

FINAL REPORT - CASE NO. 08-07 STOCKTON UNIFIED SCHOOL DISTRICT

SUMMARY

With the recent bond election and departure of many of the top management staff at Stockton Unified School District (SUSD), the public's attention will focus on the Board of Trustees. Decisions made by the Board in the next year are likely to influence Stockton Unified School District for generations to come. It is of paramount importance that the Board of Trustees makes the most of the opportunity to rebuild SUSD and restore public confidence.

The 2007-2008 Civil Grand Jury finds SUSD's management:

- Participated in the misuse of public funds and attempted to conceal it from elected officials and the Grand Jury
- Has supplanted general funds with restricted (also known as categorical) funds
- Hired consultants to perform work that could have and should have been done by SUSD employees.

The Grand Jury recommends:

- A thorough, independent, annual audit to a level of detail that prevents misuse of funds
- Restricting management's spending authority to a level that prevents abuse
- Establishment of a Foundation to conduct fund raising activity at the district-wide level
- Public access to SUSD records and accounting information to ensure transparency and restore trust.

REASON FOR INVESTIGATION

The 2007-2008 Grand Jury received a written complaint containing specific allegations focused on several activities and events conducted at SUSD that may have been inappropriate or possibly illegal. Details provided by the complainant were substantive and piqued the interest of the Grand Jury.

After completing a preliminary investigation, the Grand Jury voted to open a formal investigation of the following:

1. Excessive use of consultants
2. Inappropriate use of restricted state and federal funds (supplanting)
3. Inappropriate and unethical use of school district funds.

BACKGROUND

During the 2006-2007 school year Stockton Unified School District (SUSD) was the 17th largest school district in California, with an enrollment of 38,617 students. SUSD had the largest total enrollment of any school district in San Joaquin County and operated 56 schools, including 5 high schools and employed 1778 full-time equivalent teachers.

Annual expenditures for SUSD during the 2006-2007 school year were approximately \$317 million, of which 63% was spent on instruction. Expenditures for instruction and all other categories are within 1% of the statewide average. Expenditures per Average Daily Attendance were slightly higher than the State average.

During the 2006-2007 school year, SUSD received approximately 35% of their total revenue from restricted State and Federal funds. At that level, restricted revenue is approximately 122% of the statewide average for school districts.

SUSD is administered by a seven member Board of Education. Trustees represent districts within SUSD and serve four-year terms. Board meetings are held on Tuesdays at 7:00 p.m. in the Boardroom, 701 N. Madison St., Stockton, California. Meeting dates and agenda are posted on-line at <http://www.stockton.k12.ca.us/SUSD/welcome/board.htm>

The Superintendent recently announced his retirement after completing a two-year term. Other managers have recently announced their retirement as well, leaving a void in top management during what is a critical time as implementation of the bond (Measure C) begins.

METHOD OF INVESTIGATION

Materials Reviewed

- 30+ SUSD Purchase Orders with applicable receipts and contracts
- SUSD accounting of Celebrity Waiter's Luncheon and All Sports Clinic (several versions of each)
- California Dept. of Education Guidelines for School Safety and Violence Prevention Act (AB1113)
- 20+ Newspaper articles
- Report of Investigation, Office of the District Attorney, San Joaquin Co.
- Letter to US Dept. of Education, Office of the District Attorney, San Joaquin Co.

- California Education Code, Section 32228 – 32228.5, Allowable Uses of School Safety and Violence Prevention Act Funds
- Consultant Contracts for SUSD Chief Financial Officer and District-Wide Athletic Director
- Vacancy Announcement and Job Description for Chief Financial Officer position
- SUSD Human Resources Dept. procedure for District Administrator Selection Process
- SUSD Board Policy relating to Conflict of Interest
- SUSD Contracts with Boys and Girls Club of Stockton
- California Dept. of Education “Ed-Data” statistical reports
- SUSD High Speed WAN Request for Proposal, Bid Protest, Response, Appeal
- SUSD Consolidated Application for Funding of Categorical Aid Programs, 2006-2007
- Draft SUSD Bond Report, 2008
- SUSD website <http://www.stockton.k12.ca.us/>
- 2008-2007 budget staffing changes from Superintendent to Board of Education Resource and Infrastructure Committee
- Requests to the Board from management for changes in funding and consultants
- Cabinet meeting notes on Ed Services updates and questions
- Categorical program descriptions
- Budget items 2006-2007 and 2007-2008

Interviews Conducted

- Several SUSD Trustees
- Superintendent, SUSD
- Chief Financial Officer, SUSD
- Chief Accountant, SUSD
- Human Resources Director, SUSD
- SUSD Business Office Employees
- Business Owner and Supplier to SUSD
- Program Specialist, San Joaquin Co. Office of Education
- Program Specialist, California Dept. of Education

Sites Visited

- SUSD Board Meeting

FINDINGS

1. The Superintendent has authority to hire administrative, non-instructional consultants for up to \$50,000 without Board approval.

2. SUSD management contracted with sports figures to speak at a one-day All Sports Clinic. Five individuals were paid consulting fees of \$5000 plus mileage and another 28 individuals were paid between \$1000 and \$2000. \$5000 is more than most high school coaches make in a season.
3. SUSD management hired a large number of consultants for administrative, non-instructional positions. Many of their duties were already being performed by district employees. The following examples were found:
 - A consultant was hired to train SUSD staff on how to legally use restricted State and Federal funds. SUSD had an employee in charge of the same funds.
 - Two consultants were hired to work 2-3 days per week to evaluate high school principals, directors and administrators.
 - Consultants were hired to write the GEAR UP grant. SUSD already had two grant writers.
 - Two consultants were hired to inventory the vocational/career tech program. The Program Director traditionally completed this task.
 - The Chief Financial Officer was initially hired as a consultant and later became a salaried SUSD employee. When the position was converted from consultant to salaried employee, the position was advertised competitively, applications taken, interviews conducted and a selection made according to SUSD procedure.
 - The District-wide Athletic Director position was created and filled without advertising, applications or interviews. SUSD policy grants authority to the Superintendent to create and fill positions under certain circumstances.
4. Restricted (categorical) funds are designed with specific requirements to enhance the regular educational program. They are intended to supplement, not supplant, the regular educational program. Restricted funds cannot be used to support services that would otherwise be provided through general unrestricted funds. Positions or expenditures previously funded by unrestricted funds cannot be shifted to restricted funds.

There are numerous instances where SUSD has misused restricted funds:

- Targeted Instructional Improvement Grant (TIIG) restricted funds were used to pay salaries of 8 Visual and Performing Arts (VAPA) teachers previously paid from general funds.
- School Safety and Violence Prevention Act (AB1113) funds were used to pay approximately \$90,000 in costs associated with the All Sports Clinic. It appears the use of the funds for this purpose was a clear violation of readily available State guidelines.
- Job descriptions for more than 15 vice-principals are being changed for the 2008-2009 school year so they can be paid from restricted funds.
- English Language Learner (ELL) Title III restricted funds were used to purchase Algebraic Thinking, a comprehensive math intervention program (including materials and training) for use by all intensive math students grade 5-8, including non-ELL students, at several schools.

5. SUSD management did not prepare a thorough, detailed accounting for the Celebrity Waiter's Luncheon held in March 2007 and the All Sports Clinic held in April 2007. The Grand Jury discovered that there were at least three incomplete versions.
6. SUSD management made numerous questionable purchases using District funds. The Grand Jury finds the District-Wide Athletic Director:
 - On more than one occasion, requested payments from SUSD for alcoholic beverages at Alioto's restaurant in San Francisco and attempted to conceal one purchase by claiming it was "food to go." Once SUSD staff discovered this, the Superintendent reimbursed the District from his personal funds
 - Requested payment from SUSD for the use of a limousine
 - Failed to follow SUSD purchase policy on multiple occasions.
7. Athletic Department staff approached a vendor with the district and pressured that vendor for a cash donation for the Celebrity Luncheon.
8. SUSD management initially refused to provide information to the Grand Jury. While information was ultimately obtained through subpoena, it did little to reassure honesty, integrity and accountability of SUSD management.
9. The extreme level of bickering and animosity among SUSD Trustees and management is not conducive to resolving issues and reduces public confidence.

RECOMMENDATIONS

1. SUSD Trustees reduce the dollar cap that can be spent for non-instructional and administrative consultants without Board approval. Trustees or a committee of Trustees review consultant contracts to ensure there is a need that employees can not fill and that a meaningful product will be produced.
2. SUSD Trustees limit the use of non-instructional and administrative consultants to specific, short term jobs. The primary responsibility of running the District belongs with SUSD employees.
3. SUSD Trustees re-examine the policy of allowing the Superintendent to create positions and hire employees without a competitive application process.
4. SUSD Trustees conduct a thorough, independent audit of restricted (categorical) funds received from State and Federal sources with extra emphasis placed on AB1113 funds. In addition, an audit of purchases made by management be conducted on an annual basis until public confidence is restored.
5. SUSD Trustees or a committee of Trustees periodically review purchases made by management as a whole and by individual management team members to ensure strict written guidelines are enforced.

6. SUSD Trustees carefully review the budget and question policy decisions made by SUSD management to ensure the District is being run in a prudent, economical, and legal manner.
7. SUSD Trustees review and approve plans for future District-wide fund raising activities. The Grand Jury recommends creation and use of an independent foundation for fund raising activities.
8. SUSD management provide thorough and accurate accounting of all district-wide fund raising activities undertaken by SUSD. The information be available to the public on demand.
9. SUSD Trustees ensure SUSD management is held accountable for their actions.
10. SUSD Trustees and management work as a team to accomplish common objectives and not lose sight of the District's mission which is to educate the children of the District.
11. The Board of Trustees manage the recent bond measure in a timely and effective manner and regain the public's confidence.

RESPONSE REQUIRED

Pursuant to Section 933.05 of the Penal Code:

The Stockton Unified School District Board of Trustees shall report to the Presiding Judge of the San Joaquin County Superior Court, in writing and within 90 days of publication of this report, with a response as follows:

As to each finding in the report a response indicating one of the following:

- a. The respondent agrees with the finding.
- b. The respondent disagrees with the finding, with an explanation of the reasons therefore.

As to each recommendation, a response indicating one of the following:

- a. The recommendation has been implemented, with a summary of the action taken.
- b. The recommendation has not yet been implemented, but will be with a time frame for implementation.
- c. The recommendation requires further analysis, with an explanation of the scope of analysis and a time frame not to exceed six months.
- d. The recommendation will not be implemented, with an explanation therefore.