



Office of the Superintendent
5735 47th Avenue • Sacramento, CA 95824
(916) 643-9000 • FAX (916) 643-9480

M. Magdalena Carrillo Mejia, Ph.D.
Superintendent

September 25, 2006

Honorable Roland Candee
Presiding Judge
Sacramento Superior Court
720 Ninth Street, Department 47
Sacramento, CA 95814

**RE: Response of Sacramento City Unified School District to the
Sacramento County Grand Jury 2005-2006 Final Report**

Dear Judge Candee:

The Board of Education of the Sacramento City Unified School District, at its regular meeting held on September 21, 2006, adopted the enclosed as the District's response to the Grand Jury's 2005-2006 Final Report entitled the "Sacramento City Unified School District Selection of a Retirement Incentive Program."

The District's response is hereby submitted in compliance with Penal Code Sections 933 and 933.05.

Sincerely,

M. Magdalena Carrillo Mejia, Ph.D.
Superintendent

MMCM:kjo

cc: Sacramento County Grand Jury Office
Sacramento County Clerk – Recorder's Office
Board of Education

Enclosure: Response to the Final Grand Jury Report of June 30, 2006

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

Office of the Superintendent



Response to the Sacramento County

Grand Jury Final Report

of June 30, 2006

September 21, 2006



LEGAL SERVICES

MEMORANDUM

DATE: September 21, 2006

TO: Board of Education

FROM: Jerome M. Behrens
General Counsel

CC: M. Magdalena Carrillo Mejia, Ph.D.
Superintendent

SUBJECT: RESPONSE TO SPECIFIC FINDINGS AND RECOMMENDATIONS IN 2005-2006 FINAL GRAND JURY REPORT

1. INTRODUCTION

The 2005-2006 Sacramento County Grand Jury has issued its Final Report. A portion of the Final Report discusses the Sacramento City Unified School District's decision to utilize the early retirement incentive known as the Public Agency Retirement System (PARS). The Final Report makes findings and recommendations to the Board of Education. California law requires the Governing Board to respond to each finding and recommendation by October 1, 2006. (Penal Code, § 933(c).)

This memorandum sets forth the response adopted by the Board of Education, at its regular Board meeting on September 21, 2006, to the Sacramento County Grand Jury 2005-2006 Final Report entitled "Sacramento City Unified School District Selection of a Retirement Incentive Program."

2. FORMAT FOR RESPONSE TO THE GRAND JURY REPORT

California Penal Code section 933.05 requires that for each grand jury finding, the responding person or entity shall indicate one of the following:

- (1) The respondent agrees with the finding.

(2) The respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefor.

For each grand jury recommendation, the responding person or entity shall report one of the following actions:

- (1) The recommendation has been implemented, with a summary regarding the implemented action.
- (2) The recommendation has not yet been implemented, but will be implemented in the future, with a timeframe for implementation.
- (3) The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a timeframe for the matter to be prepared for discussion by the officer or head of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This timeframe shall not exceed six months from the date of publication of the grand jury report.
- (4) The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation therefor.

3. SUMMARY OF RESPONSES TO FINDINGS & RECOMMENDATIONS

The Sacramento City Unified School District's first priority is success for every student by name. Making sound financial decisions and spending public resources prudently is a necessary foundation for excellence in education. The District welcomes suggestions for changes to its processes. It also welcomes community input and encourages community participation in educational decisions. Openness and transparency are the hallmarks of a vital, effective organization.

It is widely recognized that early retirement incentives are a standard cost-savings tool. The PARS program has a successful track record and its staff is experienced in the administration of these programs. In California, at least 88 school districts and community college districts have elected to offer PARS to their employees. Over 250 public agencies nationwide have used the plan.

The District implemented PARS as a budget reduction measure to address a budget shortfall of approximately \$26 million in 2004-2005 and for future cost savings for succeeding budget years. District employees decided to participate in the program in sufficient numbers. PARS is saving money; it is a legally and financially sound program.

The grand jury's report provides recommendations for greater clarity, greater analysis, and greater transparency. This response to the findings and recommendations addresses the processes that were in place before the Grand Jury's report and continue to be used by the District.

4. RESPONSE TO SPECIFIC FINDINGS & RECOMMENDATIONS IN GRAND JURY REPORT

Finding 1. No written comparative analysis of retirement incentive options was prepared for the public, staff or the Board of Education.

➤ **Response to Finding 1: Disagree.** The District contacted two companies that offer and administer early retirement incentives, Keenan & Associates (Keenan) and PARS. The District provided data to Keenan and PARS regarding several categories of personnel and associated salary / benefit costs. Keenan and PARS took the District's data and prepared proposals that showed cost-savings projections, using various options common to retirement incentives.

Keenan's proposal provided a detailed written cost-savings analysis dated January 21, 2004. This analysis reviewed both Keenan's proposal and retirement incentive options sponsored by the California State Teachers Retirement System (CalSTRS). PARS provided a detailed written analysis of its retirement incentive options dated March 11, 2004.

These proposals disclosed detailed projections of the potential cost savings resulting from each option, using several different sets of assumptions for each employee group. The former Chief Financial Officer Joan Butt and her staff compared the options and the projected cost savings resulting from each option. While no single document compares each of the proposals and all of the options within each proposal, the former CFO analyzed each proposal and set of projections side-by-side. This comparison showed that the PARS retirement incentive was projected to save more money than the other incentives studied and therefore was the more attractive option in view of the budget shortfall of approximately \$26 million for the 2004-2005 school year. This option also satisfied the District Wide Budget Advisory Committee's recommendation for cost savings.

Before action by the Board of Education, the District also engaged the expertise of School Services of California to review the assumptions and projections submitted by PARS. School Services orally confirmed to CFO Joan Butt that the PARS proposal was sound. School Services, however, identified some projected savings that might have been counted twice (i.e., some retiring teachers would not be replaced in a time of declining enrollment). This independent review, along with information of employees who had elected to participate in PARS, resulted in a revision to the projected savings. Staff reported these changes to the Board of Education at the Board meeting on June 3, 2004.

Throughout the process, the Keenan and PARS proposals for cost savings were available for public inspection.

Recommendation 1. On matters of significant cost, detailed analyses should be in writing, rather than oral summaries.

Response to Recommendation 1: Concur. This recommendation is already implemented and has been part of long-standing District practice. As stated in response to Finding 1, staff asked for and received detailed written analyses regarding retirement incentives. A written summary of PARS proposal and projections was presented to the Board of Education and the public at its April 1, 2004 meeting.

The District will continue, through its staff, to review and prepare analyses on matters of significant cost as a normal part of the yearly budget process. As a general rule, staff reviews

and prepares written analyses on matters of significant cost as a normal part of the yearly budget process. Projected salary and benefits costs, including comparisons from prior years, are an integral part of normal budget development. These figures and projections are reviewed by the Administrative Services Division, the District Wide Budget Advisory Committee, the Board of Education, and the Sacramento County Office of Education.

Finding 2. Staff could not provide the Grand Jury with documentation that the Board of Education received clearly understandable written information outlining the assumptions underlying the PARS proposal.

➤ **Response to Finding 2: Disagree.** As noted in response to Finding 1 and Recommendation 1, the Board of Education did receive understandable written information about the PARS proposal at its Board meetings on April 1, 2004 and June 3, 2004. On April 1, PARS gave a presentation to the Board of Education that included written disclosure of assumptions about the number of projected retirees, the amount of retirement benefits, and projected savings. In addition, because the early retirement incentive program affected collective bargaining negotiations, the Board was required to meet and to address, in executive session, the collective bargaining ramifications of such a program.

Recommendation 2. Written key assumptions underlying major decisions should be presented to the Board of Education.

➤ **Response to Recommendation 2: Concur.** The recommendation is already implemented; this has been the policy and practice of the District. Also see the response to Finding 2.

Finding 3. Too much reliance for financial analysis was placed on the representations of the vendor (PARS). There was no independent financial review of the PARS assumptions or numbers before or after the program was selected.

➤ **Response to Finding 3: Disagree.** The former Chief Financial Officer reviewed and analyzed the materials presented and discussed them with representatives from PARS and Keenan. This included reviewing the proposals presented by both groups and comparing their assumptions and information. In April 2004, the Board of Education made a preliminary decision to go forward, which was expressly conditioned on interest by a minimum number of retirees to achieve sufficient cost savings.

School Services of California reviewed the PARS proposal and assumptions. After its review, School Services made one comment to the effect that some savings might be "double counted" because some retiring teachers would not be replaced in a time of declining enrollment. This led to a change in the cost savings projections, and the Board of Education was orally informed at the June 3, 2004 meeting that the projected savings would be \$2.1 million.

In addition, California law and governmental accounting standards require financial review of salary and benefit costs. (California School Accounting Manual (Dept. of Education 2005)). The California Department of Education's criteria and standards require explanation of significant variations in salary costs and benefits from the amount budgeted or from year to year. In its budget, the District is required to analyze operating revenues and expenditures, including significant multi-year commitments. Projected retirement benefit costs are included

in these projections. The Sacramento County Office of Education reviews school districts' projected budgets and determines whether there are significant variations in major expense categories. Finally, the District conducts an annual audit of its expenditures using independent auditors. The audit did not find any irregularity with respect to PARS.

Recommendation 3. A detailed process should be adopted for independent financial review by appropriate District personnel, or outside consultants, prior to action on matters of significant expense. Matters of this magnitude should be the work product of a multi-discipline team. Matters brought by outside interests who have a significant financial interest require independent evaluation.

➤ **Response to Recommendation 3: Concur.** The recommendation is already implemented and is a part of normal District practice. For example, implementation of the PARS program shows that it was the product of a multi-disciplinary team. The initial recommendation to utilize a retirement incentive came from the District Wide Budget Advisory Committee. This advisory committee consists of over 40 persons, including District staff from various departments and community members. Employee organizations expressed interest in a retirement incentive and were consulted about implementing PARS as a necessary part of the collective bargaining process. Employee organizations wanted to reduce teacher layoffs and to preserve the class size reduction program at the K-3 level (one teacher for every twenty students). In addition, as noted above, the Chief Financial Officer and School Services of California reviewed and analyzed information related to the proposed early retirement incentives.

As stated in the response to Findings 1, 2 and 3, the District does have a detailed process for analyzing matters of significant expense. Significant budget items are reviewed and analyzed constantly, ranging from real property transactions and bond issues to personnel decisions and purchasing decisions. The District's practice is to first utilize the rigorous budget adoption process required by law. (See *also* Board Policy 3100, Admin. Regulation 3100.) The District obtains multi-disciplinary input and community input by consulting the District Wide Budget Advisory Committee, and by involving many District departments in the budget development process. Where appropriate, the District utilizes outside consultants for expert review, as it did with PARS.

PARS' proposal was independently evaluated by School Services of California in addition to review by the District's CFO and her staff.

Finding 4. No analysis was done by the District to determine the effectiveness of the program in relation to the stated goal of saving \$2.6 million in the first year.

➤ **Response to Finding 4: Disagree.** As of June 2004, the pool of participants who sought to participate in PARS was known and quantifiable. The Board of Education received a projected estimate of annual savings on or about June 25, 2004 based on the salary and benefit costs of these participants. Although the goal was to save \$2.6 million, the fact remains that the actual savings achieved a significant budget reduction which enabled the District to meet its fiscal obligations.

The District is continually negotiating its salary and benefit costs, while at the same time taking steps to attract qualified employees. Early retirement incentives are a valuable tool to reduce significant budget shortfalls, but even they are subject to many variables that do not allow for

exact figures. For example, once the retirement pool was known in June 2004, the average salary of new teachers who replaced retiring teachers was subject to the salary requirements of individual replacements. The District estimated a high average replacement salary for the PARS program, but is not in total control of its labor costs. This is why estimated cost savings cannot be expressed as a certainty but rather as a projection.

In response to the Grand Jury's request, the Chief Business Officer reviewed the actual savings to the District for 2004-2005 and estimated that the savings amounted to \$2.01 million. This compares favorably to the projections given to the Board of Education on June 3, 2004 of \$2.1 million for the first year.

Recommendation 4. Standards need to be developed by the District for a timely evaluation of the financial impact of major expenditures. PARS savings need to be identified for years 2-5.

➤ **Response to Recommendation 4: Concur.** As addressed elsewhere in this response, the District already evaluates the financial impact of major expenditures through its budgetary process and annual audits. These standards are part of the District's existing policies and the California Department of Education's financial oversight guidelines requiring annual monitoring of salary and benefit costs, as well as projections for future costs. Each year the District's budget is evaluated on an interim or mid-year basis. At the close of each fiscal year, independent auditors review actual expenditures and budget performance. The District's audits have identified no fiscal issues with the PARS program.

The District does concur with the recommendation that an analysis of PARS savings be conducted for years 2 through 5. In order to receive and review relevant data, this recommendation will be implemented for each fiscal year, no later than 12 months after the close of the fiscal year, through its audit process.

Finding 5. District staff and the Board of Education did not take adequate steps to ensure confidence in the process used in adopting the PARS program. In light of the failure of CASA for SCUSD, the District should have been especially careful in entering into another retirement related program.

➤ **Response to Finding 5: Disagree.** PARS is a standard early retirement incentive in wide use throughout California and elsewhere. It is not comparable to the CASA program, which the Board of Education took immediate steps to curtail once its deficiencies became known. In light of problems with internally run retirement incentives, the District reviewed and selected PARS, an outside program which was in wide use and has a proven track record. In addition, the District engaged the expertise of School Services of California. These measures were undertaken to ensure confidence in the process.

It is clear that the decision to use PARS was appropriate and within the sound discretion of the District. PARS has saved the District money and has enabled the District to meet its fiscal obligations.

Recommendation 5. District staff and the Board of Education need to put policies and procedures in place to ensure accountability when using public monies. The District needs to be more open in its business transactions.

➤ **Response to Recommendation 5: Concur.** Openness in business transactions is a primary goal of the Board of Education and the entire District staff. To achieve this goal, the District already implements and follows procedures to ensure accountability in the use of public monies.

Existing procedures for transparency and accountability include:

- Annual financial audits by independent auditors – these audits are approved at an open and public meeting of the Board of Education.
- Preparation of annual budgets using detailed criteria and standards – this process involves many District departments, employee organizations, and community members, as shown by the District Wide Budget Advisory Committee's role in making recommendations on budget savings.
- Preparation of a separate annual report for the Board of Education on the status of accrued costs for retiree health and welfare benefits, which is reviewed at a public meeting.
- Submission of budgets and interim budget reports to the Sacramento County Office of Education for oversight and review.
- Submission of two interim fiscal reports to the Board of Education during each fiscal year.
- Fiscal reports are reviewed at public meetings; public hearings are held on budget matters as required by law.

While the District does have policies and procedures in place, the District agrees with the Grand Jury that there is always room for improving transparency not only in its business decisions but in all of its decision-making. Accordingly, to ensure accountability and transparency, the District will conduct a review of PARS savings, through its audit process, for years 2 through 5 in response to recommendation 4.

Finding 6. Board of Education meetings are currently video taped, but the tapes are only retained by the Sacramento Public Library for 60 days.

➤ **Response to Finding 6: Agree.** The District has videotaped its meetings since the early 1990's. Those tapes are on file and are available for public inspection. In 2002, the District moved its central office from downtown Sacramento to new facilities located at the Serna Center on 47th Avenue. From that time until early 2005, videotaping systems were not in place; however, meetings were audio taped. Now that video capability has been restored, Board of Education meetings are once again videotaped and are broadcast on local cable television networks.

Recommendation 6. SCUSD should retain video tapes for three years or longer.

➤ **Response to Recommendation 6: Concur.** This recommendation has been a part of normal District practice ever since it began videotaping meetings in the 1990's. The District retains the videotapes and they are on file with the District. As noted above, there was a period from 2002 to 2005 during which board meetings were not videotaped. Accordingly, the District will keep videotapes for a minimum of three years.