

## Child Development Fund

**PETA/CSEA: The Child Development Fund was overspent by \$1,000,891.**

District: The overspending resulted from the audit adjustment related to the audit finding in 2010-2011 regarding the reconciliation of employee fringe benefits. The Child Development Fund was decreased by \$748,015 as a result of this audit adjustment posted in 2011-2012. The District also allocated Other Post-Employment Benefits (OPEBs) to the Child Development Fund for the first time in 2010-2011. Their share of the OPEBs was \$427,334. In 2010-2011 the District contributed \$228,683 to the Child Development Fund as a result of the OPEBs allocation that they were unable to absorb.

**PETA/CSEA: In 2011-12 a total of \$1,033,696 was transferred from the General Fund to the Child Development Fund.**

District: There was a transfer of funds in 2011-12 to the Child Development Fund in the amount of \$805,013. This was a result of the audit adjustment that was made in 2011-2012 for the prior year audit finding of \$748,015. The balance of the contribution was at year end for the amount of the OPEBs that were over the initial budget for the year. It is a requirement to assess all programs equally regardless of available funds in order to recapture funds from restricted programs in support of OPEBs.

## Auditor Reports

**PETA/CSEA: The 2010-11 audit report indicates a \$4,843,643 adjustment to the General Fund. The 2011-12 Unaudited Actuals show only a \$2,788,214 adjustment; where is the other \$2,055,429?**

District: The reference to the \$4,843,643 decrease to the General Fund was specific to the effects of a prior year finding regarding the reconciliation of employee fringe benefits. The total amount of the all audit adjustments includes a credit amount for an accounts receivable in the amount of \$2,055,428.

## Board Designated Fund

**PETA/CSEA: Why does the current board continue to have the 1% Board Designated Fund (\$1,470,531)?**

District: Board Policy 3100-Business and Non-instructional Operations states "The Board may establish and maintain a Board Designated reserve for any educational purpose, including economic uncertainty. The value of the Board Designated reserve shall be equal to 1% of the General Fund Budget. The Board Designated reserve shall be evaluated upon release of the annual Unaudited Actuals Report and funded with one-time resources available in the General Fund Ending Fund Balance. The Board may adjust the value of the Board Designated reserve during this annual evaluation." Auditors using the Unaudited Actuals Report would note the Board Reserve even though it could be

removed later in the budget cycle. The Board has already notified employees that this money will be used to restore salary reductions for the 2014-15.

### Overestimation of Salaries

**PETA/CSEA:** With one month of the fiscal year left, the certificated and classified salaries were overstated by \$3,479,042. Why wasn't the 2012-13 3<sup>rd</sup> interim report in June adjusted for a more accurate amount?

**District:** Budget is created whenever employees are offered additional hours, stipends, or overtime and a Personnel Requisition is approved. These funds are held for those promised hours unless another Personnel Requisition is created to reverse them. Additionally there were positions budgeted at 3<sup>rd</sup> interim that were not filled.

### Overestimation of Benefits

**PETA/CSEA:** With one month of the fiscal year left, fringe benefits were overestimated by \$4,263,718. Why wasn't the 2012-13 3<sup>rd</sup> interim report in June adjusted for a more accurate amount?

**District:** When salaries are budgeted, the associated statutory benefits are also budgeted – approximately 13% for certificated salaries and approximately 24% for classified salaries. Additional hours, stipends, overtime and vacant positions would all have statutory benefits budgeted. Other Post-Employment Benefits (OPEBs) are all budgeted in the General Fund Unrestricted at the beginning of each year. The actual costs of retiree benefit premiums are allocated at the end of the year by a journal transfer to all funds and resources with salaries. At the beginning of the year, it is unknown what allocations will be and the premiums throughout the year are paid against the General Fund Unrestricted. In 2013-2014 the District is changing to a method that will charge each payroll entry with an allocated amount for OPEBs so that the budgeting and expenditures can be made when salaries are paid rather than waiting for year end to make the allocations.

### Retiree Benefits Costs

**PETA/CSEA:** Retiree's benefits were overestimated by \$622,781. Why was it budgeted entirely as a general fund item (\$1,863,602 should have been restricted)? Why is it budgeted the same way in 2013-14? Why is the budget increased by \$1.5 million?

**District:** The retiree benefits are currently budgeted in Unrestricted General Fund as the allocations to programs are unknown at the beginning of the year. A new method of charging OPEBs as salaries are paid will be implemented this year. The budget has increased due to the increase of premiums and the increase in the number of retirees at the end of 2012-2013. The budget will be adjusted at 1<sup>st</sup> Interim to reflect the results of open enrollment and new premiums as of October 1, 2013.

## Overestimation of Books and Supplies

PETA/CSEA: With one month of the fiscal year left, the books and supplies budget was \$11,685,728. Unaudited actuals showed \$6,224,718 was spent.

District: Schools and departments are given budget allocations in both unrestricted and restricted funds at the beginning of each year to operate their sites. The allocations are adjusted during the year; however, we have not practiced reducing the budget allocations mid-year unless it is a matter of program compliance (i.e. Title I). Unrestricted spending must receive approval through a process known as Essential Expenditure Plan (EEP). This process provides review of all expenditures from unrestricted funds and determines whether it is essential to the operation of a site or department. It is known that any funds not expended will be absorbed back into the ending fund balance.

## Legal Fees and Consultants

PETA/CSEA: With one month left legal fees and consultants showed a \$1,789,305 overestimate as compared to the unaudited actuals. Over budgeting creates deficits that do not truly exist.

District: Legal fees are difficult to anticipate. If there is an exceptionally high month during the year it will create a higher average when projections are made for the remaining months. December 2012 and January 2013 were exceptionally high months for legal expenditures.

## Employee Settlements

PETA/CSEA: Prior to 2006 there were no payouts to employees. From 2006-2012 the total employee payout has been \$1,430,649.

District: Decisions of this nature are made in the best interest of students and the Palmdale School District. Settlement agreements are utilized to remove employees who have performance deficiencies that result in a negative impact on students' education. Given the cost of prolonged legal proceedings and the uncertainty of their success, a settlement is more cost and time effective than prolonged legal proceedings.

## Special Ed Money Owed to Palmdale

PETA/CSEA: Currently PSD is owed \$7,038,190 from other Districts for Special Ed services. Why were the other districts not billed for so long?

District: The Special Education Excess Costs is a complicated process with many factors involved in determining billings of the member districts. It is also important to note that the start of the unpaid Excess Costs coincides with the economic crisis that began in 2008-09. Districts that had the available cash paid our preliminary billings; districts that did not have the cash did not.

Another contributing factor to the delinquent invoices was changes and/or vacancies in staff in Special Education, Fiscal Services and the SELPA. The

invoice process involves input from all three departments to prepare the invoices. When a bill is disputed by a member district, it must be agreed upon by all parties and reviewed by all three departments again before it can be resubmitted for payment. When there is a vacancy in any of the departments, the process is negatively affected. At the present time, there is a staff of people who have been trained in the process and billings are current. In addition, the District is actively pursuing the reimbursement from neighboring Districts and have successfully received \$3.6 million.