FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Fiscal Health Risk Analysis

August 7, 2020

Alum Rock Union School District

Michael H. Fine
Chief Executive Officer

Contents

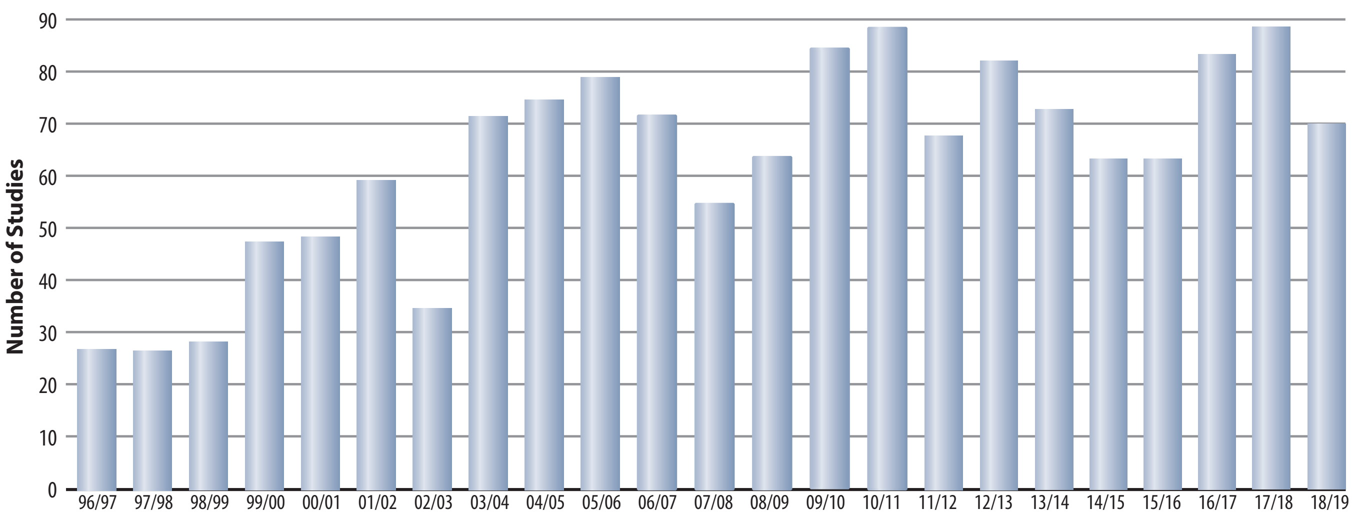
About FCMAT

FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT's fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices, support the training and development of chief business officials and help to create efficient organizational operations. FCMAT's data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and inform instructional program decisions.

FCMAT may be requested to provide fiscal crisis or management assistance by a school district, charter school, community college, county office of education, the state Superintendent of Public Instruction, or the Legislature.

When a request or assignment is received, FCMAT assembles a study team that works closely with the LEA to define the scope of work, conduct on-site fieldwork and provide a written report with findings and recommendations to help resolve issues, overcome challenges and plan for the future.

Studies by Fiscal Year



FCMAT has continued to make adjustments in the types of support provided based on the changing dynamics of K-14 LEAs and the implementation of major educational reforms.FCMAT also develops and provides numerous publications, software tools, workshops and professional learning opportunities to help LEAs operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) division of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS). CSIS also hosts and maintains the Ed-Data website (www.ed-data.org) and provides technical expertise to the Ed-Data partnership: the California Department of Education, EdSource and FCMAT.

FCMAT was created by Assembly Bill (AB) 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. AB 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. AB 1115 in 1999 codified CSIS' mission.

AB 1200 is also a statewide plan for county offices of education and school districts to work together locally to improve fiscal procedures and accountability standards. AB 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

In January 2006, Senate Bill 430 (charter schools) and AB 1366 (community colleges) became law and expanded FCMAT's services to those types of LEAs.

On September 17, 2018 AB 1840 was signed into law. This legislation changed the how fiscally insolvent districts are administered once an emergency appropriation has been made, shifting the former state-centric system to be more consistent with the principles of local control, and providing new responsibilities to FCMAT associated with the process.

Since 1992, FCMAT has been engaged to perform more than 1,000 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Michael H. Fine, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Introduction

Background

Historically, FCMAT has not engaged directly with school districts showing distress until it has been invited to do so by the district or the county superintendent. The state's 2018-19 Budget Act provides for FCMAT to offer more proactive and preventive services to fiscally distressed school districts by automatically engaging with a district under the following conditions:

- Disapproved budget
- Negative interim report certification
- Three consecutive qualified interim report certifications
- Downgrade of an interim certification by the county superintendent
- "Lack of going concern" designation

Under these conditions, FCMAT will perform a fiscal health risk analysis to determine the level of risk for insolvency. FCMAT has updated its Fiscal Health Risk Analysis (FHRA) tool that weights each question based on high, moderate and low risk. The analysis will not be performed more than once in a 12-month period per district, and the engagement will be coordinated with the county superintendent and build on their oversight process and activities already in place per Assembly Bill (AB) 1200. There is no cost to the county superintendent or to the district for the analysis.

This fiscal health risk analysis is being conducted because the district had three consecutive qualified interim report certifications, under which an analysis is required by the 2018-19 State Budget Act.

The Alum Rock Union School District has a five-member board of trustees serving approximately 9,300 students in grades transitional kindergarten (TK) through 8 in 15 elementary schools, three TK-8th grade schools and six middle schools. The district is located within the city of San Jose and in the Greater Bay Area of California. The district serves a particularly needy student population. According to data available through the California Department of Education (CDE) for 2019-20, approximately 37% of its students are English learners, which is approximately 1.75 times the Santa Clara County percentage and approximately two times the state percentage. Likewise, the district's Unduplicated Pupil Percentage (UPP) is 86.16% of its student population, which is approximately two times the Santa Clara County percentage and approximately 1.4 times the state percentage.

The district had budgets conditionally approved for fiscal years 2019-20, 2018-19 and 2017-18. In 2017-18, due to the Santa Clara County Office of Education's concerns over the district's budget, a fiscal expert was appointed that same year. In 2018-19, in addition to a conditional approval, the budget was subsequently disapproved and, in lieu of a budget committee, a fiscal advisor and fiscal expert team were appointed to assist the district.

The district has been deficit spending for the current and last three years and has also seen its unrestricted ending fund balance erode from $19.7 million in 2016-17 to an estimated $7.8 million in 2019-20 pursuant to its 2019-20 second interim report. While the 2019-20 second interim report was the catalyst and basis for this report, the district has subsequently prepared a 2019-20 third interim report that shows minimal improvement in the district's finances.

The district had been fiscally independent approximately 2.5 years ago but has recently converted to the same financial accounting system as the Santa Clara COE and discontinued its independent status.

FCMAT performed a fiscal health risk analysis to determine the district's level of risk for insolvency.

Fiscal Health Risk Analysis Guidelines

FCMAT entered into a study agreement with the Alum Rock Union School District on May 14, 2020. Due to the impact of the COVID-19 virus, FCMAT did not physically visit the district but conducted its interviews with the district and school site staff via Zoom on June 1-5, 2020 and collected data and reviewed documents via SharePoint, a cloud-based service for document sharing. Following fieldwork, the study team continued to review and analyze documents. This report is the result of those activities.

FCMAT's reports focus on systems and processes that may need improvement. Those that may be functioning well are generally not commented on in FCMAT's reports. In writing its reports, FCMAT uses the Associated Press Stylebook, a comprehensive guide to usage and accepted style that emphasizes conciseness and clarity. In addition, this guide emphasizes plain language, discourages the use of jargon and capitalizes relatively few terms.

Study Team

The team was composed of the following members:

Julie Auvil, CPA, CGMA, CICA
FCMAT Intervention Specialist

John Von Flue
FCMAT Chief Analyst

Laura Haywood
FCMAT Technical Writer

Each team member reviewed the draft report to confirm its accuracy and to achieve consensus on the analysis.

Fiscal Health Risk Analysis
For K-12 School Districts

FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Date(s) of fieldwork: June 1 – 5, 2020

District: Alum Rock Union School District

Summary

The Alum Rock Union School District has a long history of deficit spending. As pointed out by the Santa Clara COE in its September 6, 2019 adopted budget letter, the district has "a budget history of optimistic projections that do not materialize as the year progresses." The district's 2019-20 second interim report reflects unrestricted general fund deficit spending estimated at approximately $3.4 million, consuming approximately 30.3% of its 2019-20 beginning unrestricted general fund fund balance. According to the 2019-20 multiyear projection, the district's plan to reduce expenditures in the two subsequent years relies on reductions in staffing totaling approximately $4.7 million for 2020-21 and $1.7 million for 2021-22.

FCMAT could not locate any board minutes reflecting a reduction in certificated staffing; however, the district reported that no reduction in force was necessary because attrition accounted for the 30 certificated FTE for 2020-21 and that a formal reduction in force resolution was not necessary for certificated positions. However, without formal board action being taken to eliminate these positions, inadvertent rehiring could occur. The board did take formal action to reduce classified services by 8.21875 FTE on July 9, 2020.

The 2019-20 second interim report also shows staffing reductions related to the 2021-22 fiscal year with the district reporting numbers related to FTE reductions. However, it also states that part of the approximate $1.7 million is an unspecified reduction of $517,918.56.

While the district appears to have made staffing reductions for 2020-21, the following chart compares its 2020-21 adopted budget and 2019-20 estimated actuals to its 2019-20 2nd interim report. What emerges from this comparison is a reduction in the level of deficit spending for the current year but increased deficit spending in 2020-21. It also shows an expansive increase in "other adjustments" for 2021-22 and 2022-23 necessary to maintain the district's 3% reserve. This only worsens the problem over time because it has not been dealt with.

	2019/20 2nd Interim Rpt.	2020/21 Adopted Budget		Difference
2019/20 Unrestricted General Fund Increase/(Decrease) in Fund Balance	$ (3,411,644.69)	$ (1,948,245.50)		$ (1,463,399.19)
2020/21 Unrestricted General Fund Increase/(Decrease) in Fund Balance	$ (2,196,415.96)	$ (5,419,452.76)		$ 3,223,036.80
Unrestricted General Fund Other Adjustments:				
2019/20	$ -	$ -		$ -
2020/21	$ 5,336,920.00	$ 4,200,000.00	*	$ (1,136,920.00)
2021/22	$ 1,742,361.00	$ 17,921,622.00		$ 16,179,261.00
2022/23	$ -	$ 22,025,229.00		$ 22,025,229.00

*Masked within multiyear projections; disclosed in 2020/21 Adopted Budget PowerPoint presentation as a key assumption

The district's PowerPoint presentation for the 2020-21 budget states that negotiations for 2019-20 and 2020-21 have yet to be settled with two of its bargaining units and that a reduction of $4.2 million is needed that is yet to be determined. The district reported that it had already included the $4.2 million reduction in the 2020-21 adopted budget, which can be seen in the reduction of the district's utilities expenditures from $3,054,848 in its 2019-20 estimated actuals to $54,037 at the 2020-21 adopted budget. Failure to achieve the $4.2 million reduction places the district in jeopardy of exhausting its unrestricted general fund fund balance in its entirety.

Adding to this situation is continued declining enrollment, the additional burden of COVID-19 and the national recession. Those impacts now threaten the fiscal solvency of many districts across the state.

The district also faces the potential burden on the general fund of the approximate $3.0 million annual payment due on its June 2010 Certificates of Participation (COPs). While the district plans to use other funds to assist with the COPs payments such as Fund 21 (Bond Fund), Fund 25 (Capital Facilities Fund), and Fund 35 (County School Facilities Fund), the unrestricted general fund will carry the burden of payment should these funds not materialize.

As part of this review, FCMAT has identified the main areas of concern to be budget monitoring, budget development and adoption, internal controls and fraud prevention, non-voter-approved debt and risk management, contributions and transfers, deficit spending and fund balance and reserve for economic uncertainty. The board's decision to not act to implement either a plan to eliminate and/or reduce deficit spending; eliminate, reduce or control contributions/transfers to restricted programs; or restore the reserve is a detriment to the district's fiscal health and solvency unless further deep budget cuts can be made. Keep in mind that reductions in staff is not a complete plan. It is but one step in a well-crafted plan. The governing board is ultimately responsible for the district's budget. The district's administration has the responsibility of presenting sound financial information based on current and accurate assumptions so the board can make informed decisions.

District Fiscal Solvency Risk Level: High

About the Analysis

The Fiscal Crisis and Management Assistance Team (FCMAT) has developed the Fiscal Health Risk Analysis (FHRA) as a tool to help evaluate a school district's fiscal health and risk of insolvency in the current and two subsequent fiscal years.

The FHRA includes 20 sections, each of which contains specific questions. Each section and specific question is included based on FCMAT's work since the inception of AB 1200; they are the common indicators of risk or potential insolvency for districts that have neared insolvency and needed assistance from outside agencies. Each section of this analysis is critical, and lack of attention to these critical areas will eventually lead to a district's failure. The analysis focuses on essential functions and processes to determine the level of risk at the time of assessment.

The greater the number of "no" answers to the questions in the analysis, the greater the potential risk of insolvency or fiscal issues for the district. Not all sections in the analysis and not all questions within each section carry equal weight; some areas carry higher risk and thus count more heavily in calculating a district's fiscal stability. To help the district, narratives are included for responses that are marked as a "no" so the district can better understand the reason for the response and actions that may be needed to obtain a "yes" answer.

Identifying issues early is the key to maintaining fiscal health. Diligent planning will enable a district to better understand its financial objectives and strategies to sustain a high level of fiscal efficiency and overall solvency. A district should consider completing the FHRA annually to assess its own fiscal health risk and progress over time.

Areas of High Risk

The following sections duplicate certain questions and answers given in the Fiscal Health Risk Analysis Questions later in this document and identify conditions that create significant risk of fiscal insolvency. The existence of an identified budget or fiscal status or a material weakness indicated by a "no" answer to any of these items supersedes all other scoring and will elevate the district's overall risk level.

Budget and Fiscal Status: Is district currently *without* the following?:	**Yes**	**No**
Disapproved budget	✓	☐
Negative interim report certification	✓	☐
Three consecutive qualified interim report certifications	☐	✓
Downgrade of an interim certification by the county superintendent	✓	☐
"Lack of going concern" designation	✓	☐

Material Weakness Questions		**Yes**	**No**	**N/A**
2.5	Has the district's budget been approved unconditionally by its county office of education in the current and two prior fiscal years?	☐	✓	☐
3.4	Following board approval of collective bargaining agreements, does the district make necessary budget revisions in the financial system to reflect settlement costs in accordance with Education Code Section 42142?	✓	☐	☐

3.6	Has the district addressed any deficiencies the county office of education has identified in its oversight letters in the most recent and two prior fiscal years?	☐	✓	☐
4.3	Does the district forecast its general fund cash flow for the current and subsequent year and update it as needed to ensure cash flow needs are known?	☐	✓	☐
4.4	If the district's cash flow forecast shows insufficient cash in its general fund to support its current and projected obligations, does the district have a reasonable plan to address its cash flow needs for the current and subsequent year?	☐	☐	✓
5.2	If the district has any charters in fiscal distress, has the district performed its statutory fiscal and operational oversight functions, including formal communication to the charter, such as notices of violation?	☐	☐	✓
5.3	Has the district fulfilled and does it have evidence showing fulfillment of its oversight responsibilities in accordance with Education Code Section 47604.32?	✓	☐	☐
6.3	Does the district accurately quantify the effects of collective bargaining agreements and include them in its budget and multiyear projections?	✓	☐	☐
6.4	Did the district conduct a presettlement analysis and identify related costs or savings, if any (e.g., statutory benefits, and step and column salary increase), for the current and subsequent years, and did it identify ongoing revenue sources or expenditure reductions to support the agreement?	✓	☐	☐
7.2	If the district has deficit spending in funds other than the general fund, has it included in its multiyear projection any transfers from the unrestricted general fund to cover any projected negative fund balance?	☐	✓	☐
8.3	If the district has deficit spending in the current or two subsequent fiscal years, has the board approved and implemented a plan to reduce and/or eliminate deficit spending to ensure fiscal solvency?	☐	✓	☐
10.6	Are the district's enrollment projections and assumptions based on historical data, industry-standard methods, and other reasonable considerations?	✓	☐	☐
11.2	Does the district have sufficient and available capital outlay and/or bond funds to cover all contracted obligations for capital facilities projects?	☐	✓	☐
12.1	Is the district able to maintain the minimum reserve for economic uncertainty in the current year (including Fund 01 and Fund 17) as defined by criteria and standards?	✓	☐	☐
12.2	Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years?.	☐	✓	☐
12.3	If the district is not able to maintain the minimum reserve for economic uncertainty, does the district's multiyear financial projection include a board-approved plan to restore the reserve?	☐	✓	☐
19.1	Does the district account for all positions and costs?	✓	☐	☐

Score Breakdown by Section

Because the score is not calculated by category, category values provided are subject to minor rounding error and are provided for information only.

1.	Annual Independent Audit Report	0.1%
2.	Budget Development and Adoption	4.1%
3.	Budget Monitoring and Updates	5.5%
4.	Cash Management	2.6%
5.	Charter Schools	0.1%
6.	Collective Bargaining Agreements	1.2%
7.	Contributions and Transfers	2.9%
8.	Deficit Spending (Unrestricted General Fund)	2.9%
9.	Employee Benefits	0.6%
10.	Enrollment and Attendance	1.0%
11.	Facilities	0.8%
12.	Fund Balance and Reserve for Economic Uncertainty	2.9%
13.	General Fund - Current Year	2.7%
14.	Information Systems and Data Management	0.0%
15.	Internal Controls and Fraud Prevention	3.3%
16.	Leadership and Stability	0.2%
17.	Multiyear Projections	1.0%
18.	Non-Voter-Approved Debt and Risk Management	3.1%
19.	Position Control	0.6%
20.	Special Education	1.6%

Score	**37.2%**

Fiscal Health Risk Analysis Questions

Budget and Fiscal Status: Is the district currently *without* the following?:

	Yes	No
Disapproved budget	✓	☐
Negative interim report certification	✓	☐
Three consecutive qualified interim report certifications	☐	✓
Downgrade of an interim certification by the county superintendent	✓	☐
"Lack of going concern" designation	✓	☐

1. Annual Independent Audit Report

		Yes	No	N/A
1.1	Has the district corrected the most recent and prior two years' audit findings without affecting its fiscal health?	✓	☐	☐
1.2	Has the audit report for the most recent fiscal year been completed and presented to the board within the statutory timeline? (Extensions of the timeline granted by the State Controller's Office should be explained.)	✓	☐	☐

While the audit report was presented to the board on January 7, 2020, which is within the statutory deadline and the State Controller's office shows that the district submitted its 2018-19 audit report by its due date, it was listed under the review category of "rejected."

		Yes	No	N/A
1.3	Were the district's most recent and prior two audit reports free of findings of material weaknesses?	☐	✓	☐

The district's 2016-17 and 2017-18 audited financial statements both identified material weaknesses in internal controls that related to the unaudited actuals requiring significant adjustment to arrive at audited financial statement balances. They also both reported, "we were unable to substantiate that appropriate internal controls have been implemented to ensure the accuracy of financial reporting."

		Yes	No	N/A
1.4	Has the district corrected all reported audit findings from the most recent and prior two audits?	✓	☐	☐

2. Budget Development and Adoption

		Yes	No	N/A
2.1	Does the district develop and use written budget assumptions and multiyear projections that are reasonable, are aligned with the county office of education instructions, and have been clearly articulated?	☐	✓	☐

While the district provides a one-page, multiyear set of budget assumptions in its adopted budget and interim reports, its 2019-20 second interim report multiyear projection includes "Other Adjustments" totaling approximately $4.7 million and $1.7 million for 2020-21 and 2021-22, respectively. The district's explanation for the $4.7 million 2020-21 adjustment included staffing reductions of 30 certificated FTEs, 1 administrator FTE and 2 classified FTEs.

The district reported its reduction of 30 FTE for 2020-21 was related to attrition and no reduction in force resolution was necessary for certificated positions. However, no formal board action was taken to eliminate these positions to prevent inadvertent *rehiring. The board did take formal action to reduce classified services by 8.21875 FTE on July 9, 2020.*

FCMAT was unable to find board minutes to support the staffing reductions for 2020-21, and the district did not provide an explanation as to where to find evidence of board action.

2.2	Does the district use a budget development method other than a prior-year rollover budget, and, if so, does that method include tasks such as review of prior year estimated actuals by major object code and removal of one-time revenues and expenses?	☐	✓	☐

Per interviews, the district's practice is to utilize the prior year's budget and make adjustments to either remove one-time expenditures or add new expenditures as information is communicated.

2.3	Does the district use position control data for budget development?	✓	☐	☐
2.4	Does the district calculate the Local Control Funding Formula (LCFF) revenue correctly?	✓	☐	☐
2.5	Has the district's budget been approved unconditionally by its county office of education in the current and two prior fiscal years?	☐	✓	☐

The district had conditionally approved budgets for fiscal years 2019-20, 2018-19 and 2017-18.

The 2017-18 budget was conditionally approved on September 15, 2017. The Santa Clara COE did not receive a response to its conditional approval letter, extended its timeline for receipt of a response three times, and finally received the board's October 30, 2017 response. On November 8, 2017, Santa Clara COE expressed its further concerns related to cash, debt, budget assumptions and internal controls but, after careful consideration, approved the 2017-18 budget. However, it also appointed a fiscal expert to support the district.

The district's initial budget for 2018-19 was conditionally approved; however, because the district did not provide clarifying information on 11 of 13 topics requested by the Santa Clara COE, the budget was disapproved on November 8, 2018 and, in lieu of a budget committee, a fiscal expert team and fiscal advisor were established to respond to the items raised in the conditional approval letter. On December 19, 2018, agreement was reached between the district and Santa Clara COE to revise and approve the 2018-19 budget and the fiscal advisor services were discontinued, but the district has continued its relationship with its fiscal expert team.

The district's 2019-20 budget was, again, conditionally approved. Its revised budget was approved by the Santa Clara COE on November 8, 2019.

2.6	Does the budget development process include input from staff, administrators, the governing board, the community, and the budget advisory committee (if there is one)?	✓	☐	☐
2.7	Does the district budget and expend restricted funds before unrestricted funds?	✓	☐	☐
2.8	Have the Local Control and Accountability Plan (LCAP) and the budget been adopted within statutory timelines established by Education Code Sections 42103 and 52062 and filed with the county superintendent of schools no later than five days after adoption or by July 1, whichever occurs first, for the current and one prior fiscal year?	✓	☐	☐
2.9	Has the district refrained from including carryover funds in its adopted budget?	✓	☐	☐

		Yes	No	N/A
2.10	Other than objects in the 5700s and 7300s and appropriate abatements in accordance with the California School Accounting Manual, does the district avoid using negative or contra expenditure accounts?	☐	✓	☐

The district reported that it does use negative or contra expense accounts to reflect savings from unfilled positions. FCMAT's review of the district's 2019-20 Financial Summary Report found the use of a negative expenditure budget in object 5800.

		Yes	No	N/A
2.11	Does the district have a documented policy and/or procedure for evaluating the proposed acceptance of grants and other types of restricted funds and the potential multiyear impact on the district's unrestricted general fund?	☐	✓	☐

The district adopted BP 3290 Gifts, Grants and Bequests on July 2, 2013. This policy requires the board to "carefully consider any conditions or restrictions imposed by the donor to ensure their consistency with the district's vision, philosophy, and operations." It does not include evaluating the potential multiyear impact on the district's unrestricted general fund.

		Yes	No	N/A
2.12	Does the district adhere to a budget calendar that includes statutory due dates, major budget development tasks and deadlines, and the staff members/departments responsible for completing them?	✓	☐	☐

3. Budget Monitoring and Updates

		Yes	No	N/A
3.1	Are actual revenues and expenses consistent with the most current budget?	☐	✓	☐

The Financial Summary Report dated June 19, 2020 provided to FCMAT included multiple account lines that did not align with revenues and expenditures to date. For current year, several budget lines were found to be overexpended and revenues underbudgeted. This indicates that budget revisions were not made before expenditures were made beyond the approved budget and the budgets for revenues were not adjusted as additional amounts were received.

		Yes	No	N/A
3.2	Are budget revisions posted in the financial system at each interim report, at a minimum?	✓	☐	☐
3.3	Are clearly written and articulated budget assumptions that support budget revisions communicated to the board at each interim report, at a minimum?	☐	✓	☐

A list of detailed budget assumptions was provided to the board in the district's adopted budget and first and second interim reports for the 2017-18, 2018-19 and 2019-20 fiscal years. However, no budget assumptions were included in any of the third interim reports for these fiscal years.

		Yes	No	N/A
3.4	Following board approval of collective bargaining agreements, does the district make necessary budget revisions in the financial system to reflect settlement costs in accordance with Education Code Section 42142?	✓	☐	☐
3.5	Do the district's responses fully explain the variances identified in the criteria and standards?	☐	✓	☐

FCMAT found that the criteria and standards are not consistently fully completed, leaving some variances unidentified. When variances are identified, the response does not always fully explain the variance with specifics and, if applicable, how the district will respond.

For example, in the 2019-20 adopted budget, the enrollment variance was explained by referencing the Dolinka September 2015 enrollment study and that "as we move further from the initial study, the projection variances between actual and Dolinka study was greater. We are no longer using Dolinka study for our projections to better match actual *enrollment." The district had identified this same problem in criteria and standards explanations for the 2018-19 adopted budget but had not addressed it.*

In the deficit spending standard in many of its reports, the district states that "The District currently has a structural deficit, but are looking into various budget reduction plans to achieve a balanced budget." This statement does not provide the response required because it does not include a reason for deficit spending or changes that will ensure the budget is balanced.

		Yes	No	N/A
3.6	Has the district addressed any deficiencies the county office of education has identified in its oversight letters in the most recent and two prior fiscal years?	☐	✓	☐

The Santa Clara COE's 2017-18 second interim letter identified its concerns about the district's deficit spending for the past seven years, and those concerns extended into its letters issued in the 2018-19 and 2019-20 fiscal years. The Santa Clara COE 2017-18 second interim letter talks about several instances where the district had not followed up on deficiencies/concerns raised by the COE. It further states, "Even with the added fiscal support and detailed guidance, the District ... has not been timely in responding to various requests of the county office that were extended to be due at Second Interim ..."

The Santa Clara COE's 2019-20 adopted budget letter states that the district has a "history of optimistic projections that do not materialize as the year progresses." The district's 2019-20 second interim report's multiyear projections include "Other Adjustments" related to staffing reductions; however, FCMAT could find no board actions to support those assumptions.

		Yes	No	N/A
3.7	Does the district prohibit processing of requisitions or purchase orders when the budget is insufficient to support the expenditure?	✓	☐	☐
3.8	Does the district encumber and adjust encumbrances for salaries and benefits?	✓	☐	☐
3.9	Are all balance sheet accounts in the general ledger reconciled at least at each interim report and at year end close?	☐	✓	☐

FCMAT's review of the district's general ledger recap report for fiscal year 2019-20 shows that some balance sheet accounts have been reconciled but some have not. For example, object 9510 Accounts Payable reflects a beginning credit balance of $37,449.94 with two transfers posted. One is a credit, adding to the balance, and the other is a $0.94 debit that has a description of "clean up."

		Yes	No	N/A
3.10	Have the interim reports and the unaudited actuals been adopted and filed with the county superintendent of schools within the timelines established in Education Code?	☐	✓	☐

FCMAT's review and comparison of dates in the interim reports/unaudited actuals and the district's board meeting minutes found that the 2017-18 unaudited actuals were not approved by the board until October 11, 2018, and the 2018-19 third interim report, while included on the May 9, 2019 board agenda, was not included in the board minutes of that meeting.

FCMAT's review of Santa Clara COE's letters for these same financial reports noted that most were submitted timely; however, the letter for the 2017-18 first interim report did not specify whether the report was submitted on time or not.

4. Cash Management

		Yes	No	N/A
4.1	Are accounts held by the county treasurer reconciled with the district's and county office of education's reports monthly?	✓	☐	☐

		Yes	No	N/A
4.2	Does the district reconcile all bank (cash and investment) accounts with bank statements monthly?	☐	✓	☐

The district does not reconcile its other bank accounts monthly: revolving and cash with fiscal agent. FCMAT was provided with bank statements for the revolving account for the months of March, April and May 2020 and cash with fiscal agent for May 2020, but no reconciliations were provided. The district provided copies of the reconciliations for the ASB account for January-May 2020, which shows that it does reconcile this account. However, it is not always completed monthly. For example, the March 2020 statement was reconciled on May 1 and the April 2020 statement was reconciled on June 18.

		Yes	No	N/A
4.3	Does the district forecast its general fund cash flow for the current and subsequent year and update it as needed to ensure cash flow needs are known?	☐	✓	☐

Based on a review of the 2019-20 adopted budget and first, second and third interim financial reporting period documents, the district updates and monitors current year cash flow at the financial reporting periods but does not project the subsequent year's cash flow.

		Yes	No	N/A
4.4	If the district's cash flow forecast shows insufficient cash in its general fund to support its current and projected obligations, does the district have a reasonable plan to address its cash flow needs for the current and subsequent year?	☐	☐	✓
4.5	Does the district have sufficient cash resources in its other funds to support its current and projected obligations in those funds?	✓	☐	☐
4.6	If interfund borrowing is occurring, does the district comply with Education Code Section 42603?	☐	✓	☐

At the beginning of the 2017-18 fiscal year, the self-insurance fund borrowed approximately $1.95 million from the general fund to clear its negative cash balance, which is a normal transaction between these two funds each fiscal year. EC 42603 provides that repayment must occur in the same fiscal year. However, the $1.95 million was repaid June 14, 2019, which is outside of the fiscal year in which it was borrowed.

		Yes	No	N/A
4.7	If the district is managing cash in any fund(s) through external borrowing, does the district's cash flow projection include repayment based on the terms of the loan agreement?	☐	☐	✓

5. Charter Schools

		Yes	No	N/A
5.1	Are all charters authorized by the district going concerns?	✓	☐	☐
5.2	If the district has any charters in fiscal distress, has the district performed its statutory fiscal and operational oversight functions, including formal communication to the charter, such as notices of violation?	☐	☐	✓
5.3	Has the district fulfilled and does it have evidence showing fulfillment of its oversight responsibilities in accordance with Education Code Section 47604.32?	✓	☐	☐
5.4	Does the district have a board policy or other written document(s) regarding charter oversight?	✓	☐	☐
5.5	Has the district identified specific employees in its various departments (e.g., human resources, business, instructional, and others) to be responsible for oversight of all approved charter schools?	☐	✓	☐

During interviews, FCMAT found that the district relies on the business office along with an outside consultant for charter review and oversight. No other departments were found to engage in the oversight of the charter schools.

6. Collective Bargaining Agreements

		Yes	No	N/A
6.1	Has the district settled with all its bargaining units for the past two fiscal years?	✓	☐	☐
6.2	Has the district settled with all its bargaining units for the current year?	☐	✓	☐

The district has not settled with any of its represented union groups for the current year.

The Alum Rock Educators' Association (AREA) has an agreement in effect for the period July 1, 2018 through June 30, 2021, with salary and benefit openers for 2019-20 and 2020-21. Reopeners were received at the district's November 2019 board meeting.

The Classified School Employees Association Alum Rock Chapter #305 (CSEA #305) agreement is effective through June 30, 2020, with reopeners for wages and 2 "non-economic Articles." Reopeners have not yet been agendized.

The Teamsters Local 150 contract is in effect for 2017-20. An initial proposal dated March 28, 2020 included multiple reopeners including compensation for 2019-20. The public hearing on the reopeners was held on May 14, 2020.

		Yes	No	N/A
6.3	Does the district accurately quantify the effects of collective bargaining agreements and include them in its budget and multiyear projections?	✓	☐	☐
6.4	Did the district conduct a presettlement analysis and identify related costs or savings, if any (e.g., statutory benefits, and step and column salary increase), for the current and subsequent years, and did it identify ongoing revenue sources or expenditure reductions to support the agreement?	✓	☐	☐
6.5	In the current and prior two fiscal years, has the district settled the total cost of the bargaining agreements at or under the funded cost of living adjustment (COLA)?	☐	✓	☐

For 2017-18, the COLA was 1.56%. In July 2017, the board approved a 4% increase for the district's unrepresented employees and approved an agreement with CSEA #305 (no further details included in board agenda or minutes). Information regarding the settlement of collective bargaining agreements with other groups was not provided or found in board agendas or minutes for 2017-18.

For 2018-19, all bargaining groups were provided a 3% salary increase on a funded "Super COLA" of 3.7% (2.71% COLA).

For 2019-20, the COLA was set at 3.26%. The district has not settled for 2019-20.

		Yes	No	N/A
6.6	If settlements have not been reached in the past two years, has the district identified resources to cover the costs of the district's proposal(s)?	☐	☐	✓
6.7	Did the district comply with public disclosure requirements under Government Code Sections 3540.2 and 3547.5, and Education Code Section 42142?	✓	☐	☐
6.8	Did the superintendent and CBO certify the public disclosure of collective bargaining agreement prior to board approval?.	✓	☐	☐
6.9	Is the governing board's action consistent with the superintendent's and CBO's certification?	✓	☐	☐

7. Contributions and Transfers

		Yes	No	N/A
7.1	Does the district have a board-approved plan to eliminate, reduce or control any contributions/transfers from the unrestricted general fund to other restricted programs and funds?	☐	✓	☐
	The district lacks a board-approved plan to eliminate, reduce or control any contributions/transfers from the unrestricted general fund to other restricted programs and funds, including special education, which requires the largest contribution.			
7.2	If the district has deficit spending in funds other than the general fund, has it included in its multiyear projection any transfers from the unrestricted general fund to cover any projected negative fund balance?	☐	✓	☐
	No contributions to other funds were identified in multiyear projections. While deficit spending was identified in several funds, the funds appear to have been spent down intentionally and/or the deficit spending was immaterial.			
7.3	If any contributions/transfers were required for restricted programs and/or other funds in either of the two prior fiscal years, and there is a need in the current year, did the district budget for them at reasonable levels?	☐	✓	☐
	The district's contributions to restricted programs have been growing for fiscal years 2018-19 and 2019-20 at the rate of 5.3% and 2.9%, respectively. While that indicates a decrease in the anticipated contributions for 2019-20, it masks the fact that Special Education Mental Health (RE 6512) will experience an increase in its contribution from the unrestricted general fund of $442,845, or 93.07%.			

8. Deficit Spending (Unrestricted General Fund)

		Yes	No	N/A
8.1	Is the district avoiding deficit spending in the current fiscal year?	☐	✓	☐
	The district expects to decrease its unrestricted ending fund balance by $3,411,645 in the current fiscal year.			
8.2	Is the district projected to avoid deficit spending in both of the two subsequent fiscal years?	☐	✓	☐
	The unrestricted fund balance forecast reflects deficit spending of approximately $3.41 million for 2019-20, $2.2 million for 2020-21, and $1.6 million for 2021-22.			
8.3	If the district has deficit spending in the current or two subsequent fiscal years, has the board approved and implemented a plan to reduce and/or eliminate deficit spending to ensure fiscal solvency?	☐	✓	☐
	The district adopted personnel reductions for the 2019-20 fiscal year but has not presented a plan to further reduce or eliminate spending to the board for approval.			
8.4	Has the district decreased deficit spending over the past two fiscal years?	✓	☐	☐

9. Employee Benefits

		Yes	No	N/A
9.1	Has the district completed an actuarial valuation in accordance with Governmental Accounting Standards Board (GASB) requirements to determine its unfunded liability for other post-employment benefits (OPEB)?	☐	☐	✓
9.2	Does the district have a plan to fund its liabilities for retiree health and welfare benefits with the total of annual required service payments no greater than 2% of the district's unrestricted general fund revenues?	☐	☐	✓

		Yes	No	N/A
9.3	Has the district followed a policy or collectively bargained agreement to limit accrued vacation balances?	☐	✓	☐

The Teamsters' Contractual Agreement Article 14.1.6.1 states that employees "shall not carry in excess of 7 days to the next work year and a vacation greater than 7 days will be added to the first pay period paycheck of the next fiscal year." The provisions of the contract were not being followed and, in December 2019, accumulated balances were paid out to 31 employees at a total cost of $78,058.79.

		Yes	No	N/A
9.4	Within the last five years, has the district conducted a verification and determination of eligibility for benefits for all active and retired employees and dependents?	✓	☐	☐
9.5	Does the district track, reconcile and report employees' compensated leave balances?	✓	☐	☐

10. Enrollment and Attendance

		Yes	No	N/A
10.1	Has the district's enrollment been increasing or remained stable for the current and two prior years?.	☐	✓	☐

District enrollment has been in decline for multiple years with a loss of 1,006 (approximately 9%) students in the last two years.

Year	Enrollment	Change	
		#	%
2017-18	11270	-354	
2018-19	10744	-526	-4.7%
2019-20	10264	-480	-4.5%

Source: Dataquest

		Yes	No	N/A
10.2	Does the district monitor and analyze enrollment and average daily attendance (ADA) data at least monthly through the second attendance reporting period (P2)?	✓	☐	☐
10.3	Does the district track historical enrollment and ADA data to establish future trends?	✓	☐	☐
10.4	Do school sites maintain an accurate record of daily enrollment and attendance that is reconciled monthly at the site and district levels?	✓	☐	☐
10.5	Has the district certified its California Longitudinal Pupil Achievement Data System (CALPADS) data by the required deadlines (Fall 1, Fall 2, EOY) for the current and two prior years?.	✓	☐	☐
10.6	Are the district's enrollment projections and assumptions based on historical data, industry-standard methods, and other reasonable considerations?	✓	☐	☐
10.7	Do all applicable sites and departments review and verify their respective CALPADS data and correct it as needed before the report submission deadlines?	✓	☐	☐
10.8	Has the district planned for enrollment losses to charter schools?	✓	☐	☐
10.9	Does the district follow established board policy to limit outgoing interdistrict transfers and ensure that only students who meet the required qualifications are approved?.	✓	☐	☐
10.10	Does the district meet the student-to-teacher ratio requirement of no more than 24-to-1 for each school in grades TK-3 classes, or, if not, does it have and adhere to an alternative collectively bargained agreement?	✓	☐	☐

11. Facilities

		Yes	No	N/A
11.1	If the district participates in the state's School Facilities Program, has it met the required contribution for the Routine Restricted Maintenance Account?	☐	✓	☐

The required contribution for Routine Restricted Maintenance Account (RRMA) was met for fiscal years 2017-18 and 2018-19. However, the district's 2019-20 second interim report shows that the projected contribution is approximately $440,000 short of the requirement. In the report, the district explains that an adjustment will be made at year end to meet the required contribution.

		Yes	No	N/A
11.2	Does the district have sufficient and available capital outlay and/or bond funds to cover all contracted obligations for capital facilities projects?	☐	✓	☐

It is unknown whether sufficient resources are available for capital facilities projects as no project listing was provided. No evidence was found that the district tracks capital facilities projects.

At the district's November 2019 board meeting, a facilities assessment report was made that identified over $12 million in short-term repairs needed at multiple sites. No information was provided by the district as to what repairs were included in the budget or addressed.

		Yes	No	N/A
11.3	Does the district properly track and account for facility-related projects?	☐	✓	☐

Citizens Bond Oversight Committee minutes from July 2019 indicate that several HVAC projects were bid and that the sites were using temporary HVAC. The minutes include a statement that the "Restroom Modernization at Mathson Project should be included in the project list." It is unknown whether these projects are active because no tracking or accounting for these projects or others was provided.

		Yes	No	N/A
11.4	Does the district use its facilities fully in accordance with the Office of Public School Construction's loading standards?	☐	✓	☐

The district did not provide or does not have documentation identifying facility capacity. Interviews and facilities inspection reports indicated that excess classroom facilities are available throughout the district. The excess classroom spaces are used for other educational purposes such as pull-out and after school programs and storage.

		Yes	No	N/A
11.5	Does the district include facility needs (maintenance, repair and operating requirements) when adopting a budget?	☐	✓	☐

The district budget for facilities is rolled over from prior year budget and appears to be completely based on the required contribution to RRMA.

		Yes	No	N/A
11.6	Has the district met the facilities inspection requirements of the Williams Act and resolved any outstanding issues?	☐	✓	☐

District facilities inspection reports for 2018-19 and 2019-20 identified a variety of issues including 66 extreme deficiencies. No records were provided that indicated these issues have been addressed. A comparison of the reports found that the condition of 12 sites deteriorated from the 2018-19 inspection to 2019-20 and only four improved. In addition, four sites were found to be in poor condition in the most recent inspection whereas no sites were found in poor condition in the 2018-19 inspections.

Site	2018 Rating %	2018 Score	2018 # Extreme Deficiencies	2019 Rating %	2019 Score	2019 # Extreme Deficiencies
Adelante				86.5	Fair	18
Adelante Dual Language				63	Poor	
Adelante II				95	Good	
Aptitude @ Goss				94.8	Good	
Arbuckle				90	Good	
Cassell				92	Good	
Cesar Chavez				85	Fair	1
Cureton	82	Fair		95	Good	
Dorsa	98	Good		97	Good	
Fischer & Renaissance II	86	Fair		85	Fair	1
George	98	Good		96	Good	
Hubbard	94	Good		83	Fair	1
Linda Vista	92	Good		94	Good	
LUCHA	92	Good		69	Poor	14
Lyndale	86	Fair	5	98	Exemplary	
Mathson & Renaissance	96	Good		84	Fair	1
Mc Collam	96	Good		96	Good	
Mc Entee Russo	99	Exemplary		78	Fair	
Meyer	99	Exemplary		85	Fair	1
Ocala	89	Fair		70	Poor	
Painter	89	Fair		62	Poor	4
Ryan	95	Good	7	98	Good	
San Antonio	99	Exemplary		83	Fair	10
Sheppard	90	Good		84	Fair	3
Totals			12			54

Legend:

Improved rating sites (green)

Deteriorated rating sites (yellow)

Sites in poor condition (red)

No 2018 inspection completed/provided (blue)

		Yes	No	N/A
11.7	If the district passed a Proposition 39 general obligation bond, has it met the requirements for audit, reporting, and a citizens' bond oversight committee?	✓	☐	☐
11.8	Does the district have a long-range facilities master plan that reflects its current and projected facility needs?.	☐	✓	☐

Through interviews with staff and FCMAT's request for documents, no facility master plan was provided nor were any staff interviewed aware of an existing plan. No projects of significance are currently active.

12. Fund Balance and Reserve for Economic Uncertainty

		Yes	No	N/A
12.1	Is the district able to maintain the minimum reserve for economic uncertainty in the current year (including Fund 01 and Fund 17) as defined by criteria and standards?	✓	☐	☐
12.2	Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years?	☐	✓	☐

While the multiyear projection in the district's 2019-20 second interim report shows that the district would maintain the minimum reserve for economic uncertainty for *fiscal years 2020-12 and 2021-22, those numbers are based on staffing reductions of approximately $4.7 million in 2020-21 and $1.7 million in 2021-22.*

For fiscal year 2020-21, that encompasses a reduction of 30 certificated FTE, one administrator FTE, one executive assistant FTE and one accountant FTE. These numbers were also net of the 3% retroactive salary payment negotiated for 2019-20. The district reported its reduction of 30 FTE for 2020-21 was related to attrition and no reduction in force resolution was necessary for certificated positions. However, no formal board action was taken to eliminate these positions to prevent inadvertent rehiring. The board did take formal action to reduce classified services by 8.21875 FTE on July 9, 2020.

For the fiscal year 2021-22, the multiyear assumes a reduction of 20 certificated FTE and an unspecified reduction of $517,918.56. Like the numbers for 2020-21, they are net of the 3% retroactive salary payment negotiated for 2019-20. Other than the notation of these reductions in the 2019-20 second interim multiyear projection, FCMAT was not provided with documentation to support these further personnel reductions.

12.3 If the district is not able to maintain the minimum reserve for economic uncertainty, does the district's multiyear financial projection include a board-approved plan to restore the reserve? . . . ☐ ✓ ☐

At the time of FCMAT's review, there was no evidence that the board had adopted a plan identifying specific actions that would restore the reserve.

12.4 Is the district's projected unrestricted fund balance stable or increasing in the two subsequent fiscal years? . . . ☐ ✓ ☐

The district's 2019-20 second interim report multiyear projection identifies decreases in the unrestricted fund balance of approximately $3.4 million for the current year, $2.2 million for 2020-21 and $1.6 million for 2021-22. These numbers do not consider the unsupported staffing reductions identified and discussed in question 12.2 above.

12.5 If the district has unfunded or contingent liabilities or one-time costs other than post-employment benefits, does the unrestricted general fund balance include sufficient assigned or committed reserves above the recommended reserve level? . . . ☐ ☐ ✓

13. General Fund – Current Year — Yes No N/A

13.1 Does the district ensure that one-time revenues do not pay for ongoing expenditures? . . . ☐ ✓ ☐

While the district did not provide any of its collective bargaining agreement disclosures, the Santa Clara COE's January 14, 2020 letter regarding the district's 2019-20 first interim report states "[t]he district settled negotiations for 2018-19, using one-time funds to fund ongoing increases and has yet to fully identify an ongoing funding source for the ongoing salary increases."

13.2 Is the percentage of the district's general fund unrestricted expenditure budget that is allocated to salaries and benefits at or below the statewide average for the current year? . . . ☐ ✓ ☐

The district's 2019-20 projected unrestricted general fund salaries and benefits are 88.16% of the expense budget. The statewide average for elementary districts as of 2018-19 (the latest data available) was 87%.

		Yes	No	N/A
13.3	Is the percentage of the district's general fund unrestricted expenditure budget that is allocated to salaries and benefits at or below the statewide average for the two prior years?	☐	✓	☐

The district's unrestricted general fund salaries and benefits were 85.8% of the total unrestricted expenditures in 2017-18 and 87.03% in 2018-19. The statewide average for elementary districts as of 2018-19 (the latest data available) was 87%.

		Yes	No	N/A
13.4	If the district has received any uniform complaints or legal challenges regarding local use of supplemental and concentration grant funding in the current or two prior years, is the district addressing the complaint(s)?	☐	☐	✓
13.5	Does the district either ensure that restricted dollars are sufficient to pay for staff assigned to restricted programs or have a plan to fund these positions with unrestricted funds?	✓	☐	☐
13.6	Is the district using its restricted dollars fully by expending allocations for restricted programs within the required time?	✓	☐	☐
13.7	Does the district account for program costs, including the maximum allowable indirect costs, for each restricted resource and other funds?	☐	✓	☐

Most of the district's restricted programs were charged the allowable indirect cost rate. However, ESEA: School Improvement Funding (RE 3182) and SpEd: IDEA Preschool Staff Development, Part B (RE 3345) were charged less than the allowable rate in 2018-19. The Child Nutrition: School Programs (RE 5310) was charged more than the allowable rate in 2018-19.

The district's general fund does not collect the 3% administrative fee allowed under Education Code Section 17620(a)(5) for collection of developer fees.

14. Information Systems and Data Management

		Yes	No	N/A
14.1	Does the district use an integrated financial and human resources system?	✓	☐	☐
14.2	Does the district use the system(s) to provide key financial and related data, including personnel information, to help the district make informed decisions?	✓	☐	☐
14.3	Has the district accurately identified students who are eligible for free or reduced-price meals, English learners, and foster youth, in accordance with the LCFF and its LCAP?	✓	☐	☐
14.4	Is the district using the same financial system as its county office of education?	✓	☐	☐
14.5	If the district is using a separate financial system from its county office of education and is not fiscally independent, is there an automated interface with the financial system used by the county office of education?	☐	☐	✓
14.6	If the district is using a separate financial system from its county office of education, has the district provided the county office with direct access so the county office can provide oversight, review and assistance?	☐	☐	✓

15. Internal Controls and Fraud Prevention

		Yes	No	N/A
15.1	Does the district have controls that limit access to its financial system and include multiple levels of authorization?	✓	☐	☐
15.2	Are the district's financial system's access and authorization controls reviewed and updated upon employment actions (e.g., resignations, terminations, promotions or demotions) and at least annually?	✓	☐	☐
15.3	Does the district ensure that duties in the following areas are segregated, and that they are supervised and monitored?:			

• Accounts payable (AP)	☐	✓	☐

District staff reported that CalCard credit limits are as follows:

- *Superintendent - $30,000*
- *Senior Executive Assistant (Superintendent's Office) - $20,000*
- *Director of Fiscal Services - $25,000*
- *Procurement Manager - $30,000*
- *Assistant Superintendent, HR - $10,000*

These credit limits are inordinately high for all positions except the procurement manager. The district was unable to provide a process for review and approval of the superintendent's CalCard statements to ensure the card is only used for school district business.

• Accounts receivable (AR)	✓	☐	☐
• Purchasing and contracts.	✓	☐	☐
• Payroll	✓	☐	☐
• Human resources (i.e., duties relative to position control and payroll processes)	☐	✓	☐

The district converted to the Santa Clara COE financial system, QSS, in January 2020 and, as of the date of fieldwork, was in the process of moving the data from its prior position control system into QSS. The district is also setting up its processes and procedures as they relate to the QSS position control system.

15.4 Are beginning balances for the new fiscal year posted and reconciled with the ending balances for each fund from the prior fiscal year?	✓	☐	☐
15.5 Does the district review and work to clear prior year accruals throughout the year?	☐	✓	☐

Financial records indicate accruals are not all cleared by first interim. For the current year, the majority of clearing activity had been completed by December 1, 2019, but one resource showed a balance that had yet to be cleared as of June 19, 2020, well beyond the first interim reporting period.

15.6 Has the district reconciled and closed the general ledger (books) within the time prescribed by the county office of education?	✓	☐	☐
15.7 Does the district have processes and procedures to discourage and detect fraud?	✓	☐	☐
15.8 Does the district have a process for collecting reports of possible fraud (such as an anonymous fraud reporting hotline) and for following up on such reports?	☐	✓	☐

The district lacks a formal or documented process for collecting reports of possible fraud, or for ensuring those reports are appropriately addressed.

15.9 Does the district have an internal audit process?	☐	✓	☐

The district lacks an internal audit process.

16. Leadership and Stability

	Yes	No	N/A
16.1 Does the district have a chief business official who has been with the district as chief business official for more than two years?.	✓	☐	☐
16.2 Does the district have a superintendent who has been with the district as superintendent for more than two years?	✓	☐	☐

		Yes	No	N/A
16.3	Does the superintendent meet on a scheduled and regular basis with all members of their administrative cabinet?	✓	☐	☐
16.4	Is training on financial management and budget provided to site and department administrators who are responsible for budget management?	✓	☐	☐
16.5	Does the governing board adopt and revise policies and administrative regulations annually?	✓	☐	☐
16.6	Are newly adopted or revised policies and administrative regulations implemented, communicated and available to staff?	✓	☐	☐
16.7	Do all board members attend training on the budget and governance at least every two years?	✓	☐	☐
16.8	Is the superintendent's evaluation performed according to the terms of the contract?	☐	✓	☐

The superintendent's contract provides that evaluations shall occur annually no later than August 31. In a review of board minutes for 2017-18 and 2018-19, no superintendent evaluation was found. Board minutes for July 2019 reflect the approval of the superintendent's evaluation. While no date was attached to this board action, it is presumed to be for the 2018-19 fiscal year because the board approved the evaluation instrument for the superintendent's 2019-20 evaluation at its September 12, 2019 meeting. In November 2019, the superintendent received a compensation increase and contract renewal through June 2023.

17. Multiyear Projections

		Yes	No	N/A
17.1	Has the district developed multiyear projections that include detailed assumptions aligned with industry standards?	✓	☐	☐
17.2	To help calculate its multiyear projections, did the district prepare an accurate LCFF calculation with multiyear considerations?	✓	☐	☐
17.3	Does the district use its most current multiyear projection in making financial decisions?	✓	☐	☐
17.4	If the district uses a broad adjustment category in its multiyear projection (such as line B10, B1d, B2d Other Adjustments, in the SACS Form MYP/MYPI), is there a detailed list of what is included in the adjustment amount and are the adjustments reasonable?	☐	✓	☐

As noted in question 12.2 above, the district has included adjustments based on staffing reductions of approximately $4.2 million (line B1d) and $450,000 (line B2d) in 2020-21 and $1.7 million (line B1d) in 2021-22.

The district reported its reduction of 30 FTE for 2020-21 was related to attrition and no reduction in force resolution was necessary for certificated positions. However, no formal board action was taken to eliminate these positions to prevent inadvertent rehiring. The board did take formal action to reduce classified services by 8.21875 FTE on July 9, 2020.

For the 2021-22 fiscal year, the district reflects numbers related to FTE reductions and also states that part of the approximate $1.7 million is an unspecified reduction of $517,918.56.

18. Non-Voter-Approved Debt and Risk Management

		Yes	No	N/A
18.1	Are the sources of repayment for non-voter-approved debt {such as certificates of participation (COPs), bridge financing, bond anticipation notes (BANS), revenue anticipation notes (RANS) and others} stable, predictable, and other than unrestricted general fund?	☐	✓	☐

The CBO states the district plan is to use funds other than general fund (Funds 21, 25, and 35) to make payment and/or retire the COP debt ($22,544,667 outstanding as of July 1, 2019). However, the availability of these funds to cover the debt is questionable.

Fund 21 (Bond Fund): Measure I Bond proceeds identified as a payment source are currently unissued and not available. The district estimates approximately $9 million of the COP debt will be paid by Measure I Bond proceeds.

Fund 25 (Capital Facilities Fund): This fund's primary source of revenues are developer fees and it had a beginning balance of approximately $3.3 million as of July 1, 2019, with projected revenues estimated at approximately $600,000 per year. Interviews and year to date revenues of $96,844.05 reported at second interim indicate that this revenue expectation is overly optimistic.

Fund 35 (County School Facilities Fund) had a balance of $576,247 as of July 1, 2019 with no additional revenue anticipated.

The district's unrestricted general fund will carry the burden of payment should these funds not materialize.

		Yes	No	N/A
18.2	If the district has issued non-voter-approved debt, has its credit rating remained stable or improved during the current and two prior fiscal years?	☐	✓	☐

In June 2019, Moody's downgraded the district's credit rating on its COP from A2 to A3 and GO bonds from Aa3 to A1. In publishing its credit opinion, Moody's stated the district's persistent enrollment decline and rising costs for pension and benefits have created a structural deficit and a weakened fiscal outlook for the district.

In Sept 2017, S&P Global Ratings lowered the district's GO bond rating to BBB+ from AA- and its COPs rating to BBB from A+. The downgrade was due to concerns about an active investigation of the district by the district attorney, timely cash reconciliations, and difficulties obtaining information from the district.

		Yes	No	N/A
18.3	If the district is self-insured, has the district completed an actuarial valuation as required and have a plan to pay for any unfunded liabilities?	☐	✓	☐

The district maintains fund 67 to account for its self-insurance activities. The district provides self-insurance for employee dental benefits.

The 2018-19 annual audit shows the fund in a positive net position. The 2019-20 second interim (Form 67I) reports a projected decrease in net position from a one-time transfer of $1.8 million to the general fund, reducing the fund balance to approximately $2.6 million at year end.

No actuarial valuation was found to have been conducted to support the premiums charged or the expected costs and liability of providing the insurance.

Note: In the 2019-20 second interim report criteria and standards (Form 01CSI page 19), the district reported that it does not operate a self-insurance program and therefore provided no information regarding self-insurance activities.

		Yes	No	N/A
18.4	If the district has non-voter-approved debt (such as COPs, bridge financing, BANS, RANS and others), is the total of annual debt service payments no greater than 2% of the district's unrestricted general fund revenues?	☐	✓	☐

In June 2010, the district issued Certificates of Participation (COPs) totaling $25 million at 5.47% interest and requiring annual repayment through 2027. As of July 1, 2019, the outstanding COP balance was $22,544,667.

For fiscal year 2019-20, the required payment is $3,264,992, which is 2.86% of the district's second interim projected unrestricted general fund revenue. Based on the district's projected revenues for the two subsequent years, the burden remains above 2% of the unrestricted general fund revenues.

Fiscal year	COP Payment Due	Unrestricted General Fund Revenue (UGFR) Projected at 2nd Interim 2019-20	% of UGFR
2019-20	$3,264,992	$114,184,519	2.86%
2020-21	$3,140,824	$112,170,692	2.80%
2021-22	$3,021,656	$111,380,846	2.71%

19. Position Control

		Yes	No	N/A
19.1	Does the district account for all positions and costs?	✓	☐	☐
19.2	Does the district analyze and adjust staffing based on staffing ratios and enrollment?	✓	☐	☐
19.3	Does the district reconcile budget, payroll and position control regularly, at least at budget adoption and interim reporting periods?	✓	☐	☐
19.4	Does the district identify a budget source for each new position before the position is authorized by the governing board?	✓	☐	☐
19.5	Does the governing board approve all new positions and extra assignments (e.g., stipends) before positions are posted?	✓	☐	☐
19.6	Do managers and staff responsible for the district's human resources, payroll and budget functions meet regularly to discuss issues and improve processes?.	☐	✓	☐

No documentation was found to support that the human resources, payroll and budget functions have met regularly since 2017.

20. Special Education

		Yes	No	N/A
20.1	Does the district monitor, analyze and adjust staffing ratios, class sizes and caseload sizes to align with statutory requirements and industry standards?	☐	✓	☐

Although no complaints or findings were found to indicate the district is not meeting statutory requirements or industry standards, no documentation was provided that enabled FCMAT to determine whether the district is meeting the requirements or standards for caseload by service.

		Yes	No	N/A
20.2	Does the district access available funding sources for costs related to special education (e.g., excess cost pool, legal fees, mental health)?	✓	☐	☐

20.3 Does the district use appropriate tools to help it make informed decisions about whether to add services (e.g., special circumstance instructional assistance process and form, transportation decision tree)? . . . . ☐ ✓ ☐

Interviews with special education staff indicated the district uses a structured process to identify and meet student needs; however, no documentation was provided to support this assertion.

20.4 Does the district budget and account correctly for all costs related to special education (e.g., transportation, due process hearings, indirect costs, nonpublic schools and/or nonpublic agencies)? . . . . ✓ ☐ ☐

20.5 Is the district's contribution rate to special education at or below the statewide average contribution rate? . . . . ☐ ✓ ☐

The district's contribution rate is higher than the 2018-19 statewide contribution rate of 65.88%.

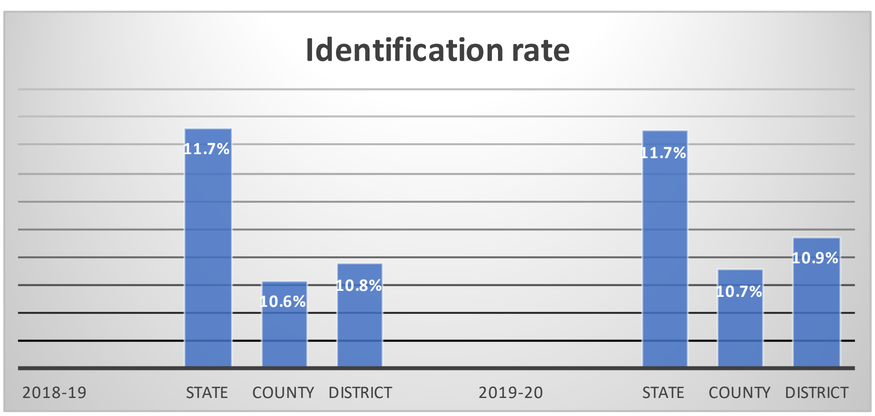
The district's 2018-19 unaudited actuals special education maintenance of effort report (Form SEMA) shows total district expenditures on special education to be $23,886,788.61, with $16,826,924.71 or 70.44% as the district's contribution.

Ed Data (www.ed-data.org) reports the district special education expenditures for 2018-19 at $24,269,985, with $16,826,924.71 (2018-19 UA SEMA) or 69.33% contribution rate.

The district's 2019-20 second interim report budgets a contribution of $19,442,159 on expenditures of $22,276,803 for a contribution rate of 87.28%.

20.6 Is the district's rate of identification of students as eligible for special education at or below the countywide and statewide average rates? . . . . ☐ ✓ ☐

The district's identification rates for students with disabilities is lower than the state average for 2018-19 and 2019-20 but slightly higher than the county average.



Source: DataQuest, enrollment including all charter students.

20.7 Does the district analyze whether it will meet the maintenance of effort requirement at each interim reporting period? . . . . ✓ ☐ ☐

Risk Score, 20 numbered sections only:	**37.2%**

Key to Risk Score from 20 numbered sections only:

High Risk: 40% or more

Moderate Risk: 25-39.9%

Low Risk: 24.9% and lower

District Fiscal Solvency Risk Level, all FHRA factors: High

(The existence of any condition from the Budget and Fiscal Status section, and/or a material weakness, will supersede the score above because it elevates the district's risk level.)