

November 8, 2016

Scott Turnbull, Superintendent
Soquel Union Elementary School District
620 Monterey Avenue
Capitola, CA 95010

Dear Superintendent Turnbull:

The purpose of this management letter is to provide the findings and recommendations identified by the Fiscal Crisis and Management Assistance Team (FCMAT) following completion of fieldwork conducted at the Soquel Union Elementary School District.

In June 2016, the district and FCMAT entered into an agreement for on-site technical assistance. Specifically, the agreement states that FCMAT will perform the following:

1. FCMAT will independently review and evaluate transactions related to the payment for the music teacher between the Soquel Union Elementary School District and the Soquel Elementary Home and School Club from the 2004-05 school year through the 2015-16 school year.
2. Make a recommendation of the amount owed, if any, to either party.
3. Review the accounting processes and procedures related to district home and school clubs/foundations donations.

Background

Located in Santa Cruz County, the Soquel Union Elementary School District has four elementary and one middle schools in Santa Cruz, Soquel and Capitola and an enrollment of 1,979 students in the 2015-16 school year.

From 1998-99 through 2007-08, the district experienced declining enrollment and was forced to implement budget cuts. During this time, the district encountered state budget deficits and funding cuts as a result of the Great Recession. As the board struggled with program cuts, the district considered eliminating the music program, but this plan was averted when the Home and School Club (HSC) helped pay for the music teacher through fundraising activities starting in 2004-05.

Study Guidelines

FCMAT visited the district in August 2016 to conduct interviews, collect data and review documents. This letter is the result of those activities.

FCMAT

Joel D. Montero, Chief Executive Officer

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Study Team

The study team was composed of the following members:

Deborah Deal, CICA, CFE
FCMAT Fiscal Intervention Specialist
Los Angeles, CA

Ernany Montijo
FCMAT Consultant
Azusa, CA

Leonel Martínez
FCMAT Technical Writer
Bakersfield, CA

Findings and Recommendations

Parent volunteers of the Home and School Club raised funds to keep the district music teacher during difficult financial years caused by the Great Recession. The club and community have a long history of demonstrated support for the local schools. Without question or a written agreement, the school principal representing the district agreed for many years to a certain percentage of funding to support the music program by HSC donating funds to pay for a portion of the teacher's salary and benefits.

As districts experienced state cash deferrals, the club provided the funding in advance of the fiscal year, and when donations fell short because of salary increases, the club provided more funding without question. Additional requests were made for iPads, physical education aides and collaboration time for teachers, and club parents again initiated more fundraising activities.

During the 2013-14 school year, the new principal approached the Home and School Club to request a flat \$30,000 amount rather than a percentage of the music teacher's salary and benefits. The next year, the principal requested to use "surplus" funds from the club donation account to purchase other much-needed items for the school. Believing that the district fully used the funds requested each year to support the teacher, club parents were surprised to learn surplus funds existed and requested an accounting of activity from 2003-04 through 2014-15.

After months of requesting information from the district with no success, the Home and School Club treasurer analyzed and compared district accounting transactions with the club records and discovered that the district had overcharged for the cost of the music teacher. Further analysis found that some costs for the music teacher were also charged to other district resources. Club members brought their concerns to the governing board.

Citizen complaints about a number of district-related issues eventually prompted a Santa Cruz County Grand Jury investigation and resulted in a report titled Home and School Club and/or Foundation Accounting Procedures, dated July 25, 2016. According to the report, school-connected organizations "expressed dissatisfaction with District accounting procedures with regard to HSC donations." The report describes concerns regarding unspent funds and the possibility that these funds were transferred from the club donation account to the district's unrestricted general fund and used for other purposes.

A meeting between district officials and club members held on November 11, 2015 confirmed that an accounting error had occurred. However, many questions lingered as parent volunteers continued to question how donated funds were applied, the exact amount of the overcharges and disagreed about the accounting and tracking of club donations.

The district's reconciliation calculated that the overpayment by the club was \$19,295.49 over a 12-year period, which also included offsets for charges other than the music teacher. The district and club requested an independent evaluation and verification of the extent of the overpayment by asking for FCMAT technical assistance in June 2016. FCMAT's findings and recommendations are the result of the procedures used to independently verify original and third-party source documentation.

To avoid the elimination of the music program in the 2004-05 school year, the Home and School Club agreed with the school principal representing the district to donate funds to pay a percentage of the cost for the part-time music teacher. For the next ten years, the district invoiced the club for the agreed-upon percentage of the salary and benefits without any supporting documentation except for an invoice, and the club treasurer paid the district.

In the first three years, from 2004-05 through 2006-07, the district requested that the club pay 22% of the music teacher's salary and benefits. From 2007-08 through 2011-12 the percentage increased to 33.33% as state budget reductions to schools placed more pressure on the district to balance its budgets. For 2012-13 and 2013-14, the amount changed from a percentage to a flat amount.

On January 20, 2015, the Soquel Home and School Club asked the district to provide copies of records of the club's donation account activities and claimed overpayments. In response, the district issued a letter on January 30, 2015 that included reports showing charges to various district accounts for expenses such as the teacher's salary and benefits; iPads and physical education aides, but also included other charges that were not previously approved by the club.

After considerable time and several meetings between district officials and club parent volunteers, the parties agreed to an independent review of the accounting transactions and assistance to recommend policy and procedures on donations made to the district.

Compilation and Review of Transaction History

The district requested FCMAT to perform an independent review of the Home and School Club account and make an independent settlement recommendation between the district and the parent club organization.

FCMAT requested documents including correspondence and invoices sent to the club; annual general ledger reports; and financial system payroll reports to determine the cost of the part-time music teacher from 2004-05 through 2015-16 including the following:

Report Identification	Report Name
PYR320	Payroll Detail Report
COR610	Position Detail report
PYR830	Payroll History Report
Annual General Ledger	General Ledger Report

The FCMAT study team converted district system reports to Excel and compiled 12 years of payroll records for review and analysis. During this 12-year period, the district changed financial systems, making it difficult for district staff to retrieve detailed records.

Reports for payroll detail, payroll history and position detail did not agree as demonstrated in the table below. Therefore, the team determined that the most reliable report was the payroll detail report. District-generated invoices presented to the club did not match any of the system-generated reports showing actual costs of salaries and benefits.

***SUESD Generated Payroll and Position Control Reports
For the Fiscal Years 2004-05 through 2015-16***

Fiscal Year	PYR 320 Totals	PYR 830 Totals	COR 610 Totals
2004-05	\$44,538.01	\$36,609.80	\$43,805.95
2005-06	43,759.49	36,242.40	44,194.60
2006-07	46,631.08	39,019.24	47,381.95
2007-08	48,085.81	40,315.95	48,743.31
2008-09	45,754.60	40,769.40	45,782.30
2009-10	45,041.79	40,123.20	45,069.40
2010-11	58,730.85	52,184.00	58,732.42
2011-12	83,536.15	68,484.00	83,977.60
2012-13	58,159.29	51,495.16	58,204.13
2013-14	61,030.16	54,524.72	61,059.05
2014-15	63,658.22	56,512.18	61,456.24
2015-16	56,271.90	No Data Available	53,969.92

According to interviews with district staff and club parent volunteers, agreed percentages to support the part-time music teacher are as follows:

2004-05 through 2006-07:	22%
2007-08 through 2011-12:	33.33%
2012-13 through 2013-14:	flat amount of \$30,000
2014-15 through 2015-16:	66.66%

The table below shows the result of the data compilation:

Fiscal Year	PYR 320 Actual Payroll and Agreed Upon Percentage	HSC Check	Agreed Upon Percentage	Teacher FTE
2004-05	\$9,798.36	\$9,574.00	22.00%	0.60
2005-06	9,627.09	20,307.94	22.00%	0.60
2006-07	10,258.84	17,530.78	22.00%	0.60
2007-08	16,027.00	27,369.41	33.33%	0.60
2008-09	15,250.01	27,776.89	33.33%	0.60
2009-10	15,012.43	27,767.43	33.33%	0.60
2010-11	19,574.99	28,047.00	33.33%	0.75
2011-12	27,842.60	28,234.00	33.33%	1.00
2012-13	30,000.00	30,000.00	Flat Amount	0.74
2013-14	30,000.00	30,000.00	Flat Amount	0.74
2014-15	42,434.57	22,995.14	66.66%	0.74
2015-16	37,510.85	33,066.37	66.66%	0.60
Totals	\$263,336.73	\$302,668.96		
Difference		(\$39,332.23)		

The table above represents actual payroll salaries and benefits for the music teacher, and the annual amount paid by the club. Other expenditures paid by the club to the district are not represented in this table, and these were made through separate agreements that may be subject to dispute, but are not part of the scope of this study.

Prior to the FCMAT study, negotiations between the district and club agreed that the overpayment was \$19,295.49; however, this calculation included other expenditures authorized by the club under a separate agreement. Based on actual payroll data and the agreed-upon percentage to support the music teacher, the district overbilled the club for the cost of the teacher by a total of \$39,332.23 over 12 years.

The district should return amounts overbilled to the club and keep separate written agreements for reimbursement of salary/benefits from other purchases.

District Cost Allocation

Home and School Club members expressed concern about lack of transparency and communication when they learned that the district charged some or all of the agreed upon percentage/flat amount of the music teacher's salary and benefits to resources other than the club donation account without their knowledge, involvement or consent.

FCMAT reviewed the cost allocation linked with the actual salary and benefit charges and confirmed that four of the 12 fiscal years had no charges to the club's account even though it provided donations in each of these school years. In all but two years, the music teacher's costs were split between several resources. This occurred during the Great Recession when the state provided great flexibility to districts due to state-imposed budget cuts. Districts throughout California took advantage of these flexibility provisions to avoid layoffs.

According to district staff, declining enrollment coupled with state budget cuts and cash deferrals placed extraordinary pressure on the budget, yet the district continued to honor the agreement to retain the music teacher.

Although it is acceptable for school districts to multifund certain employee salaries and benefits based on the type of service provided, it is important to document the rationale and use consistent methodology, especially when charging categorical and/or federal programs.

The cost allocation methodology was not consistent from year to year, and district administration failed to communicate with the Home and School Club. The district should provide a full accounting of donations received from community-connected organizations annually. A best practice is to put donation agreements in writing and submit them to the governing board for approval and in recognition of those that support local schools.

Process and Procedures

Following several meetings with the club, the district developed a form to improve accounting procedures and provide updated budget reports effective February 1, 2016.

Citizen complaints about a number of district-related issues prompted a Santa Cruz County Grand jury investigation. Regarding the new accounting procedure, the grand jury report states the following:

In response to complaints regarding accounting and tracking of HSC funds, the District implemented new accounting procedures, effective February 1, 2016 for tracking donations from HSCs and to provide HSCs with updated and regular accounting reports regarding those donations.... Feedback received from the HSCs has reflected support for these new accounting procedures.

The report also states that donations of more than \$500 will be presented to the governing board and recognized at regularly scheduled board meetings throughout the school year. The district should consider developing a board policy and administrative regulation for donations for the governing board's approval.

The district allowed a school site principal to directly negotiate an agreement with the club without district-level administration involvement. No documentation exists, and the employees familiar with the verbal terms of the negotiations are no longer working for the district. All contracts and agreements should be negotiated with district officials that have board authority to enter into binding agreements and presented for final approval/ratification by the governing board. The district should review and create written policy and guidelines for the accounting of donations received from individuals or community-based organizations..

Recommendations

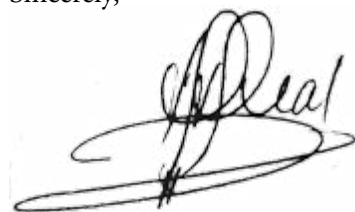
The district should:

1. Return amounts overbilled to the Home and School Club and keep the written agreements for reimbursement of salary/benefits separate from other purchases.
2. Provide a full accounting for donations received from community-connected organizations annually.
3. Put donation agreements in writing and submit them to the governing board for approval and in recognition of those that support local schools.
4. Consider developing a board policy and administrative regulation for donations for the governing board's approval.
5. Negotiate all contracts and agreements with district officials that have board authority to enter into binding agreements and present these agreements to the governing board for final approval/ratification.
6. Review and create written policy and guidelines for the accounting of donations received from individuals or community-based organizations.

This management letter contains the study team's findings and recommendations.

FCMAT appreciates the opportunity to serve you and extends thanks to all the staff of the Soquel Union Elementary School District for their cooperation and assistance during fieldwork.

Sincerely,

A handwritten signature in black ink, appearing to read "Deborah Deal", with a large, stylized flourish underneath.

Deborah Deal, CICA, CFE
Fiscal Intervention Specialist