

PORTOLA VALLEY SCHOOL DISTRICT COMMUNITY BUDGET FORUM

May 2, 2012

Background

- The State of California Department of Education requires that the Governing Board approve the second interim budget by March 15th or each year.
- As part of this approval, the school district must project a positive cash flow for the end of the fiscal year.
- Based on the information available at the time, the Portola Valley School District Board approved the second interim budget on March 14, 2012.
- On April 30, the Portola School District Board was informed that the district is no longer projecting a positive cash flow for the end of the fiscal year. The Board approved a negative certification of the budget on Monday, April 30, 2012.

Background, cont.

- Following the resignation of Tim Hanretty, the Board directed staff to conduct a complete review of all district finances.
- Interim Portola Valley School District Chief Business Officer, Mark Bonnett, and San Mateo County Deputy Superintendent of Fiscal and Operational Services, Denise Porterfield, have been conducting this review.
- The accounting firm, Hemming Morse, has also been conducting a forensic audit. A full report from this audit will be available to the public as soon as the audit is complete, anticipated mid May.

What We Have Learned:

Solar Panel Project

- The District obtained financing for a solar panel project in July, 2010.
- This financing was intended to cover all costs related to the project. Funds could also be applied to qualified capital improvements.
- Appropriate use of these funds make the school district eligible for \$1.5 million in federal subsidies.

What We Have Learned: Solar Panel Project, cont.

- Non-qualifying expenses including general operating costs, technology equipment, and contracted staff were charged to this financing.
- Paying these expenses through this financing is not allowed. Doing so puts the \$1.5 million subsidy at risk.
- These expenses must now be transferred to the general fund.

What We Have Learned: Employee Benefits

- It appears that the cost of employee benefits was under-represented in the budget by a significant amount of dollars.
- Employee benefits have not been recorded/tracked according to generally acceptable accounting principles.
- We are fully investigating this matter and should have a better sense of this very soon.
- We are in the process of changing how this accounting is done.

Consequences and Next Steps

- We must end the fiscal year with a positive cash flow or risk being taken over by the State of California.
- We have been assigned a Fiscal Expert, Sandra Lepley, who will be assisting us with budget development and will have the responsibility of approving all District expenditures until our budget receives a positive certification.

Consequences and Next Steps

- We must obtain the funds through borrowing or donations to eliminate the negative cash flow by the end of the fiscal year – this number is a moving target but estimated to be in excess of \$500,000.
- We must make expenditure reductions in our budget moving forward.
- The District will be presenting a budget to the Board before June 30, 2012 that is balanced.

How Did We Get Here?

- We will be looking to the forensic audit report for greater clarity on this question.
- It appears that we have been spending beyond our means for at least the past two years.
- We have been covering general expenses by obtaining credit and loans that solve immediate problems but add to ongoing financial challenges.

How Will We Avoid this in the Future?

- Greater level of transparency in all business operations.
- Increased oversight by District Office personnel – separation of the roles of CBO and Superintendent.
- Solicit suggestions from forensic auditors and county financial advisor on additional steps to take.

Questions/Comments Raised at Forum

- Q: Why are there so many outside consultants helping with this? How much more will there be?
- A: At this time, the district is sharing the costs of the forensic auditors with the San Mateo County Office of Education. Cost of the audit is estimated to be \$30,000 so District share will be \$15,000. The financial advisor is being paid for by the San Mateo County Office of Education.
- Q: If the issues are related to non-qualifying expenses, and employee benefits, why does the solution have to be raise class size and cut programs?
- A: The District needs to develop a balanced budget. We need to spend within our means going forward.

Questions/Comments Raised at Forum

- Q: When will we get the big picture. How soon and then what is the plan of action?
- A: Identifying our negative cash flow dollar amount is our highest priority. We are committed to knowing this number by next Friday, May 11.
- Q: If we already had a deficit (\$854K) projected, how do these new revelations affect that number?
- A: We will be obligated to pay back whatever money we borrow to solve our cash flow problem. In addition, we will need to balance our budget by either reducing expenses, increasing revenue or some combinations thereof.

Questions/Comments Raised at Forum

Q: What is the health and welfare benefits amount and what does this include?

A: It appears that \$2.1 million was budgeted for health and welfare benefits. The actual expenditures for one year appear to be \$2.6 million. Health and welfare benefits is inclusive of health, dental, vision, unemployment, worker's comp costs, etc.

Q: Will there be enough money in June? Enough money in the future?

A: The District will take all necessary steps to address the cash flow problem before the end of June including approaching the County Board for a loan. The District will present a balanced budget to the Board by the end of June.

Questions/Comments Raised at Forum

Q: On the question of accountability, how much of this is the School Board's fault? How did we get here?

A: We will continue to address this question as we adopt new practices and add a layer of oversight to our current practices. The Board acted on the information presented to them by the former Superintendent. Separating the roles of Chief Business Officer and Superintendent is an important first step to ensure a greater level of checks and balances. We will look to our financial advisor and forensic auditors for additional recommendations.

Questions/Comments Raised at Forum

Q: Do all taxpayers, not just parents, realize how messed up this is? Will anyone tell them?

A: All District meetings are advertised on the website and open to the public.

Q: Is there money in the “rainy day fund”?

A: The reserves have been applied, and not additional reserves, beyond the required 4% are available at this time.

Questions/Comments Raised at Forum

Q: How was money able to be paid out of an escrow account (some district expenses were paid by an escrow account and did not flow through the district books)? Were “outside the school” expenses paid from this account?

A: The forensic auditors are looking into this, and anything they find that looks questionable will be turned over to the District Attorney.

Q: Will Tim be brought into explain any of this?

A: The District Attorney’s office will determine what questions Tim should respond to.

Questions/Comments Raised at Forum

Q: If we were to close school early, how much money would we save?

A: The District would save approximately \$30,000 per day.

Q: Are the District books audited annually? If yes, are the auditors complicit in any way? Why did they not catch this stuff?

A: The District books are audited every year, and the audit report is made public. It does not appear that the auditors were typically invited to present their findings to the Board. In the past, the CBO summarized the audit report for the Board. This year, and from now on, the auditors will address the Board directly.

Questions/Comments Raised at Forum

Several parents volunteered to help the district. There was talk of organizing groups, forming a parent task force, offering staff accountant support.

Scott Parker closed the meeting by thanking everyone for attending the and committed to working through this challenge with the community.