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What went wrong at MPUSD

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Herald Staff Writer

At 58, Pat Malone was near the top of his game. He was second in command of a large California school district, its chief financial officer with the title of deputy superintendent.

His 27 years with the Monterey Peninsula Unified School District had rewarded him with a nearly unquestioned level of authority and a reputation as a school finance expert.

So on May 26, 1999, close associates were shocked when Malone, long said to be fighting



Malone

departed the same day. His most important project of the year, the school budget for 1999-2000, was left to be completed

by a longtime assistant.

Seven weeks later, he was dead — not from cancer, as some had expected, but from massive head injuries in a fall off the roof of his home.

Then Malone's assistant began finding discrepancies in the work he had turned over to her. When seen in full, the errors revealed the school district was \$6.5 million in the red.

The problem had its roots years earlier, when district income shrank by tens of millions of dollars with the closing of Fort Ord, but spending

continued relatively unabated.

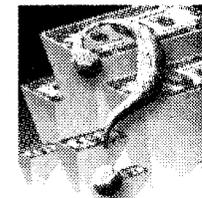
An examination of district financial documents shows that Malone secretly tapped special accounts, such as employee health insurance, and transferred millions into other accounts to keep up the appearance of financial stability. "It was a shell game," said Bill Barr, county superintendent of schools.

It was easy to hide because Malone made many of his calculations by hand, in ledger books, and did not share the information. There was no

computerized tracking of district jobs; when it came time to make up each year's budget, Malone simply guessed. And the district had pulled out of a countywide system that would have let Barr and others look over his shoulder.

Malone's wife, Janet, said her husband gave his all for the schools. "He did what he could to keep the ship afloat," she said. "He gave 27 years to the district. What did he get in return? He took the whole blame."

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MPUSD
The \$6 Million
Question

*This the first of
a three-part
series.*

Malone

From page A1

A four-month investigation by the Herald found no evidence that Malone acted for personal profit. Rather, Barr and other associates say, it was power he sought and gained.

Over time, according to numerous interviews with Malone's colleagues, he was able to act without most usual checks and balances. His intimidating air discouraged challenges from his supervisors, the superintendent and the board of education.

The result of Malone's actions forced the district to cut more than 105 personnel, including more than 70 teachers, drop millions of dollars in programs and even depend on volunteer moms to paint dilapidated bathrooms. Experts estimate it will take three to five years for the district's finances to recover.

First-grade students who started classes in MPUSD last week are the first to face the full impact of the district's multimillion-dollar mismanagement.

The man from Bucknell

The man behind the disaster, Patrick William Malone, was born Oct. 22, 1940, in Pittsburgh, Pa., and grew up in the northern suburb of Glenshaw. In the fall of 1958, he moved to secluded Lewisburg, Pa., to enter Bucknell University, a small, private, liberal arts college whose students are said to seem almost, but not quite, Ivy League.

Malone's college career was fueled by a full football scholarship. He played halfback and, at close to 6 foot 2, was three inches taller than most halfbacks, said Brad Tufts, Bucknell's sports information director at the time. Yet Malone was a second-string player in the shadow of first-stringers like Ashton Ditka, the brother of the legendary Chicago Bears coach.

Still, Malone lettered all three varsity years. He also played varsity baseball, joined the economics club, Christian Association, and Student-Faculty Congress. He was vice president of the Lambda Chi Alpha social fraternity and an officer in the campus Inter-Fraternity Council.

As was required of all Bucknell men at the time, Malone also drilled with the Reserve Officers' Training Corps. When he graduated in June 1962 with a degree in business management and accounting, he was commissioned a second lieutenant in the Army and entered the military police corps.

The service brought Malone to Fort Ord, where he was in charge of the stockade. While still in the service, he met Janet Deacon, a Marshall Elementary School teacher. In 1964, when both were 24, they married in a Roman Catholic ceremony.

By then he had begun working in the accounting department of Firestone Tire & Rubber Co. at its Salinas plant. The couple lived in Pacific Grove. After four years, they had a son, Eron, and two years later, a daughter, Patrice.

In 1969, he took his accounting acumen to the Monterey County Office of Education, where he spent three years as business manager.

An accomplished do-it-yourselfer, Malone in 1970 helped a contractor build the family a home with spectacular views in Carmel Valley's Tierra Grande subdivision, near the Mid Valley Shopping Center.

In 1972, he moved to MPUSD as assistant business manager. Under Superintendent Jim Harrison, he proved himself a quick-witted executive with a knack for financial projections. He worked his way up to business manager in 1980 and to assistant superintendent in 1983.

Privacy equals power

By the 1990s, Malone had built up a dazzling reputation for numbers. He also became known for having a tough, cold demeanor that intimidated subordinates and peers alike. Together, they brought him unparalleled independence.

One former top administrator compared him to H.R. "Bob" Haldeman, Richard Nixon's chief of staff and a key figure in the Watergate scandal. Haldeman was known for his arrogance, capacity for detail and tight control of access and information.

Associates said Malone cultivated an air of reserve, as if privacy equaled power. He rarely chewed the fat with teachers or staffers at board meetings, they said. Few said they knew who his friends were.

His wife, Janet, said critics misunderstood him. "Hardball isn't a good description," she said. "He got the job done and it wasn't pleasant. He made very difficult decisions."

They had a small circle of friends, she said, mostly principals and administrators. "He was well liked," she said.

But at the office, associates saw a different side.

"He was a very private man," said Irene Hufford, Malone's closest aide and successor as business chief. Even though she was his right hand for close to 20 years, she knew little of his personal life. She met his wife only twice: when she started at MPUSD and after Malone's death.

Little about Malone could be discerned from his office, a small, wood-paneled room that looks out onto Pacific Street. His clean desk was all business: Papers lined up in neat piles on the side. Files for everything. No bric-a-brac. No family photos.

The few personal touches were presents from district administrators: a rug in the form of a dollar bill, a pen in the shape of a golf club, a coffee cup bearing a golf motif. The walls held a couple of landscape prints. A big basket of artificial fuchsias hung from the ceiling.

His day planner also revealed little. Whereas other administrators commonly left their day planners open for aides to view, Malone didn't reveal his schedule.

Malone wasn't always secretive, said Martha Norton, a former school board member. When she met him in the late 1960s, she was a Monterey High teacher and he was assistant business manager in charge of dealing with the bargaining units.

"He was eager, very open, ambitious," she said. "The negotiating teams felt he was very open. But the superintendent (Harrison) didn't want too much openness." So after a while, Malone "started to conduct the office the way his supervisors wanted him to."

All business

Malone liked to cite what he called his Golden Rule: "If you've got the gold — you rule."

He was all business, to all he did business with.

"There was no casual chat with Malone about anything," said Rick Ringler, a former teacher's union leader. Whenever they met, Ringler said, Malone's favorite expression seemed to be, "Let's rock and roll on this." That meant: Let's get down to business.

"I felt like I was playing poker with him all the time," Ringler said.

Even Barr, who had no adversarial relationship with Malone, had a similar feeling: "I always wondered, 'What else does he know that I don't know?'"

Malone kept up a poker face for many occasions. At the office and before the board, he rarely raised his voice. Others could tell when he was angry, though, because his fair skin flushed when he fumed.

At board meetings, he would often stare at those who had crossed him, said former trustee Ron Chesshire, who experienced Malone's ire on several occasions.

Not that he couldn't get along with people. Former trustee Norton remembers the political debates she had with Malone. They argued passionately, she said, but the conversations always remained good-natured.

Nor was he always icy toward all administrators and staffers.

"Most saw him as a stern dictator, but that's not the way I perceived

him," said Ray Bickel, chief of maintenance and transportation. "He would dictate, but he'd also ask ... my opinion of what he'd just told me to do. I always had the option of saying, 'I don't agree with this.' And he would always listen."

And Malone sometimes showed a soft heart. Once, when he got word that an employee needed insurance coverage for an ailment, but didn't qualify, Malone restructured benefits and did the paperwork so the person got coverage. Another time, he restructured a policy so an employee could receive medicine even though the insurance had stopped paying for it.

"But when he did something like that, he insisted that no one know about it," said Ernie Mercuri, a former leader of the teacher's union.

And Malone kept his word.

"If he told you he'd do something, it was done, and it was done on time," union advocate Ringler said. "It was a point of honor with him."

His word was so well known that if a teacher or administrator told someone in the district, "I'll get back to you," the response might be: "Is that a Pat Malone get-back-to-you or everyone else's get-back-to-you?"

For those who crossed him, though, he could make life tough by holding up paperwork and slowing down projects and requests.

"If he didn't like someone, it would take a lot longer to get something done," said one teacher. Malone could hold up supplies or funding for months.

He could also be unusually stingy with information. It became an MPUSD maxim: Malone would give you the right answer only if you asked the right question.

"He never refused information," said former trustee Chesshire. "He'd just talk circles around you. He try to pull technical or legal stuff on you."

Malone seemed to enjoy confrontations with the district's unions. He was man who liked heat, who was known for regularly taking fresh, steaming cups of coffee from the office pot and microwaving them to get them even hotter.

Malone would not make eye contact when he entered the room, but would instead head straight for his seat.

"He was arrogant," said Tim Wheelis, a teachers union official who served in negotiations with Malone. "He was a proud, elite character, and we on the other side were plebeians. He was kind of scary."

Though he was usually calm and steady at negotiations, on occasion

he did let his impatience and anger flare.

When union representative Mercuri asked for information about the district's average daily attendance, Malone wanted to hear him ask for the exact number of the form — the J-90. After trying in vain to steer Mercuri into requesting that, Malone gave up, calling Mercuri an idiot.

When bargaining concerned non-financial matters, Malone didn't hide his boredom. He read magazines, books, flipped papers. But when the topic was money, he was all action.

"He always fought," Ringler said. "He squeezed every last dime out of everything."

Time warp

For all his financial ability, Malone was a kind of anachronism. In the technology-charged 1990s, when other districts were computerizing their business departments, he still made many of his calculations by hand in ledger books. Computers were almost ignored for many calculations. Though he used e-mail, he didn't dictate letters, but rather wrote them in long-hand for secretaries to type.

A visit to the district office was "kind of a time warp," said Mike Ottmar, financial chief of the county Office of Education. "I was surprised how far behind the times they were."

That was odd, he said, because "it would be expected that as deputy superintendent, his bailiwick was centralized data processing."

Malone failed to purchase — or even recommend — software for estimating future enrollment and tracking which jobs were filled and which were vacant.

Enrollment and staffing are among the most critical elements in a school district's budget.

Accurately projecting how many students will enroll in the district is the key to calculating state revenue — the bulk of a district's income. And keeping unbudgeted employees off the payroll is the key to keeping costs down, because salaries make up about 85 percent of a district's expenses.

Not using computers didn't seem to bother Malone. Former officials such as Norton think it was because he didn't care to fully understand computers and was too comfortable with his old methods to bother changing.

Tracking the number of employees was an educated guess with him. Businesses usually account for each employee's salary by drawing data

from a centralized personnel list and then creating annual salary budgets.

Not Malone. MPUSD had no centralized list. So he just guessed how much he'd spend that year.

"Eight hundred teachers?" Barr said he once asked Malone in disbelief. "You estimated the cost of 800 teachers? How long have you been doing that?"

"Forever," he said, was Malone's reply.

"He had the attitude, 'I know what's best for the district. Leave it to me,'" Barr said.

His skill, it seemed, enabled him to pull it off. He demanded accuracy from his staff and was legendary for cranking out enrollment projections for schools that were correct down to a student or two.

Too much power

Over time, Malone's command of numbers earned him the respect of his peers, subordinates, and even superiors. They rewarded him with a salary, benefits and perks amounting to more than \$121,000 in his last year. They relied on him to handle financial matters.

In a move that appeared to recognize his expertise, Nancy Dalton, who succeeded Harrison as Malone's second superintendent, promoted him to deputy superintendent, second in command.

When she left in 1993, however, Malone did not seek the top job. His wife, Janet, said his lack of education credentials, including teaching experience, kept the position out of reach.

At the urging of Bob Infelise, who filled in as acting superintendent following Dalton's departure, the school board turned to Billy DeBerry, an associate superintendent who'd risen up through schools and was head of personnel.

"Infelise said we should hire from the inside at the time — someone we could work with," Norton said. "He kept telling us (DeBerry) had earned it. I kept telling him I didn't think that was enough of a reason." She said she told Infelise that DeBerry didn't understand finances enough. Others agreed that Malone would need to be reined in, Chesshire said.

Infelise said he doesn't recall the discussions, but did not dispute either statement. DeBerry declined to be interviewed for this article.

Because the new superintendent, DeBerry, had long been an equal of Malone's, "a lot of people thought Malone had a hard time coping with DeBerry being over him," Hufford said. "It seemed it was like pulling teeth (for DeBerry) to get Malone to give information."

Months later, when Chesshire asked DeBerry, "When are you going to take more authority?" DeBerry answered: "I'm not prepared to take him on yet."

By the early 1990s, Malone's superiors had allowed him to take on duties that his peers in other districts never had. Malone took on the work of four or five people, Barr said.

He was more than just MPUSD's business manager. He had hands-on command of virtually all administrative services — including budgeting, tracking daily attendance, overseeing school maintenance and insurance issues.

Years later, such control would eventually draw the concern of trustees such as Ken Brown.

"I felt at times that Pat had too much power," he said. "He had to bless every expenditure or purchase" instead of allowing principals and administrators to control their own spending.

But Brown insists that he felt comfortable with Malone. As a trustee, he said, he never hesitated to ask Malone a question or confront him on an issue. He trusted Malone.

The broad command left it impossible for Malone to give equal attention to all his responsibilities, such as district insurance. "Risk management," Barr joked, "was the upper left-hand corner of Pat's desk."

Working alone

Malone's use of outmoded ledgers

also contributed to a financial freedom not enjoyed by his peers.

First, only Malone saw the budget from start to finish, because staffers and their tasks were compartmentalized. A citizens' group, the budget advisory committee, was kept in the dark, said some who served on it.

"We weren't even a rubber-stamp committee," said Carol Saxton, an employee representative. "There was nothing to rubber stamp."

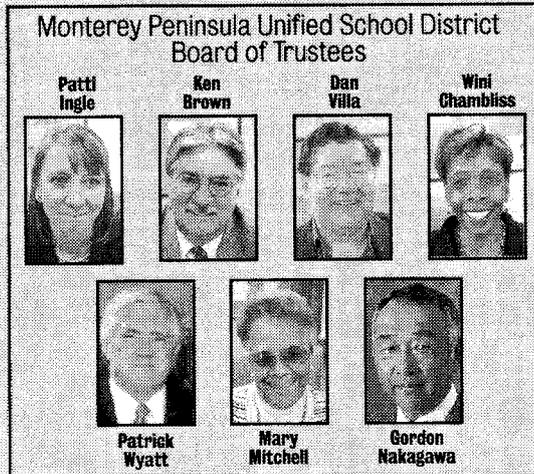
Though Malone talked about the long-term need to cut expenses, he never gave the committee a concrete number to cut, she said. The group didn't discuss cuts or additions to the budget.

Instead, each member merely wrote suggestions — one to a page of paper — and submitted them to Malone. He compiled the budget by himself after that.

Malone once told union leader Ringler that he considered most committees "just glassy-eyed people" and an annoyance that kept the job from getting done.

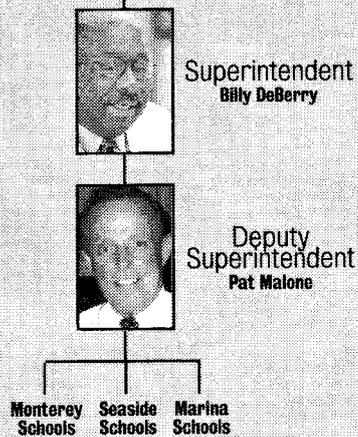
Who was in charge?

Like a company's board of directors, **MPUSD trustees** had the job of setting district policies and tracking finances by reviewing annual budgets. They were also supposed to monitor the work of Superintendent Billy DeBerry, whom they alone could hire and fire. Having little financial expertise, they accepted business manager Pat Malone's information — and deficit budgets — year after year without question. They also failed to force DeBerry to demand more information and accountability from Malone.



Like a company CEO, **Superintendent Billy DeBerry** — guided by board policies — carried out the day-to-day management of the district. His job was to supervise all department heads — such as those in personnel, curriculum and maintenance — yet he failed to monitor business manager Pat Malone's actions or demand complete accountability and financial information. He could fire Malone, but he says he was ignorant of Malone's fund-shifting.

A first among equals in the cabinet, **Deputy Superintendent Patrick Malone** was second in command — supposedly answering to DeBerry. But as business manager he tightly controlled the release of information. He often shifted money — without DeBerry's knowledge or the board's approval — to offset deficits in the general fund.



JAMES HERRERA/The Herald



“I always wondered, ‘What else does he know that I don’t know?’ ”

Bill Barr
county
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schools

Second, regulations allowed MPUSD to receive only superficial oversight from the county. In 1989, under Harrison, MPUSD asked to be reclassified as independently financially accountable.

The new designation allowed Malone to remove the district from the Office of Education’s centralized computer system. MPUSD became the only local district to be autonomous.

Had MPUSD’s finances been online and monitored by the Office of Education, “we’d have had a much better handle” on the problems that developed, Barr said.

When MPUSD became autonomous, it stopped using the county’s standardized accounting system and created its own.

At the time, Barr said, it’s possible that Monterey “had some wisdom at the time in doing that.” He said the county Office of Education’s data processing system was “a mess.”

Hufford said going offline from the county “seemed like the natural thing to do. We were big enough to keep our own system.” MPUSD could input and retrieve data more easily without going through the county.

From then on, the district had to provide only superficial financial summaries to the county four times a year. Barr said he had little idea just what money was going where.

So no one seemed to notice when Malone began shifting money behind the scenes to offset huge deficits brought on by a persistent failure to cut spending after enrollments fell with the close of Fort Ord.

Only later would it come to light that Malone had been juggling, keeping up appearances, hoping that the area’s natural growth would eventually return fiscal stability.

In the end, he could not outrace the district’s unflagging expenses and dwindling revenues. He could not fill a \$6.5 million-size hole.

“It’s fine,” he assured Hufford on the day he resigned. He told her she should not worry about the school budget he was leaving behind.

But to one colleague, he confessed:

“I can’t balance the budget.”

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Tomorrow: How the district’s financial house collapsed.