms substantially failed to comply with the prescribed standards and criteria. Among the deficiencies that the State Controller's Office identified were the following:

- Failure to exercise due professional care;
- Lack of sufficient workpaper documentation of the audit work performed;
- Lack of sufficient evidential matter to support the issuance of the various auditor's opinions;
- Inadequate compliance coverage of both state and federal assistance programs;
- Inadequate study and evaluation of of internal controls; and
- Inadequate testing of the financial accounts and records.

While the work performed by these audit firms is not necessarily indicative of the work performed by other certified public accounting firms, the poor quality of these audits indicates that there is a lack of assurance that the financial audit reports furnished by some school districts are accurate and that program funds are expended for their intended purpose.

## Late Audit Reports

Another problem with the annual audit reports submitted by K-12 school districts is the failure of a large number of school districts to submit audit reports in a timely manner. The Education Code, Section 41020, requires that each school district submit its annual audit report by November 15. However, a county superintendent may extend a school district's filing deadline until December 31 at the district's request. It is important to note that the State's November 15 filing deadline is four and one-half months after the June 30 fiscal year end for school districts. This allows more time than the two and one-half to three months commonly used in private industry.

Exhibit II.6 provides a summary of the annual audit reports submitted late by K-12 school districts during fiscal years 1984-85 and 1985-86.

EXHIBIT II.6

SUMMARY OF ANNUAL AUDIT REPORTS
IN K-12 SCHOOL DISTRICTS SUBMITTED LATE
FISCAL YEARS 1984-85 AND 1985-86

| Receipt Date | | Fiscal Year 1984/85 Number | Fiscal Year 1984/85 Percent | Fiscal Year 1985/86 Number | Fiscal Year 1985/86 Percent |
|---|---|---|---|---|---|
| Initial Filing Deadline | (November 15) | 111 | 10.2 | 245 | 22.5 |
| Extension Deadline | (December 31) | 616 | 56.6 | 386 | 35.5 |
| After December 31 | | 269 | 24.7 | 288 | 26.5 |
| After January 31 | | 92 | 8.5 | 169 | 15.5 |
| TOTALS | | 1,088 | 100.0 | 1,088 | 100.0 |

SOURCE: State Controller's Office

Exhibit II.6 shows that 727 districts, or only 66.8 percent of the K-12 school districts in the State, met the initial filing deadline or the extension filing deadline in fiscal year 1984-85. In fiscal year 1985-86, the number of districts that submitted their annual audit reports within this time frame declined to 631, or 58 percent.

Based upon contracts with districts and their certified public accounting firms, the State Controller's Office identified common reasons as causes of delinquent reports, including:

- Time conflicts of certified public accountants with other obligations;
- Problems with school district records and/or personnel turnover; and
- Changes in school district auditors.

Since the annual financial and compliance audit report is a primary component of the financial accounting and reporting system in the State's K-12 public school system, it is imperative that local school boards and state control agencies receive such reports in a timely manner. In the absence of timely audit reports, the ability of local school boards and the State to monitor and control expenditures in K-12 education suffers.

## Costly Audit Reports

In addition to the problem that K-12 school districts have been having with the quality and timeliness of annual audit reports, there are some concerns with how much school districts are paying for their financial audits.

The State Controller's Office compiled information from school districts on the cost of the districts' contracts for audit services for the fiscal year 1985-86 audits. Exhibit II.7 summarizes the results.

EXHIBIT II.7

SUMMARY OF THE COST OF
K-12 SCHOOL DISTRICT ANNUAL AUDITS
FISCAL YEAR 1985-86

| District Size in ADA[2] | Average Fee Per ADA[3] | Range of Fees Per ADA[3] |
|---|---|---|
| More than 10,000 | $0.77 | $0.17 to $2.42 |
| 5,000 to 10,000 | 1.36 | 0.36 to 2.97 |
| 5,000 or less | 3.51 | 0.62 to 140.91 |

NOTES: 1. Based on 947 school districts responding.
2. Based on fiscal year 1984-85 reported ADA.
3. Excludes county superintendents of schools.

SOURCE: State Controller's Office

Exhibit II.7 shows that there is considerable variance in the average fee per unit of average daily attendance (ADA) among districts of varying size. For example, the average fee per ADA ranges from a low of $0.77 per ADA in districts of more than 10,000 ADA to a high of $3.51 per ADA in districts of 5,000 or less. While this difference may be partially attributable to fixed costs associated with performing annual audits, the fact that the cost of performing audits in districts of less than 5,000 ADA is more than four and one-half times greater per ADA than the cost in districts with more than 10,000 ADA is a cause for concern.

In addition, the wide range of fees charged per ADA in each of the three different district size categories is large. For example, in the 5,000 to 10,000 ADA size category the range of fees per ADA was from a low of $0.36 per ADA to a high of $2.97 per ADA. What is of even greater concern is that on further examination, the State Controller's Office found that the high fee of $2.97 per ADA was in a district with 9,300 ADA, while the low fee of $0.36 per ADA was in a district with 8,500 ADA. Thus, although the size of the districts varied less than 10 percent, the audit fees charged per ADA were more than eight times greater in one district.

Obviously, the scope and quality of the audit work performed will have an impact on the cost of school district financial audits. However, the great differences in the average fee per ADA and the range of fee per ADA in school districts raise questions about the business practices used by school districts to secure annual audit contracts.

FINDING #3 - The State Department of Education Receives Inadequate Information to Assess the Financial Condition and Performance of School Districts

The State Department of Education has two major systems in place to collect management information used in assessing the financial condition and performance of school districts. These systems include a financial early warning system used to assess school districts' fiscal conditions and the California Basic Educational Data System (CBEDS) which is used to collect demographic data on school districts. While these systems have been designed to provide needed and useful information on school district financial conditions and activities, the data provided to the State Department of Education from school districts is frequently inaccurate, incomplete or late. As a result, the usefulness of these systems as management tools at the state level is severely undermined.

Early Warning System

The Little Hoover Commission sponsored Assembly Bill 1366 (Hughes), Chapter 741, Statutes of 1985, which established an early warning system that would allow both local and state agencies to identify financially troubled school districts and county offices of education. Assembly Bill 2861 (O'Connell), Chapter 1150, Statutes of 1986, clarified provisions of Assembly Bill 1366 and modified some of the reporting requirements.

As part of the early warning system, each school district and county office of education is required to submit to its governing board biennial reports on current financial and budgetary conditions within a district. The governing boards are required to certify these reports. If a district's report indicates that the district will have problems meeting its financial obligations, the report is submitted to the State Controller's Office and the State Department of Education for review.

The State Controller's Office and the State Department of Education review the information submitted by districts and determine whether plans have been adopted to correct the financial problems identified in the districts' reports. If not, the State agencies contact the districts regarding the situation.

Exhibit II.8 presents a summary of the early warning system certifications submitted in fiscal year 1985-86 and the first reporting period of fiscal year 1986-87 by school districts.

EXHIBIT II.8

SUMMARY OF THE AUDITOR GENERAL'S REVIEW OF
EARLY WARNING SYSTEM CERTIFICATIONS
SUBMITTED TO THE STATE DEPARTMENT OF EDUCATION
FY 1985-86 AND FY 1986-87*

| Category | Number of Certifications | Percent of Certifications |
|---|---|---|
| Certifications Submitted | 51 | 100 |
| Submitted Late | 40 | 78.4 |
| Submitted Incomplete | 34 | 66.7 |

* FY 1986-87 includes information from only the first reporting period.

SOURCE: Auditor General's Office

Exhibit II.8 shows that 78.4 percent of the certifications filed by districts have financial problems were submitted late during the period reviewed. In addition, 66.7 percent of the certifications were submitted incomplete. Among the problems that the Auditor General identified with the incomplete certifications were:

- Lack of cash balance projections;
- Lack of fund balance projections; and
- Lack of transmittal form describing financial problem and corrective action plan.

The Auditor General's Office also conducted a review of 25 LEAs that face financial difficulties to learn if they had submitted the required certifications. The sample of 25 LEAs included 20 school districts and county offices of education. Of these, only 3 had submitted certifications. The Auditor General could not state whether some of the school districts and county offices of education which did not submit certifications should have submitted them because there are no uniform standards in place to determine which school district and county offices should submit certifications. As a result, their financial conditions are not comparable. Thus, there is some question whether or not current reports and certifications filed by school districts are an accurate representation of the true financial conditions of school districts and county offices of education.

Due to the late, incomplete and potentially inaccurate filing of certifications by districts having financial problems, the State's ability to monitor the financial activities and conditions in school districts is impeded.

California Basic Educational Data System

The State Department of Education administers the California Basic Educational Data System to collect demographic and other descriptive information regarding staff and student characteristics in the State's K-12 school system. Each year in early fall every school district is required to complete CBEDS data collection forms on a wide range of indicators relating to district operations, services, and activities. The information from all school districts is then collected and analyzed at the State level to provide comparative and descriptive information about the K-12 school system for policy makers and administrators.

While the CBEDS data is useful in providing general demographic information on school district activities, it frequently contains inaccurate or incomparable data on school district activities. As a result, although considerable time and effort goes into completing CBEDS forms and compiling information, the CBEDS data is not as useful as it could be as a management tool for state and local officials.

For example, as part of the study on K-12 financial accountability, the Commission reviewed CBEDS data on the number of teachers and administrators in the K-12 school system. Exhibit II.9 displays the results of this analysis.

EXHIBIT II.9

VARIATION IN DATA ON ADMINISTRATORS AND
TEACHERS COMPILED FROM THE
CALIFORNIA BASIC EDUCATIONAL DATA SYSTEM
FISCAL YEAR 1985-86

| Category | Number Reported by Department of Education* | Number Reported by Department of Finance** | Difference |
|---|---|---|---|
| Classroom Teachers | 184,151 | 186,023 | 1,872 |
| Administrators | 23,360 | 23,288 | 28 |
| Instructional Aides | 50,409 | 50,269 | (140) |
| Counselors and Librarians | 6,007 | 6,121 | 114 |
| Other Support Services Staff | 109,708 | 119,391 | 9,683 |
| TOTALS | 373,635 | 385,732 | 12,097 |

* Common core CBEDS data

** Common core CBEDS data adjusted to count other support services staff as one-half of a full-time equivalent.

Exhibit 11.9 shows that the Department of Education's common core CBEDS data differs from the numbers used by the Department of Finance for official purposes. This occurs because the Department of Finance adjusts the other support services staff numbers to reflect full-time equivalent positions. The Department of Finance's rationale for doing this is that CBEDS common core data collected by the Department of Education counts all personnel as full-time equivalents and does not reflect the fact that some staff working in some areas do not work full-time. Thus, the Department of Finance adjusts the data that the Department of Education collects to compensate for part-time workers.

CBEDS was originally designed to be a system to provide demographic information on school district students and staff. However, the system is increasingly being used as a management information system. For example, the information on the number of teachers and administrators provided in Exhibit II.9 is used to review school districts' compliance with Education Code Section 41406, relating to penalties for school districts with high administrator to teacher ratios. However, in reviewing this data, the State Controller's Office concluded that there were problems with it because:

- The State Department of Education is receiving incomplete data since certain types of employees are excluded from the CBEDS data;

- When the data is compiled, a single employee may generate more than one full-time equivalent;

- Districts are not required to provide substantiating documentation to support adjustments to full-time equivalent counts used to determine compliance; and,

- District personnel supplying the data are told that the information is confidential, thereby impeding audit efforts.

Further, in an October 1987 report on the collection of statewide high school dropout data compiled by CBEDS, the Auditor General's Office concluded that the data collected and used by CBEDS in this category was inaccurate. Errors were found in each of the 15 high school study samples, with the magnitude of errors ranging from an understatement of 88 percent to an overstatement of 94 percent of the high schools' dropout rate. The Auditor General determined that unclear or incomplete definitions and differences in data collection methods among the sample school districts were the causes of the lack of accurate data in this portion of CBEDS.

Due to the limitations in using CBEDS data for management information purposes, state and local officials do not have accurate information for making important policy decisions.

### Alternative Methods of Collecting Information on School Districts Financial Condition and Performance

The Commission's review indicated that other states' educational systems and other public agencies in California have adopted methods of collecting data that are useful in assessing financial condition and performance. Similar methods could be used in assessing the financial condition and overall performance of school districts in California.

The State of Illinois enacted a Better Schools Accountability Law in 1985 which mandates all school districts complete a School Report Card each year. Specifically, the School Report Card contains detailed information to assess the performance of each school and its students. The report card is an index of school performance measured against statewide and local standards. It provides information useful in comparing prior year performance to establish goals and setting future year performance targets. It also describes the performance of students and the use of financial resources. Among the information collected and presented in the report cards is the following:

- Percent of students placed in top and bottom of nationally normed achievement tests;
- Composite and subtest means for college bound students;
- Student attendance rates;
- Percent of students not promoted to next grade;
- Graduation rate;
- Student mobility and turnover rates;
- Average class size;
- Percent of enrollments and amount of time spent in certain types of classes;
- Pupil-teacher ratio;
- Pupil-administrator ratio;
- Operating expenditure per pupil;
- District expenditure by fund category;
- Average administrator salary; and
- Average teacher salary.

The State of Texas passed educational reform measures in 1981 and 1984 aimed at improving performance and accountability in its K-12 public educational system. Texas has established an accreditation program in which each school district is reviewed at least every three years to determine whether its standards of quality are sufficient. The basic test is the Texas Educational Assessment of Minimum Skills which identifies school districts with performance deficiencies. The accreditation process also requires the collection of financial information for comparative purposes. The financial information on a school district's use of its resources can then be compared to data from surrounding school districts, similar size school districts, or to statewide data.

In California, a similar application of performance and financial measures is used to assess the efficiency and effectiveness of operations in public transit agencies. In 1981, the State of California enacted legislation requiring triennial performance audits of each public transit agency in the State. The purpose of these audits is to evaluate the efficiency, effectiveness and economy of operation of the transit agencies. There performance audits collect information on a series of financial and performance indicators which are used as a yardstick to measure a transit agency's performance over a period of time and to compare its performance to that of other public transit agencies in the State.

Each of the above-mentioned examples present methods of collecting information on financial condition and performance that could be useful to governing boards of school districts, state policy makers, and the general public.

FINDING #4 - The State Superintendent of Public Instruction Has Insufficient Authority to Intervene in School Districts That Are Not Operating in a Financially Responsible Manner

Under current law, the State Superintendent of Public Instruction has the authority to review and analyze the financial reports, projections and other information provided by school districts on their financial condition. However, the Superintendent does not have the authority to compel a school district to adopt or implement fiscally responsible corrective action plans. In addition, the Superintendent does not have the authority to provide technical assistance to school districts unless requested to do so by the districts. Moreover, while other states have provided their Superintendents the authority to intervene in school district financial affairs when the districts fail to be financially responsible, California has not done so. As a result, the State Superintendent of Public Instruction cannot intervene in school districts that do not have sound financial management practices, even though approximately two-thirds of the funding for the districts comes from the state level. Furthermore, the only time the Superintendent can intervene in the financial activities of a school district is when a district has received an emergency apportionment, or "bail out", from the Legislature. By then, it may be too late.

Authority of the State Superintendent of Public Instruction

The California K-12 public education system is predicated upon the control of school district activities by the governing boards of local school districts. In testimony before the Commission, the State Superintendent of Public Instruction stated that:

> "so long as districts live within their means and remain in compliance with the Education Code and other relevant statutes, I do not believe that it is the responsibility of my office to 'control' district spending. In fact, Education Code Section 41010 provides that state-prescribed accounting procedures shall not affect the content of any educational program or objective and that

such matters are expressly reserved to local districts. In this regard, education is not unlike other partially state-funded programs such as county health care or judicial services which have a common mode of delivery involving state and local partnerships. Control should, for the most part, be a function of local government with the state becoming involved only when local governance is inadequate. On the other hand, it is my firm belief that the individual members of local governing boards have and must exert a fiduciary duty in the management of district resources just as county supervisors or city council members do in their spheres of activity.

As the result of AB 2861 (O'Connell), Chapter 1150, Statutes of 1986, school districts are required to make periodic reports of financial solvency to the Superintendent of Public Instruction. Qualified or negative reports that indicate a district may be having financial difficulty are reviewed by the State Controller and the Department of Education. Based upon their review of the reports, these agencies can engage in various monitoring activities to seek resolution of district problems, including: conducting on-site reviews; seeking the involvement of the county superintendent; or, requiring districts to prepare alternative plans to resolve their fiscal problems.

The Superintendent of Public Instruction's role in the financial management of school districts is currently largely a monitoring and technical assistance role. The only enforcement power that the Superintendent of Public Instruction has in enforcing financial management activities in school districts is that he may direct county auditors to withhold payment of stipends, salaries, or expenses to the district superintendent, county superintendent or members of the governing board for those districts that fail to submit budget and audit reports.

AB 1926 (Bader), which was recently signed by Governor Deukmejian, provides the Superintendent of Public Instruction the authority to intervene directly in the management of a school district when a district is appropriated an emergency apportionment by the Legislature to bail it out of financial problems. Thus, the Superintendent does not have the authority to intervene in school district's that are having financial management problems until a district seeks an appropriation from the Legislature. Oftentimes, this is after a district has severely mismanaged its finances.

In addition, the Superintendent of Public Instruction can direct the Department of Education to offer to provide financial management consultation to districts. Presently, the Department has staff resources to conduct 25 to 30 management reviews per year. It is important to note that the State Superintendent of Public Instruction does not have the authority to compel a troubled school district or county office of education to adopt and implement financial correction plans. Furthermore, according to department officials, the Department can assist districts and county offices only if the local agencies request assistance.

Authority of Superintendents of Public Instruction in Other States

Other states have provided their Superintendents of Public Instruction more authority to intervene in the activities of school districts than California currently allows its Superintendent of Public Instruction. To compare the level of authority that Superintendents of Public Instruction have to intervene in school district financial management activities, the Commission reviewed the financial oversight and control activities in various major states, including New York, Illinois, Texas and New Jersey.

Exhibit II.10 compares the authority of California's Superintendent of Public Instruction with the authority of the Superintendent's in other states.

EXHIBIT II.10

COMPARISON OF AUTHORITY OF SUPERINTENDENTS
OF PUBLIC INSTRUCTION IN SELECTED STATES TO INTERVENE
IN SCHOOL DISTRICT FINANCIAL MANAGEMENT

| State | Degree of Authority of Superintendent |
|---|---|
| California | o May direct the withholding of payment of stipends, salaries, or expenses of local superintendents, or members of governing boards, that fail to submit budget and audit reports. |
| | o May intervene directly in the management of school districts that receive emergency apportionments, or bail outs, from the Legislature. |
| New York | o May remove school boards for gross fiscal management. |
| | o May delay or withhold state payments if required financial reports are not filed or budgets are not followed. |
| Illinois | o May require school districts having financial problems to submit three-year recovery plans and budgets for review and approval. |
| Texas | o May conduct on-site reviews of districts having financial problems. |
| | o May appoint a monitor to review the actions of a district superintendent or a school board. |
| | o May appoint a special master to replace a local board and superintendent that have flagrantly violated their fiscal responsibilities. |
| New Jersey | o May direct a systematic examination of a district's financial condition and direct local officials how to correct deficiencies. |
| | o May establish a state-operated school district to correct deficiencies if a district is unsuccessful in resolving its financial problems. |

Exhibit II.10 shows that other states faced with similar problems have taken steps to strengthen financial accountability for state funds going to local school districts. For example, in New York, where approximately 43 percent of school district funds are state generated, the State Superintendent has the authority to remove school boards for gross fiscal mismanagement. He or she also has the authority to delay or withhold state payments if required reports are not filed or budgets are not followed. Such authority has been used in the past by the Superintendent.

In Illinois, state funding comprises approximately 40 percent of all K-12 school district revenues. School districts certified as "in trouble" by the State Department of Education are required to submit three-year recovery plans and budgets to the Department for review and approval. However, the state currently has no authority to sanction school districts in the event that school districts subsequently fail to follow their recovery plans.

In Texas, state funding comprises approximately 40 percent of all local education revenues. After a review of a district in trouble, the State Superintendent of Public Schools has the authority to appoint a "monitor" to review the actions of a district Superintendent or a school board. The monitor keeps the Superintendent appraised of the actions and progress of the district towards fiscal improvement. In severe cases, or where a school board has flagrantly violated rules of accountability and fiscal responsibility, the State Superintendent has the authority to appoint a "special master" to replace the local board and superintendent. The special master, in cooperation with the State Department of Education, then takes whatever measures are necessary to improve that district's financial condition. Such authority has been previously used by the State Superintendent.

Finally, in New Jersey, the State Superintendent may direct a systematic examination of a district's financial condition and direct local officials on how to correct problems and deficiencies. If this is not successful, a state-operated school district can be established, with the State Superintendent and State Board of Education taking over the functions of their local counterparts. Key school district administrators can be terminated, and a state district superintendent directs all operations and governs the district for five years. At the end of the five-year period, if all deficiencies are corrected, local control is reestablished. If all deficiencies have not been corrected, state control is maintained until they are.

It also should be noted that, in each of the states discussed above, there is a fiscal monitoring system used by state education authorities to track school district financial health.

FINDING #5 - Certain School Districts in the State are Potential Candidates for Consolidation

The Commission's review of financial management and accountability in K-12 school districts indicated that there are a number of school districts which offer potential savings through consolidation. Specifically, the 275 school districts in the State that have student enrollment of less than 300 students are candidates for consolidation. In addition, the 114 school districts in the State that spend less than the statutorily required percentage of expenditures on teachers' salaries also potentially offer some benefits through consolidation, such as cost savings or improved levels of service.

School Districts With Less Than 300 Students

The State of California's K-12 public school system is comprised of 1,028 local school districts. Many of these districts are relatively small, yet each must conduct certain mandated administrative activities, such as maintaining records, preparing annual budgets, and filing fiscal reports. To carry out these responsibilities, each school district has a locally-elected governing board and employs a Superintendent. In addition, other district administrative staff are employed, as necessary, to carry out the mandated responsibilities provided in the California Education Code and other requirements and guidelines prescribed by the State Board of Education.

The Commission's review of the financial accountability and management of the State's K-12 public school system identified numerous small school districts that may offer potential savings through consolidation by reducing fixed overhead costs of operating districts, such as administrative costs. While each district's unique situation would require more detailed analysis to determine what cost savings and benefits may be attainable, the Commission identified school districts of less than 300 students that are potentially candidates for consolidation.

Exhibit II.11 shows the results of the Commission's analysis.

EXHIBIT II.11

SUMMARY OF SCHOOL DISTRICTS
IN CALIFORNIA'S K-12 PUBLIC SCHOOL SYSTEM
WITH LESS THAN 300 STUDENTS

| Type of District | Number of Districts |
|---|---|
| Elementary | 255 |
| Unified | 12 |
| High School | 8 |
| TOTAL | 275 |

SOURCE: State Department of Education. Based on FY 1986-87, second reporting period data.

Exhibit II.11 shows that 275 of the State's 1,028 school districts, or approximately 27 percent, have less than 300 students. Appendix A provides a detailed listing identifying each of these districts.

Since each of the districts having less than 300 students has certain fixed overhead costs and a relatively small student body, they may present opportunities for cost savings or benefits by consolidating with other districts. Moreover, other districts of greater than 300 students may also offer similar opportunities for cost savings or benefits.

School Districts that Spend Less than the Statutorily Required Percentage of Expenditures on Teacher Salaries

Education Code Section 41372 requires school districts to expend a specified percentage of their current expense for education on teacher salaries during each fiscal year. Currently, elementary school districts are required to spend at least 60 percent of their current expense for education on teachers' salaries, unified school districts are required to spend at least 55 percent, and high school districts must spend at least 50 percent.

The Legislative Analyst's Office prepared an analysis of school districts not spending the statutorily required percentage of expenditures on teacher salaries in fiscal year 1985-86. Exhibit II.12 summarizes the results of this analysis.

EXHIBIT II.12

SUMMARY OF SCHOOL DISTRICTS SPENDING LESS THAN THE STATUTORILY REQUIRED PERCENTAGE OF EXPENDITURES ON TEACHER SALARIES FISCAL YEAR 1985-86

| Type of District | Number of Districts |
|---|---|
| Elementary | 97 |
| Unified | 13 |
| High School | 4 |
| TOTAL | 114 |

SOURCE: Legislative Analyst's Office

Exhibit II.12 shows that 114 of the 1,028 school districts in the State, or 11 percent, spent less than they were statutorily required to spend on teacher salaries in fiscal year 1985-86.

For example, the Taft City Elementary School District in Kern County, had $5,196,385 in current expenditures in fiscal year 1985-86. By law, the district was required to expend at least $3,117,831 on teacher salaries and benefits. However, the district spent only $2,882,380 on teacher salaries and benefits, which is $235,451 less than required. Thus, the district spent approximately 55 percent of its expenditures on teacher salaries and benefits as opposed to the 60 percent required by law.

Similarly, the Taft Union High School District in Kern County had $5,121,325 in current expenditures. It was required to spend $2,560,663 on teacher salaries and benefits, but spent $2,230,383 on them. Thus, it spent $330,280 less than required on teacher salaries and expenditures. Overall, it spent 44 percent of its current expenditures on teacher salaries and expenditures. This is 6 percent less than the 50 percent required by law for high school districts.

These district are examples of districts that are not meeting the statutory requirement for spending on teacher salaries and benefits. A complete listing of all school districts not meeting the statutory requirement are provided in Appendix B.

While there may be sound financial reasons for some districts not spending the statutorily required percent of current expenditures on teacher salaries and benefits, districts that have high administrative and overhead costs relative to teacher salaries and benefits are potential candidates that may offer savings and other potential benefits, such as increased classroom funding or improved administration, through consolidation.

# III. CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the Commission's overall conclusions and recommendations regarding its study of financial management and accountability in the State's K-12 public school system.

## CONCLUSIONS

The financing of California's K-12 public school system has changed dramatically since the passage of Proposition 13 in 1978. More than two-thirds of the funding for K-12 education now comes from the state. In addition, the total amount of funding for K-12 education has increased by more than 50 percent in the past five years to an estimated $19.5 billion in fiscal year 1986-87. While the method of funding K-12 education has changed and the overall level of funding has increased, financial management and accountability at the state level has improved somewhat, but the state continues to play a monitoring and oversight role and has only limited enforcement powers.

The Commission's review indicated that a growing number of K-12 school districts are in poor financial health as attested to by recent studies performed by the State Controller's Office and the Auditor General's Office. The poor financial health of many school districts is partially due to inadequate financial management, such as districts having expenditures in excess of revenues, or failing to maintain adequate financial reserves. As a result, an increasing number of school districts have sought and may need to seek bail-out loans from the Legislature. In addition, the lack of sound financial management practices may have contributed to the number of incidents of theft, fraud, and financial abuse in school districts.

The study also demonstrated that the annual financial and compliance audit reports prepared for school districts by public accounting firms frequently do not meet the minimum reporting standards established by the State Controller's Office. The Commission's review also revealed that these audit reports are routinely submitted late, even though audit report submission deadlines are quite generous. In addition, the study showed that the costs to school districts of performing annual audits vary greatly among school districts. As a result, there is a lack of assurance that the financial audit reports furnished by some school districts are accurate and that program funds are expended for their intended purpose.

The Commission determined that the State Department of Education has two major system in place to collect management information used in assessing the financial condition and performance of school districts. Although these systems have been designed to provide needed and useful information on school district financial conditions and activities, the data provided to the State Department of Education from school districts is frequently inaccurate, incomplete or late. As a result, the usefulness of these systems as management tools at the state level is severely undermined.

The review showed that the State Superintendent of Public Instruction has the authority to review and analyze the financial reports, projections and other financial information provided by school districts. However, the Superintendent does not have the authority to compel a school district to adopt or implement fiscally responsible corrective action plans. In addition, the Superintendent does not have the authority to provide technical assistance to school districts unless requested to do so by the districts. Although other states have provided their Superintendent the authority to intervene in school district financial affairs when the districts fail to be financially responsible, California has not done so. As a result, the State Superintendent of Public Instruction cannot intervene in school districts that are not exercising sound financial management practices even though approximately two-thirds of the local districts' funding comes from the state. The only time the Superintendent can intervene in a district's financial management is after a district has received an emergency apportionment, or "bail out", from the Legislature. This may be too late and potentially could have been avoided by earlier state intervention.

The Commission's review of financial management and accountability in K-12 school districts indicated that there are a number of school districts which offer potential savings through consolidation. Specifically, the 275 school districts in the State that have student enrollment of less than 300 students are candidates for consolidation. In addition, the 114 school districts in the State that spend less than the statutorily required percentage of expenditures on teachers' salaries also potentially offer some benefits through consolidation, such as cost savings or improved levels of service. Moreover, the Commission believes that other models of organization, such as regional or unitary systems of operation, may be worth reviewing in more detail in the future to reduce the administrative overhead in the State's K-12 public school system.

RECOMMENDATIONS

The Commission recommends that the Governor and the Legislature take the following actions to address the financial management and accountability problems in K-12 education identified in this report:

1. Provide the Superintendent of Public Instruction Greater Authority to Intervene in School Districts that Fail to Act in a Financially Responsible Manner.

   The Superintendent of Public Instruction should have the authority to impose increasingly stringent sanctions on local educational agencies that fail to adopt and adhere to responsible financial management plans. Specifically, this authority should include the authority to:

   - Conduct comprehensive management reviews of educational programs and financial conditions in local educational agencies;

- Direct local educational agencies to amend and readopt financial management plans based on the findings of comprehensive management reviews;

- Review and monitor the implementation of financial management plans;

- Propose any modifications to the fiscal and educational plans that the Superintendent deems necessary for a local educational agency to achieve of fiscal stability;

- Monitor and enforce the implementation of amended fiscal and educational plans; and

- Reduce or withhold apportionments due to local educational agencies failing to amend, modify, or implement sound financial management plans.

2. <u>Require the Superintendent of Public Instruction to Increase the Number of Financial Management Assistance Reviews Conducted in School Districts</u>

   The Superintendent of Public Instruction should conduct more financial management assistance reviews in local educational agencies to ensure that they adhere to sound financial management practices. These reviews also provide the opportunity for the State Department of Education's staff to provide technical assistance to employees of local educational agencies that may be experiencing financial difficulties or have a lack of financial management skills.

3. <u>Require that Annual Financial Audits of School Districts Provide Information on Financial and Performance Indicators</u>

   The annual financial audits conducted by independent auditors for local educational agencies should include the collection and certification of information relating to the financial condition, use of resources, and performance of local educational agencies. Specifically, such information should include:

   - Student test scores;
   - Student attendance rates;
   - Percent of students not promoted to next grade;
   - Graduation rate;
   - Student mobility and turnover rate;
   - Average class size;
   - Percent of enrollments and amount of time spent in different subject areas;
   - Pupil-teacher ratio;
   - Pupil-administrator ratio;
   - Operating expenditure per pupil;
   - District expenditures by fund category;
   - Cost per operation of each school;

- Cost of operation of each classroom;
- Average administrator salary; and
- Average teacher salary.

4. <u>Provide the Superintendent of Public Instruction Greater Authority to Enforce the On-Time Filing, Accuracy, and Completness of Early Warning Reports and Other Management Reports Received from School Districts</u>

   The Superintendent of Public Instruction should have the authority to monitor and review the methods used by local educational agencies to collect and compile data provided to the State Department of Education on early warning reports and other management reports. If local educational agencies fail to provide timely, accurate, and complete reports, the Superintendent should have the authority to sanction districts by reducing or withholding apportionments.

5. <u>Provide Increased Sanctions Against Certified Public Accounting Firms Whose Work Fails to Meet State Standards</u>

   The State Controller's Office should continue to review the audit reports submitted by public accounting firms and the quality of the audit work performed by such firms. The State Controller's Office should refer incidents that it identifies of poor quality audit work that do not meet State standards to the State Board of Accountancy. The State Board of Accountancy should be required to take sanctions against independent auditing firms whose work is deficient. These sanctions should include:

   - Issuing letters of warning to firms not meeting state reporting requirements or failing to conduct audit work in accordance with general accepted industry standards;

   - Placing independent auditors on probation for serious or repeat violations; and

   - Precluding independent audit firms that show a pattern of poor performance from being awarded public contracts in California for a period of up to three years.

6. <u>Require that School Districts Establish Audit Selection Committees</u>

   The State of California should take a greater role in ensuring that local educational agencies select qualified independent auditors to conduct the annual financial and compliance audits. Specifically, local educational agencies should be required to establish and use an audit selection committee to solicit and review audit proposals and make recommendations to local governing boards regarding the selection of independent auditors. The audit selection committee should include;

- Governing board members;
- Financial staff from the local educational agency;
- Community and business representatives;
- Representatives of the State Controller's Office; and
- Representatives of County Offices of Education or the State Department of Education.

7. <u>Expand the Fraud and Abuse Review Component of School District Annual Financial Audits</u>

   The State Controller's Office should be required to expand the audit guide used by independent auditors of local educational agencies in conducting annual financial audits of school districts to include enhanced testing for potential fraud or abuse.

8. <u>Conduct Expanded Training for Independent Auditors of School Districts</u>

   The State Controller's Office should conduct expanded training of independent audit firms to ensure that public accounting firms have a thorough understanding of the State's audit standards for conducting annual financial and compliance audits in local educational agencies.

# APPENDIX A

## SCHOOL DISTRICTS WITH AN ENROLLMENT OF LESS THAN 300 STUDENTS

Elementary School Districts

| Base Revenue Limit ADA | District Name |
|---|---|
| 296 | ALVIEW-DAIRYLAND UNION ELEM. |
| 295 | FRESHWATER ELEM. |
| 291 | ROSS ELEM. |
| | LE GRAND UNION ELEM. |
| 289 | BLUE LAKE UNION ELEM. |
| 288 | ORCHARD ELEM. |
| 284 | SOMIS UNION ELEM. |
| 283 | SOUTH FORK UNION ELEM. |
| 282 | LAMMERSVILLE ELEM. |
| 279 | ARENA UNION ELEM. |
| | PIONEER UNION ELEM. |
| | MERCED RIVER UNION ELEM |
| 277 | NEWCASTLE ELEM. |
| 274 | ACKERMAN ELEM. |
| 273 | WASUMA UNION ELEM. |
| | TRAVER JT. ELEM CO. 16 |
| 272 | PENRYN ELEM. |
| 271 | FRANKLIN ELEM. |
| 267 | ORANGE CENTER ELEM. |
| | SAN MIGUEL JT. UN. ELEM. CO 2 |
| 265 | OAK VIEW UNION ELEM. |
| 260 | HAPPY CAMP UNION ELEM. |
| 257 | HART-RANSOM UNION ELEM. |
| | DRY CREEK JOINT ELEM. CO 34 |
| 256 | MC CLOUD UNION ELEM. |
| 254 | GOLDEN FEATHER UNION ELEM. |
| 251 | WOODSIDE ELEM. |
| 247 | CINNABAR ELEM. |
| 245 | KNIGHTSEN ELEM. |
| 242 | SHASTA UNION ELEM. |
| 240 | TRANQUILLITY ELEM. |
| 239 | HERLONG ELEM. |
| 238 | HELENDALE ELEM. |
| 234 | SEQUOIA UNION ELEM. |

| Base Revenue Limit ADA | District Name |
|---|---|
| 233 | OAK VALLEY UNION ELEM. |
| 231 | LOS OLIVOS ELEM. |
| 228 | TRINIDAD UNION ELEM. |
| 224 | WAUKENA JT. UNION ELEM. C |
| | NORTH COW CREEK ELEM. |
| 223 | SCOTIA UNION ELEM. |
| | ISLAND UNION ELEM. |
| 222 | BANTA ELEM. |
| 219 | ROCKFORD ELEM. |
| 217 | THREE RIVERS UNION ELEM. |
| | LUCERNE ELEM. |
| | BASS ELEM. |
| 215 | BONNY DOON UNION ELEM. |
| 214 | KINGS RIVER-HARDWICK UNION EL |
| 212 | CAYUCOS ELEM. |
| | SAN ANTONIO UNION ELEM. |
| 211 | LAKESIDE UNION ELEM. |
| | BOLINAS-STINSON UNION ELEM. |
| 209 | WILMAR UNION ELEM. |
| 204 | DUCOR UNION ELEM. |
| 203 | MONTE RIO UNION ELEM. |
| | LIBERTY ELEM. |
| | NEW HOPE ELEM. |
| | HICKMAN ELEM. |
| 200 | BELLEVIEW ELEM. |
| 198 | DELTA ISLAND UNION ELEM. |
| 196 | SAN PASQUAL UNION ELEM. |
| 191 | ORO LOMA ELEM. |
| 189 | WARNER UNION ELEM. |
| 187 | JOHNSTONVILLE ELEM. |
| 186 | MOUNTAIN UNION |
| | COLD SPRING ELEM. |
| 182 | HYDESVILLE ELEM. |
| 179 | MIDWAY ELEM. |
| 176 | BIG SPRINGS UNION ELEM. |
| 174 | PARADISE ELEM. |
| 171 | KENWOOD ELEM. |
| 169 | SAN ARDO UNION ELEM. |
| 164 | OPHIR ELEM. |
| 163 | NEW JERUSALEM ELEM. |
| | MANZANITA ELEM. |
| 161 | HOWELL MOUNTAIN ELEM. |
| | LOLETA UNION ELEM. |
| 160 | FIELDBROOK ELEM. |
| | LEWISTON ELEM. |
| 159 | ALTA-DUTCH FLAT UNION ELEM. |
| 154 | GRENADA ELEM. |
| | IGO-ONO-PLATINA UNION ELEM. |
| 151 | MONROE ELEM. |
| | VALLECITOS ELEM. |
| | FORT JONES UNION ELEM. |
| 150 | EL NIDO ELEM. |
| 149 | TWO ROCK UNION ELEM. |

| Base Revenue Limit ADA | District Name |
|---|---|
| 147 | MOUNTAIN ELEM. |
| | RICHMOND ELEM. |
| 146 | DOUGLAS CITY ELEM. |
| 143 | VALLEY HOME JOINT ELEM. CO 39 |
| | COLUMBINE ELEM. |
| 142 | SUNOL GLEN ELEM. |
| | HAPPY VALLEY ELEM. |
| 138 | SAN LUCAS UNION ELEM. |
| | PLEASANT GROVE JT. ELEM. CO 3 |
| | LOS ALAMOS ELEM. |
| 137 | LIBERTY ELEM. |
| 136 | CANYON UNION ELEM. |
| | ROUND VALLEY JOINT ELEM. CO |
| 135 | BURREL UNION ELEM. |
| | CAMPTONVILLE ELEM. |
| | PIONEER UNION ELEM |
| 133 | ORO GRANDE ELEM. |
| 132 | OUTSIDE CREEK ELEM. |
| 130 | BLOCHMAN UNION ELEM. |
| | CAPAY JOINT UNION ELEM. CO 52 |
| 129 | BROWNS ELEM. |
| 128 | MAPLE ELEM. |
| 126 | PLAZA ELEM. |
| | CHICAGO PARK ELEM. |
| 125 | LONG VALLEY ELEM |
| 123 | STONE CORRAL ELEM. |
| 122 | BUENA VISTA ELEM. |
| 121 | MARCUM-ILLINOIS ELEM. |
| 120 | MONTGOMERY ELEM. |
| 119 | SHILOH ELEM. |
| 118 | PINE RIDGE ELEM. |
| | DEHESA ELEM. |
| 117 | DI GIORGIO |
| 116 | LAKESIDE JT. ELEM. CO 44 |
| | SEMITROPIC ELEM. |
| 114 | RICHFIELD ELEM. |
| | LERDO ELEM. |
| 112 | REEDS CREEK ELEM. |
| | LAKE ELEM. |
| 111 | GENERAL SHAFTER ELEM. |
| | DELTA VIEW JT UNION ELEM. CO |
| 109 | DUNHAM ELEM. |
| | MILLVILLE ELEM. |
| 107 | CLAY JOINT ELEM. CO 54 |
| | POND UNION ELEM. |
| | ALVINA ELEM. |
| 106 | BURNT RANCH ELEM. |
| | ALEXANDER VALLEY UNION ELEM. |
| 105 | CUDDEBACK UNION ELEM. |
| | CLEAR CREEK ELEM. |
| 104 | BASS LAKE ELEM. |
| | PENINSULA UNION ELEM. |
| 103 | WEST SIDE UNION ELEM. |

| Base Revenue Limit ADA | District Name |
|---|---|
| 100 | BANGOR UNION ELEM. |
| 99 | MOUNT BALDY JT. ELEM. CO. 19 |
| | MUPU ELEM. |
| 98 | LINNS VALLEY-POSO FLAT UNION |
| 96 | HORICON ELEM. |
| | LATROBE ELEM. |
| | BRIDGEVILLE ELEM. |
| 95 | BIG CREEK ELEM. |
| 94 | OAK RUN ELEM. |
| 93 | HORNBROOK ELEM. |
| 88 | HOLT UNION ELEM. |
| 87 | BUTTEVILLE UNION ELEM. |
| 85 | MATTOLE UNION ELEM |
| | GRATTON ELEM. |
| | CALIENTE UNION ELEM. |
| 84 | ORICK ELEM. |
| | MANTON JOINT UNION ELEM. CO |
| | WHITMORE ELEM. |
| 83 | SNELLING-MERCED FALLS UNION |
| | SOUTHSIDE ELEM. |
| 81 | ELK HILLS ELEM. |
| | KNIGHTS FERRY ELEM. |
| 80 | PLAINSBURG UNION ELEM. |
| 78 | BIG LAGOON UNION ELEM. |
| 76 | SEIAD ELEM. |
| 75 | JUNCTION CITY ELEM. |
| 73 | MULBERRY ELEM. |
| | RAYMOND-KNOWLES UNION ELEM. |
| | NUESTRO ELEM. |
| | HOPE ELEM. |
| 71 | PACIFIC ELEM. |
| | BEND ELEM. |
| 70 | BELRIDGE ELEM. |
| | FRIANT UNION ELEM. |
| 69 | SAUCELITO ELEM. |
| | FEATHER FALLS UNION ELEM. |
| 68 | HELM ELEM. |
| | FORT ROSS ELEM. |
| 65 | MISSION UNION ELEM. |
| | ROBERTS FERRY UNION ELEM. |
| 64 | KLAMATH RIVER UNION ELEM. |
| 63 | MERIDIAN ELEM. |
| 62 | MAGNOLIA UNION ELEM. |
| 61 | POPE VALLEY UNION ELEM. |
| | BONITA ELEM. |
| 60 | VISTA DEL MAR UNION ELEM. |
| 57 | GRAVES ELEM. |
| | FRENCH GULCH-WHISKEYTOWN UNIO |
| | GAZELLE UNION ELEM. |
| 55 | INDIAN SPRINGS ELEM. |
| | GORMAN ELEM. |
| 52 | HOT SPRINGS ELEM. |
| | MANCHESTER UNION ELEM. |
| 51 | NICASIO ELEM. |
| 49 | CASTLE ROCK UNION ELEM. |
| 48 | MCKITTRICK ELEM. |
| | BALLARD ELEM. |
| | TRES PINOS UNION ELEM. |
| 44 | FORKS OF SALMON ELEM |
| 43 | WASHINGTON ELEM. |
| | QUARTZ VALLEY ELEM. |
| 42 | PHILLIPS ELEM. |
| 41 | PLUMAS ELEM. |
| 40 | JUNCTION ELEM. |
| | PLUM VALLEY ELEM. |
| 39 | LAGUNITA ELEM. |
| | PACIFIC ELEM. |
| | HYAMPOM ELEM. |
| 38 | ALLENSWORTH ELEM. |
| 36 | MONTEBELLO ELEM. |
| | CANYON ELEM. |
| | KNEELAND ELEM. |
| 35 | WAUGH ELEM. |
| | COX BAR ELEM. |
| 33 | PLEASANT VALLEY JT. UN. ELEM. |
| | GARFIELD ELEM. |
| 32 | SAWYERS BAR ELEM. |
| | COFFEE CREEK ELEM. |
| 31 | WILLOW CREEK ELEM. |
| | SANTA CLARA ELEM. |
| | BITTERWATER-TULLY UNION ELEM. |
| | ELKINS ELEM. |
| | KIRKWOOD ELEM. |
| 30 | BUENA VISTA ELEM. |
| | CIENEGA UNION ELEM. |
| | CHINESE CAMP ELEM. |
| 29 | MOUNTAIN HOUSE ELEM. |
| | TRINITY CENTER ELEM. |
| 28 | WILLOW GROVE UNION ELEM. |
| 27 | CITRUS SOUTH TULE ELEM. |
| | SPENCER VALLEY ELEM. |
| | BRADLEY UNION ELEM. |
| 26 | WINSHIP ELEM. |
| 25 | UNION JOINT ELEM. CO 49 |
| | RAVENDALE ELEM. |
| 23 | DELPHIC ELEM. |
| | CASMALIA ELEM. |
| 22 | BOGUS ELEM. |
| 21 | MINERAL ELEM. |
| | INDIAN DIGGINGS ELEM. |
| | LA GRANGE ELEM. |
| 20 | LAGUNA JOINT ELEM. CO 49 |
| 18 | GREEN POINT ELEM. |
| 17 | PANOCHE ELEM. |
| | LITTLE SHASTA ELEM. |
| 15 | EMIGRANT GAP ELEM. |

| Base Revenue Limit ADA | District Name |
| --- | --- |
| 14 | SILVER FORK ELEM. |
| 13 | RESERVATION ELEM. |
| | MAPLE CREEK ELEM. |
| 12 | CHAWANAKEE ELEM. |
| | LINCOLN ELEM. |
| | FLOURNOY UNION ELEM. |
| 11 | BLAKE ELEM. |
| | JEFFERSON ELEM. |
| 6 | FALL CREEK ELEM. |

High School Districts

| Base Revenue Limit ADA | District Name |
|---|---|
| 293 | UPPER LAKE UNION HIGH |
| 282 | COAST JOINT UNION HIGH CO 27 |
| 206 | JULIAN UNION HIGH |
| 201 | EAST NICOLAUS JT. UN. HIGH CO |
| 184 | HAMILTON UNION HIGH |
| 171 | POINT ARENA JT. UN. HIGH CO 4 |
| 168 | DUNSMUIR JT. UN. HIGH CO 45 |
| 160 | FERNDALE UNION HIGH |

Unified School Districts

| Base Revenue Limit ADA | District Name |
|---|---|
| 274 | BAKER VALLEY UNIFIED |
| 268 | SHANDON JT. UNIF. CO 27 |
| 267 | CUYAMA JOINT UNIFIED |
| 240 | SURPRISE VALLEY JT. UNIF. CO |
| 204 | SOUTHERN TRINITY JT. UNIF. CO |
| 203 | PRINCETON JOINT UNIF. CO 06 |
| 179 | ALPAUGH UNIF. |
| 152 | STONY CREEK JOINT UNIF CO 06 |
| 141 | DEATH VALLEY UNIF. |
| | ALPINE COUNTY UNIF. |
| 140 | OWENS VALLEY UNIF. |
| 80 | DESERT CENTER UNIF. |

SOURCE: Department of Education - 1986-87 -- P-2 K-12 ADA Data

# APPENDIX B

## SCHOOL DISTRICTS EXPENDING LESS THAN THE STATUTORILY REQUIRED PERCENTAGE OF CURRENT EXPENSES ON TEACHER SALARIES

Elementary Districts Spending
Less Than 60 Percent on Teacher Salaries
Fiscal Year 1985/86

| % OF CUR.EXP | DISTRICT NAME | SALARIES & BENEFITS | CUR.EXP | STATUTORY % | +/- |
|---|---|---|---|---|---|
| 59 | APPLE VALLEY ................ | 4,203,135 | 7,093,547 | 4,256,128 | -52,993 |
| | BASS LAKE ................ | 167,062 | 283,327 | 169,996 | -2,934 |
| | BERRYESSA ................ | 13,561,481 | 22,941,796 | 13,765,078 | -203,597 |
| | DIXIE ................ | 2,509,798 | 4,238,154 | 2,542,892 | -33,094 |
| | ELKINS ................ | 69,455 | 117,736 | 70,642 | -1,187 |
| | HERMOSA BEACH ................ | 1,316,139 | 2,232,159 | 1,339,295 | -23,156 |
| | KIRKWOOD ................ | 47,002 | 80,221 | 48,133 | -1,131 |
| | MERCED RIVER UNION ELEMENTARY | 378,668 | 642,503 | 385,502 | -6,834 |
| | MULBERRY ................ | 100,591 | 170,615 | 102,369 | -1,778 |
| | PORTOLA VALLEY ................ | 1,039,430 | 1,764,562 | 1,058,737 | -19,307 |
| | SEMITROPIC ................ | 191,791 | 324,371 | 194,623 | -2,832 |
| | SOLANA BEACH ................ | 2,094,008 | 3,552,348 | 2,131,409 | -37,401 |
| | WISEBURN ................ | 2,225,477 | 3,769,711 | 2,261,827 | -36,350 |
| | WOODSIDE ................ | 508,881 | 862,265 | 517,359 | -8,478 |
| 58 | BONITA ................ | 101,596 | 173,675 | 104,205 | -2,609 |
| | CALIENTE ................ | 179,851 | 308,189 | 184,913 | -5,062 |
| | CHINESE CAMP ................ | 44,882 | 77,428 | 46,457 | -1,575 |
| | HAPPY VALLEY UNION ELEM...... | 978,522 | 1,691,727 | 1,015,036 | -36,514 |
| | LINNS VALLEY-POSO FLAT ...... | 153,169 | 263,479 | 158,087 | -4,918 |
| | LUCERNE VALLEY ................ | 746,512 | 1,281,073 | 768,644 | -22,132 |
| | NEW HOPE ................ | 373,638 | 647,600 | 388,560 | -14,922 |
| | RAYMOND-KNOWLES ................ | 126,141 | 216,262 | 129,757 | -3,616 |
| | SAWYERS BAR ................ | 78,561 | 134,421 | 80,653 | -2,092 |
| | VAL VERDE ................ | 2,119,366 | 3,678,096 | 2,206,858 | -87,492 |
| | WAUGH ................ | 84,418 | 146,791 | 88,075 | -3,657 |
| | WESTSIDE ................ | 3,218,038 | 5,550,533 | 3,330,320 | -112,282 |
| 57 | BANGOR ................ | 177,303 | 313,370 | 188,022 | -10,719 |
| | BEND ................ | 103,015 | 181,796 | 109,078 | -6,063 |
| | BRIDGEVILLE ................ | 197,421 | 345,400 | 207,240 | -9,819 |
| | BYRON ................ | 598,287 | 1,054,657 | 632,794 | -34,507 |
| | CASTLE ROCK ................ | 115,605 | 203,678 | 122,207 | -6,602 |
| | GENERAL SHAFTER ................ | 155,489 | 274,857 | 164,914 | -9,425 |
| | PACIFIC ................ | 500,588 | 881,475 | 528,885 | -28,297 |
| | RAVENSWOOD ................ | 5,190,874 | 9,089,602 | 5,453,761 | -262,887 |
| | RIO BRAVO-GREELEY UNION ELEM. | 606,271 | 1,059,201 | 635,521 | -29,250 |
| | SUNOL GLEN ................ | 264,001 | 459,509 | 275,705 | -11,704 |
| 56 | BUENA VISTA ................ | 67,064 | 119,801 | 71,881 | -4,817 |
| | CANTUA ................ | 517,814 | 920,101 | 552,061 | -34,247 |
| | IGO-ONO-PLATINA ................ | 233,104 | 415,766 | 249,460 | -16,356 |
| | MOUNTAIN UNION ................ | 376,443 | 671,394 | 402,836 | -26,393 |
| | OAK RUN ................ | 171,819 | 304,721 | 182,833 | -11,014 |
| | WEST PARK ................ | 466,448 | 837,675 | 502,605 | -36,157 |
| 55 | BRISBANE ................ | 900,082 | 1,637,850 | 982,710 | -82,628 |
| | HELM ................ | 110,781 | 199,967 | 119,980 | -9,199 |
| | TAFT ................ | 2,882,380 | 5,196,385 | 3,117,831 | -235,451 |
| 54 | BIG CREEK ................ | 290,259 | 536,393 | 321,836 | -31,577 |
| | BRADLEY ................ | 67,528 | 125,270 | 75,162 | -7,634 |
| | LATROBE ................ | 152,188 | 283,088 | 169,853 | -17,665 |
| | LEWISTON ................ | 270,217 | 499,378 | 299,627 | -29,410 |
| | LONG VALLEY ................ | 225,219 | 415,649 | 249,389 | -24,170 |
| | LOST HILLS ................ | 592,512 | 1,096,774 | 658,064 | -65,552 |
| | MONTEBELLO ................ | 98,293 | 181,851 | 109,111 | -10,818 |
| | SANTA CLARA ................ | 49,106 | 90,189 | 54,113 | -5,007 |

# Elementary Districts Spending
# Less Than 60 Percent on Teacher Salaries
# Fiscal Year 1985/86

| % OF CUR.EXP | DISTRICT NAME | SALARIES & BENEFITS | CUR.EXP | STATUTORY % | +/- |
|---|---|---|---|---|---|
| 54 | TRINITY CENTER .............. | 78,914 | 145,705 | 87,423 | -8,509 |
| 53 | BALLARD ..................... | 128,255 | 239,842 | 143,905 | -15,650 |
| | BIG LAGOON .................. | 138,448 | 258,967 | 155,380 | -16,932 |
| | FORT JONES .................. | 260,723 | 488,000 | 292,800 | -32,077 |
| | FRIANT ...................... | 136,800 | 257,290 | 154,374 | -17,574 |
| | GORMAN ...................... | 111,632 | 211,729 | 127,037 | -15,405 |
| | HERLONG ..................... | 395,083 | 739,599 | 443,759 | -48,676 |
| | MANTON CO 45 ................ | 111,420 | 211,360 | 126,816 | -15,396 |
| | PACIFIC ..................... | 140,414 | 263,621 | 158,173 | -17,759 |
| | WEST FRESNO ................. | 878,993 | 1,645,598 | 987,359 | -108,366 |
| 52 | EDISON ...................... | 675,042 | 1,301,262 | 780,757 | -105,715 |
| | HUGHES-ELIZABETH LAKES ...... | 466,244 | 894,295 | 536,577 | -70,333 |
| | HYAMPOM ..................... | 64,366 | 123,771 | 74,263 | -9,897 |
| | LAS LOMITAS ................. | 1,331,244 | 2,551,323 | 1,530,794 | -199,550 |
| | LOS ALAMOS .................. | 150,583 | 288,240 | 172,944 | -22,361 |
| | MIDWAY ...................... | 675,043 | 1,300,403 | 780,242 | -105,199 |
| | PACIFIC ..................... | 59,959 | 116,216 | 69,730 | -9,771 |
| | PINE RIDGE .................. | 296,391 | 572,807 | 343,684 | -47,293 |
| | PLAINSBURG .................. | 115,144 | 222,801 | 133,681 | -18,537 |
| 51 | FEATHER FALLS ............... | 117,532 | 232,412 | 139,447 | -21,915 |
| | MAPLE ....................... | 203,801 | 399,738 | 239,843 | -36,042 |
| 50 | ORO LOMA .................... | 351,525 | 707,199 | 424,319 | -72,794 |
| | POND ........................ | 163,446 | 328,155 | 196,893 | -33,447 |
| | RESERVATION ................. | 42,942 | 86,152 | 51,691 | -8,749 |
| 49 | BLAKE ....................... | 25,879 | 52,832 | 31,699 | -5,820 |
| | CHAWANAKEE .................. | 77,503 | 157,817 | 94,690 | -17,187 |
| | DEHESA ...................... | 163,407 | 330,232 | 198,139 | -34,732 |
| | GOLDEN FEATHER .............. | 404,461 | 830,506 | 498,304 | -93,843 |
| | LAKESIDE .................... | 348,201 | 713,859 | 428,315 | -80,114 |
| | MAPLE CREEK ................. | 46,220 | 94,103 | 56,462 | -10,242 |
| 48 | FALL CREEK .................. | 32,430 | 67,358 | 40,415 | -7,985 |
| | INDIAN SPRINGS .............. | 195,569 | 408,493 | 245,096 | -49,527 |
| | PLUMAS ...................... | 53,671 | 111,912 | 67,147 | -13,476 |
| | VISTA DEL MAR ............... | 195,601 | 406,580 | 243,948 | -48,347 |
| 47 | EL NIDO ..................... | 195,649 | 419,361 | 251,617 | -55,968 |
| | ELK HILLS ................... | 205,667 | 439,393 | 263,636 | -57,969 |
| | MCKITTRICK .................. | 187,713 | 401,626 | 240,976 | -53,263 |
| | SHELLING-MERCED FALLS ....... | 116,385 | 249,355 | 149,613 | -33,228 |
| 46 | MOUNT BALDY ................. | 165,511 | 357,876 | 214,726 | -49,215 |
| 44 | BELRIDGE .................... | 233,613 | 527,639 | 316,583 | -82,970 |
| | SILVER FORK ................. | 34,126 | 78,237 | 46,942 | -12,816 |
| 43 | DI GIORGIO .................. | 188,735 | 443,891 | 266,335 | -77,600 |
| 39 | FLOURNOY .................... | 29,386 | 76,289 | 45,773 | -16,387 |
| 38 | MOUNTAIN HOUSE .............. | 52,450 | 136,864 | 82,118 | -29,668 |

## High School Districts Spending Less Than 50 Percent on Teacher Salaries Fiscal Year 1985/86

| % OF CUR.EXP | DISTRICT NAME | SALARIES & BENEFITS | CUR.EXP | STATUTORY % | +/- |
|---|---|---|---|---|---|
| 49 | DOS PALOS COS 10-20 ....... | 995,015 | 2,046,597 | 1,023,299 | -28,284 |
| | SAN BENITO CO 43 .......... | 2,859,903 | 5,818,495 | 2,909,248 | -49,345 |
| 46 | TRANQUILLITY .............. | 1,236,483 | 2,673,341 | 1,336,671 | -100,188 |
| 44 | TAFT ...................... | 2,230,383 | 5,121,325 | 2,560,663 | -330,280 |

## Unified School Districts Spending Less Than 55 Percent on Teacher Salaries Fiscal Year 1985/86

| % OF CUR.EXP | DISTRICT NAME | SALARIES & BENEFITS | CUR.EXP | STATUTORY % | +/- |
|---|---|---|---|---|---|
| 54 | ALPINE UNIFIED .............. | 485,421 | 891,351 | 490,243 | -4,822 |
| | MODOC JOINT UNIFIED ......... | 2,006,608 | 3,684,770 | 2,026,624 | -20,016 |
| | SIERRA-PLUMAS UNIFIED CO 32 . | 1,610,091 | 2,986,548 | 1,642,601 | -32,510 |
| 53 | BORREGO SPRINGS UNIFIED ..... | 682,755 | 1,284,093 | 706,251 | -23,496 |
| | TRONA UNIFIED CO 14 ......... | 2,236,802 | 4,220,805 | 2,321,443 | -84,641 |
| 52 | BAKER UNIFIED................ | 551,018 | 1,069,022 | 587,962 | -36,944 |
| | COALINGA/HURON JOINT ...... .. | 4,515,077 | 8,686,510 | 4,777,581 | -262,504 |
| | WILLIAMS UNIFIED ............ | 861,635 | 1,661,882 | 914,035 | -52,400 |
| 51 | OWENS VALLEY UNIFIED......... | 398,786 | 776,145 | 426,880 | -28,094 |
| 49 | MARICOPA UNIFIED ............ | 892,180 | 1,836,717 | 1,010,194 | -118,014 |
| | TEHACHAPI UNIFIED ........... | 4,077,663 | 8,294,451 | 4,561,948 | -484,285 |
| 48 | DESERT CENTER UNIFIED ....... | 280,935 | 588,918 | 323,905 | -42,970 |
| 44 | EMERY UNIFIED ............... | 775,931 | 1,764,079 | 970,243 | -194,312 |

SOURCE: Legislative Analyst's Office and the Department of Education