

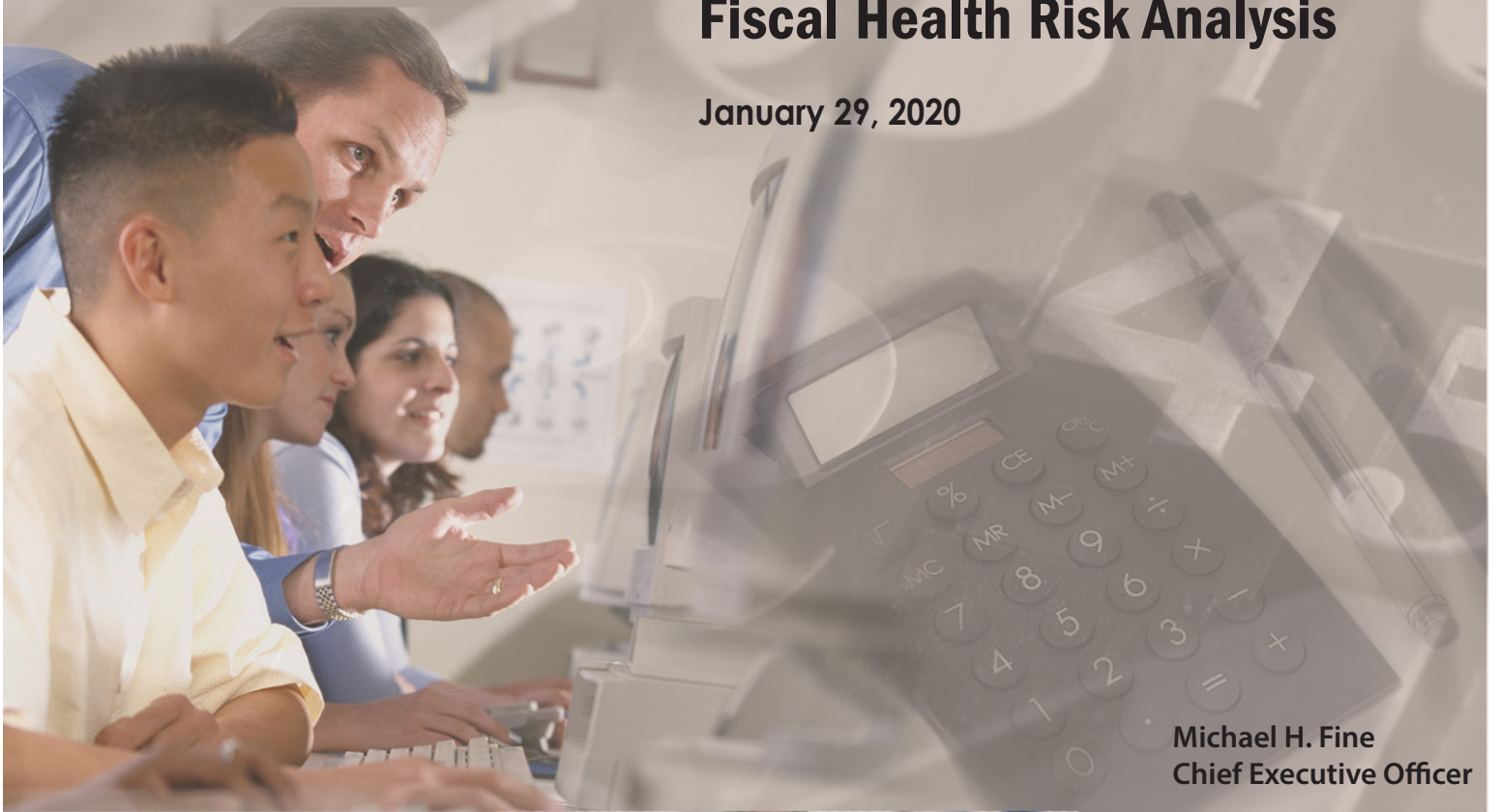
# FCMAT

FISCAL CRISIS & MANAGEMENT  
ASSISTANCE TEAM

## Cabrillo Unified School District

### Fiscal Health Risk Analysis

January 29, 2020



Michael H. Fine  
Chief Executive Officer





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# About FCMAT

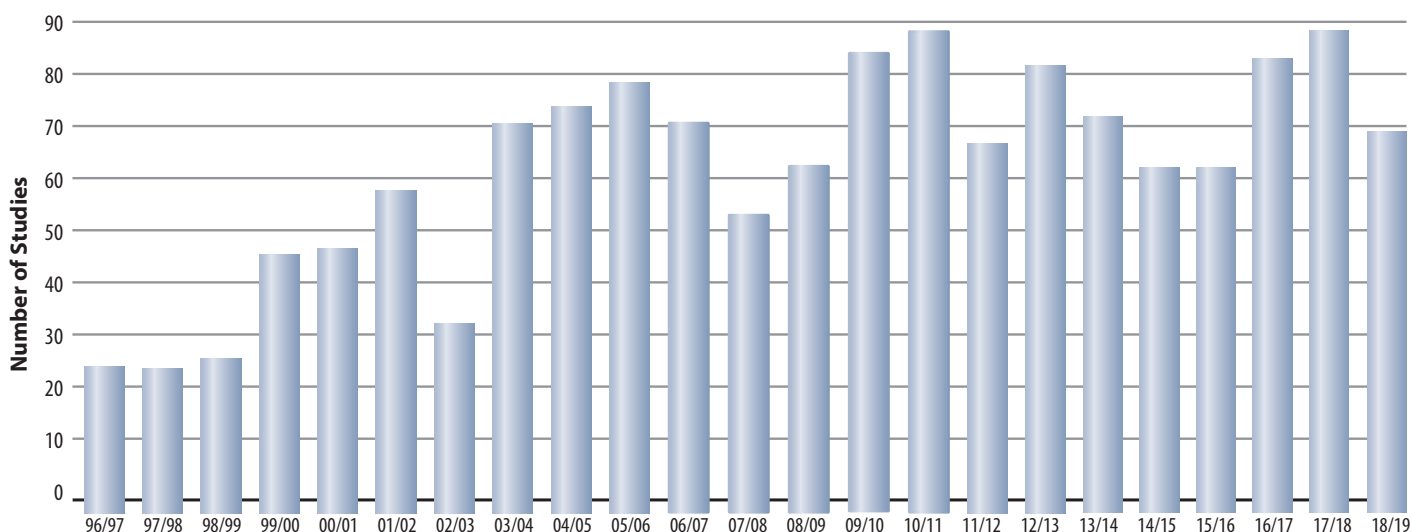
FCMAT’s primary mission is to assist California’s local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related 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.

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

## Studies by Fiscal Year



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](http://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 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

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 (FHRA) to determine the level of risk of insolvency. FCMAT has updated its FHRA that weights each question based on high, medium 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 the oversight process and activities in place per AB 1200. There is no cost to the county superintendent or to the district for the analysis.

## Study Guidelines

FCMAT entered into a study agreement with the Cabrillo Unified School District on November 8, 2019, and a study team visited the district on November 14 and 15, 2019 to conduct interviews, collect data and review documents. 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:

John Von Flue FCMAT Chief Analyst	Jeff Potter FCMAT Intervention Specialist
Scott Sexsmith FCMAT Intervention Specialist	Leonel Martínez FCMAT Technical Writer

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

## District Overview

The Cabrillo Unified School District has an enrollment of approximately 3,150 students in transitional kindergarten through 12th grade and is located in the Half Moon Bay area of San Mateo County, California. The district operates four elementary, one middle and two high schools covering more than 135 square miles. The district is governed by a board of five trustees elected by the local community at large.

District demographics for 2019-20 reflect significant ethnic populations of greater than 1% to include 51.83% Hispanic, 40.27% white, 1.24% Asian, 1.02% Filipino and 4.67% multiple ethnicities. The district reports a districtwide unduplicated pupil count of 1,381 (43.86%).

The district reported a qualified fiscal status for both 2018-19 interim reports because of uncertainty regarding forecasted revenues and continued increases in expenditures. Uncertainty regarding revenues was largely due to declining enrollment and the impending sunset of a parcel tax on June 30, 2020. District expenditure increases can be attributed to negotiated increases in compensation and statutory benefits. The San Mateo County Office of Education conditionally approved the district's 2019-20 budget, and assigned the district a "lack of going concern" designation in October 2019.

Under that designation, FCMAT engaged and performed an FHRA to determine the district's level of risk of insolvency.



# Fiscal Health Risk Analysis

## For K-12 Local Educational Agencies



FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

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 containing 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 of insolvency for districts that have neared insolvency and needed assistance from outside agencies. Each section of this analysis is critical to an organization, and lack of attention to these critical areas will eventually lead to financial insolvency and loss of local control. The analysis focuses on essential functions and processes to determine the level of risk at the time of fieldwork; however, it is not a detailed review of all systems and finances, nor does it consider subsequent events.

The greater the number of “no” answers to the questions in the analysis, the higher the score, which points to a greater 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 toward or against a district’s fiscal stability percentage. For this tool, 100% is the highest total risk that can be scored. A “yes” or “n/a” answer is assigned a score of 0, so the risk percentage increases only with a “no” answer.

To help the district, narratives are included for responses that are marked as “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.

District or LEA Name: Cabrillo Unified School District

Dates of Fieldwork: November 14-15, 2019

<b>1. Annual Independent Audit Report</b>		<b>Yes</b>	<b>No</b>	<b>N/A</b>
1.1	Can the district correct prior year audit findings without affecting its fiscal health (e.g., material apportionment or internal control findings)?	✓	<input type="checkbox"/>	<input type="checkbox"/>
1.2	Has the independent 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.)	✓	<input type="checkbox"/>	<input type="checkbox"/>
1.3	Was the district’s most recent independent audit report free of material findings?	✓	<input type="checkbox"/>	<input type="checkbox"/>
1.4	Has the district corrected all reported audit findings from the current and past two audits?	✓	<input type="checkbox"/>	<input type="checkbox"/>
1.5	Has the district had the same audit firm for at least three years?	✓	<input type="checkbox"/>	<input type="checkbox"/>
<b>2. Budget Development and Adoption</b>		<b>Yes</b>	<b>No</b>	<b>N/A</b>
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?	✓	<input type="checkbox"/>	<input type="checkbox"/>
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?  <i>No formal and/or documented budget development process was identified and provided to FCMAT. Interviews indicated that the CBO developed the budget without using an interactive and inclusive process. For accounts other than employee salaries and benefits, FCMAT could not determine that the budget was more comprehensive than a prior-year rollover.</i>	<input type="checkbox"/>	✓	<input type="checkbox"/>
2.3	Does the district use position control data for budget development?	✓	<input type="checkbox"/>	<input type="checkbox"/>
2.4	Does the district calculate the Local Control Funding Formula (LCFF) revenue correctly?	✓	<input type="checkbox"/>	<input type="checkbox"/>

- 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’s 2018-19 budget was conditionally approved since it could meet its financial obligations in the budget year but would need to make reductions to maintain sufficient reserves in fiscal years 2019-20 and 2020-21.*
- The district certified as qualified for both for both first and second interim periods of 2018-19.*
- The budget for 2019-20 was again conditionally approved because of concerns about the district’s ability to maintain sufficient reserves in the 2020-21 and 2021-22 fiscal years.*
- In October 2019, the county office declared the district a lack of going concern because of projected budget shortfalls resulting from 1) declining enrollment, 2) the impending expiration of its parcel tax in June 2020, 3) the tentative approval of a collectively bargained agreement and 4) the absence of sufficient ongoing budget reductions to maintain sufficient reserves.*
- 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)?
- No formal budget development process was identified. The district has a Financial Advisory Committee to provide input to the superintendent. However, based on interviews with district staff, FCMAT found that the CBO developed the budget with minimal input from district departments.*
- 2.7 Does the district budget and expend restricted funds before unrestricted funds?
- 2.8 Have the 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 past two fiscal years?
- 2.9 Has the district refrained from including carryover funds in its adopted budget?
- 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?
- 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 fund?
- Staff interviewed stated that the grant consideration process was not documented. The department identified and evaluated grants and recommended them to the superintendent or CBO who decided whether to approve and give the department authorization to pursue them.*
- 2.12 Does the district adhere to a budget calendar that includes statutory due dates, major budget development tasks and deadlines, and the staff member/department responsible for completing them?
- FCMAT determined that the district does not have maintain a comprehensive calendar for budget development other than for the LCAP. FCMAT was not provided with a budget development calendar and staff interviewed were not aware that one existed. The district follows a procedural schematic developed by the county office, which identifies the process of inputting the budget data into its financial system.*

**3. Budget Monitoring and Updates** **Yes No N/A**

- 3.1 Are actual revenues and expenses consistent with the most current budget?

The Financial Balances Report dated November 12, 2019 provided to FCMAT included several account lines that did not align with revenues and expenditures to date. For current year, several budget lines were found to be overexpended. This indicates that budget revisions were not made before expenditures were made beyond the approved budget.

A review of budgets for the 2017-18 and 2018-19 fiscal years found a lack of timely and accurate revisions to align with actual revenue and expenditures. Several revenue and expenditure budget account lines were significantly misaligned with actual revenues and expenditures.

- |      |  |                          |                          |                          |
|------|--|--------------------------|--------------------------|--------------------------|
| 3.2  | Are budget revisions posted in the financial system at each interim report, at a minimum?  | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 3.3  | Are clearly written and articulated budget assumptions that support budget revisions communicated to the board at each interim report, at a minimum?   | <input type="checkbox"/> | ✓                        | <input type="checkbox"/> |
|      | <i>Historically, reports and presentations provided to the board give only a broad overview of the status of education funding, the district's fiscal status and a projection of its fiscal position. The latter includes major issues that will affect district finances.</i>   |                          |                          |                          |
| 3.4  | Following board approval of collective bargaining agreements, does the district make necessary budget revisions in the financial system to reflect settlement costs before the next financial reporting period?  | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 3.5  | Does the district provide a complete response to the variances identified in the criteria and standards?   | <input type="checkbox"/> | ✓                        | <input type="checkbox"/> |
|      | <i>District responses identify the variance and issue, but are vague and do not address how the variance occurred and/or how it will be resolved.</i>  |                          |                          |                          |
|      | <i>For example, variances in the 2018-19 second interim report major object budgeting are explained as "removed one-time funding" and "increased ongoing expenses," which does not provide sufficient explanation of cause or address the remedy.</i>  |                          |                          |                          |
|      | <i>In the section for deficit spending, the explanation provided was "The district is aware that deficit spending is an issue and will be working with the Board to identify a spending plan reduction for the out years to be able to meet its required reserve." 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.</i> |                          |                          |                          |
| 3.6  | Has the district addressed any deficiencies the county office of education has identified in its oversight letters in the current and prior two fiscal years?  | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 3.7  | Does the district prohibit processing of requisitions or purchase orders when the budget is insufficient to support the expenditure?   | <input type="checkbox"/> | ✓                        | <input type="checkbox"/> |
|      | <i>Financial activity reports for fiscal years 2017-18, 2018-19, and 2019-20 identify multiple account lines and major object totals where expenditures exceed budget amounts.</i>   |                          |                          |                          |
| 3.8  | Does the district encumber and adjust encumbrances for salaries and benefits?  | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 3.9  | Are all balance sheet accounts in the general ledger reconciled at each interim report, at a minimum?  | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 3.10 | Have the interim reports and the unaudited actuals been adopted and filed with the county superintendent of schools within statutory timelines established by Education Code?  | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |

**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? | ✓ | <input type="checkbox"/> | <input type="checkbox"/> |
| 4.2 | Does the district reconcile all bank (cash and investment) accounts with bank statements monthly?                          | ✓ | <input type="checkbox"/> | <input type="checkbox"/> |

4.3	Does the district forecast its cash receipts and disbursements at least 18 months out, updating the actuals and reconciling the remaining months to the budget monthly to ensure cash flow needs are known?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>The district prepares cash flow projections covering 12 months.</i>			
4.4	Does the district have a reasonable plan to address cash flow needs during the current fiscal year?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>The district identified a shortfall of revenues and cash in several months of its cash flow worksheets; however, no plan was identified to cover the potential shortfall.</i>			
4.5	Does the district have sufficient cash resources in its other funds to support its current and projected obligations in those funds?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.6	If interfund borrowing is occurring, does the district comply with Education Code section 42603?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
4.7	If the district is managing cash in any funds through external borrowing, has the district set aside funds for repayment attributable to the same year the funds were borrowed?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

**5. Charter Schools** **Yes No N/A**

5.1	Are all charters authorized by the district going concerns?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
5.2	If the district has any charters in fiscal distress, has the district performed its statutory fiscal and operational oversight functions, including the issuance of formal communication to the charter, such as Notices of Violation?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
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?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
5.4	Does the district have a board policy or other written document(s) regarding charter oversight?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
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?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

**6. Collective Bargaining Agreements** **Yes No N/A**

6.1	Has the district settled with all its bargaining units for the prior two fiscal year(s)?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.2	Has the district settled with all its bargaining units for the current year?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>The district recently approved a tentative agreement with the Cabrillo Classified School Employees Association (CCSEA) in September 2019 covering the period ending June 30, 2019. Reopeners for wages, health and welfare benefits and two additional articles remain for the 2019-20 year.</i>			
	<i>Negotiations had not begun with the Cabrillo Unified Teachers Association (CUTA) for the 2019-20 year.</i>			
6.3	Does the district accurately quantify the effects of collective bargaining agreements and include them in its budget and multiyear projections?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>A presettlement analysis was completed to identify costs of the agreement; however, the district's disclosure stated that the "district [was] preparing a list of cuts for 2020-21, which will be presented to the Board for approval at the December Board meeting."</i>			
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)?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<i>In September 2019, the district settled with the CCSEA bargaining group at 3% for the 2018-19 fiscal year. This compensation increase was retroactive to July 1, 2018.</i>			
<i>In May 2017, the district settled a multiyear agreement with CUTA for a 2.81% adjustment in 2017-18 and 4.29% in 2018-19.</i>			
<i>In comparison, the COLA for these years were 1.56% in 2017-18 and 3.7% in 2018-19.</i>			
6.6 If settlements have not been reached in the past two years, has the district identified resources to cover the estimated costs of settlements?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<i>The district has not identified and/or reserved funds for settlements that have yet to be reached.</i>			
6.7 Did the district comply with public disclosure requirements under Government Code sections 3540.2 and 3547.5 and Education Code section 42142?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.8 Did the superintendent and CBO certify the public disclosure of collective bargaining agreement prior to board approval?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.9 Is the governing board's action consistent with the superintendent's and CBO's certification?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**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?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<i>For the 2018-19 fiscal year, the district recorded contributions to 10 restricted resources totaling nearly \$7.5 million. The largest contributions were consistent with those normally found in districts to include special education, transportation and routine restricted maintenance. Other contributions included overspent lottery and several locally restricted programs. The board has not approved a plan to control, reduce or eliminate these contributions in the future.</i>			
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?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<i>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.</i>			
7.3 If any contributions/transfers were required for restricted programs and/or other funds in either of the prior two fiscal years, and there is a need in the current year, did the district budget for them at reasonable levels?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**8. Deficit Spending** **Yes No N/A**

8.1 Is the district avoiding deficit spending in the current fiscal year?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<i>The district projects to deficit spend \$1.7 million in the unrestricted general fund in the current year as shown in its 2019-20 adopted budget.</i>			
8.2 Is the district projected to avoid deficit spending in both of the two subsequent fiscal years?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<i>The district projects to deficit spend \$3.9 million in 2020-21 and \$3.8 million in 2021-22 in the unrestricted general fund as shown in its 2019-20 adopted budget multiyear projection. However, just before FCMAT's fieldwork, the district passed an eight-year parcel tax (Measure I), resulting in additional revenue of approximately \$1.6 million in both 2020-21 and 2021-22. This will reduce the projected deficit spending in both years accordingly.</i>			

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?

*Subsequent to FCMAT's fieldwork, on December 12, 2019, the governing board passed resolution 30-19, which includes \$2.6 million in budget reductions and cost savings. While FCMAT is uncertain when these reductions will become effective, once implemented, this will reduce or eliminate the deficit spending shown in 2020-21 and 2021-22.*

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?

9.3 Has the district followed a policy or collectively bargained agreement to limit accrued vacation balances?

*According to the collectively bargained agreement, classified employees can carry-over 12 vacation days to the succeeding year and under special circumstances up to 20 days. This combined with the maximum 22 earned days per year could allow the vacation balance to accumulate to no more than 42 days or 336 hours. In FCMAT's review of vacation balances as reported through November 7, 2019, 10 employees were found to have vacation balances exceeding 336 hours with the highest being over 900 hours.*

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?

*The district's enrollment has steadily decreased from 3,207 students in 2017-18 to 3,132 in 2019-20.*

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 predict 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?

*The district office indicated that while some sites review their CALPADS data before submission, there is no districtwide process for ensuring that all CALPADS data is reviewed. As demonstrated by documentation submitted to FCMAT, the district office has attempted to work with sites on data abnormalities, communicating to all schools the importance of data accuracy and offering technical support. However, some sites continue to lack or regularly follow a*

process for verifying submitted data.

- |       |  |                                     |                                     |                                     |
|-------|--|-------------------------------------|-------------------------------------|-------------------------------------|
| 10.8  | Has the district planned for enrollment losses to charter schools?   | <input type="checkbox"/>            | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |
| 10.9  | Does the district follow established board policy to limit outgoing interdistrict transfers and ensure that only students meeting the required qualifications are approved?  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
|       | <i>Staff interviews indicated that while the district maintains both board policy and administrative regulations (BP/AR 5117) regarding the interdistrict transfer of students, the process has not always been followed. Therefore, the district may allow the transfer of students that do not meet the necessary qualifications to other districts.</i> |                                     |                                     |                                     |
| 10.10 | Does the district meet the average class enrollment for each school site of no more than 24-to-1 class size ratio in TK-3 classes or does it have an alternative collectively bargained agreement?   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/>            |

**11. Facilities**

**Yes No N/A**

- |      |   |                                     |                                     |                          |
|------|---|-------------------------------------|-------------------------------------|--------------------------|
| 11.1 | If the district participates in the state’s School Facilities Program, has it met the 3% Routine Restricted Maintenance Account requirement?  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/> |
| 11.2 | Does the district have sufficient and available capital outlay and/or bond funds to cover all contracted obligations for capital facilities projects?   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/> |
| 11.3 | Does the district properly track and account for facility-related projects?   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/> |
| 11.4 | Does the district use its facilities fully in accordance with the Office of Public School Construction’s loading standards?   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
|      | <i>The district has excess capacity in its facilities because of declining enrollment. In the district’s 2013 Facility Master Plan, the districtwide capacity for students was calculated as 4,628 and the enrollment was identified as 3,309. An enrollment forecast study delivered in October 2019 found that the district’s enrollment has declined from the 3,800s in the 1990s to less than 3,200 in the current year. The report concludes that enrollment will continue to decline.</i> |                                     |                                     |                          |
| 11.5 | Does the district include facility needs (maintenance, repair and operating requirements) when adopting a budget?   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
|      | <i>Facilities budgets including routine restricted maintenance are rolled from budget to budget. No evidence was found to indicate that need or input from facilities staff are considered in budget development.</i>   |                                     |                                     |                          |
| 11.6 | Has the district met the facilities inspection requirements of the Williams Act and resolved any outstanding issues?  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/> |
| 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?  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/> |
| 11.8 | Does the district have an up-to-date long-range facilities master plan?   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
|      | <i>The most current facilities master plan was completed in 2013. Recognizing a need to update the plan, the district in August 2019 approved a proposal to update the facilities master plan.</i>  |                                     |                                     |                          |

**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 funds 01 and 17) as defined by criteria and standards?  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | <input type="checkbox"/> |
| 12.2 | Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years?   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
|      | <i>As shown in the district’s 2019-20 adopted budget, the district projects a negative ending fund balance in both 2020-21 and 2021-22. Accordingly, the district is unable to meet the minimum reserve requirement.</i> |                                     |                                     |                          |

*However, FCMAT recognizes that in November 2019, the district passed an eight-year parcel tax*

*(Measure I) that will provide additional revenue of approximately \$1.6 million in both subsequent years of the multiyear projection. Along with the district's ongoing efforts to implement budget reductions and cost savings, this will improve the fiscal outlook for both 2020-21 and 2021-22.*

- 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?

*Subsequent to FCMAT's fieldwork, on December 12, 2019, the governing board passed resolution 30-19, which includes \$2.6 million in budget reductions and cost savings. While FCMAT is uncertain when these reductions will become effective, once implemented, this will improve the district's ending fund balance in 2020-21 and 2021-22 and may allow it to restore the minimum reserve requirement.*

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

*While the passage of the eight-year parcel tax in November 2019 will add an additional \$1.6 million in annual revenue in 2020-21 and 2021-22, the district's ending fund balance continues to decline in both years. The district's ongoing efforts to implement budget reductions and cost savings may further improve the ending fund balance in both years, once fully realized.*

- 12.5 If the district has unfunded or contingent liabilities or one-time costs, does the unrestricted fund balance include any 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?

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

*For 2017-18, the statewide average of the unrestricted general fund budget allocated to salaries and benefits was 87.06% for unified districts. The district average was 90%.*

- 13.3 Is the percentage of the district's general fund unrestricted budget that is allocated to salaries and benefits at or below the statewide average for the two prior years?

*For 2015-16, the statewide average of the unrestricted general fund budget allocated to salaries and benefits was 85.95 for unified districts. The district average was 89%. For 2016-17, the statewide average was 86.14%, and the district average was 90%.*

- 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?

*The district has indicated that some federal programs were not fully expended in prior years, resulting in a loss of funding. The district is attempting to prevent a recurrence by implementing practices that ensure the full use of restricted funding before expiration.*

- 13.7 Does the district consistently account for all program costs, including the maximum allowable indirect costs, for each restricted resource?

*While some programs, such as Title I - Part A, were charged the maximum allowable indirect cost rate, other programs, such as Title I - Part C, were charged less than the allowable rate in 2018-19.*



<b>14. Information Systems and Data Management</b>		<b>Yes</b>	<b>No</b>	<b>N/A</b>
14.1	Does the district use an integrated financial and human resources system?	✓	<input type="checkbox"/>	<input type="checkbox"/>
14.2	Can the system(s) provide key financial and related data, including personnel information, to help the district make informed decisions? <i>District interviews indicated that some leadership positions do not use the financial system to make decisions.</i>	<input type="checkbox"/>	✓	<input type="checkbox"/>
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?	✓	<input type="checkbox"/>	<input type="checkbox"/>
14.4	Is the district using the same financial system as its county office of education?	✓	<input type="checkbox"/>	<input type="checkbox"/>
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?	<input type="checkbox"/>	<input type="checkbox"/>	✓
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?	<input type="checkbox"/>	<input type="checkbox"/>	✓
<b>15. Internal Controls and Fraud Prevention</b>		<b>Yes</b>	<b>No</b>	<b>N/A</b>
15.1	Does the district have controls that limit access to its financial system and include multiple levels of authorizations?	✓	<input type="checkbox"/>	<input type="checkbox"/>
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?	✓	<input type="checkbox"/>	<input type="checkbox"/>
15.3	Does the district ensure that duties in the following areas are segregated, and that they are supervised and monitored?			
	• Accounts payable (AP)	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Accounts receivable (AR)	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Purchasing and contracts <i>During interviews, staff indicated that some purchases are made without a purchase order, and that purchases may not always be properly monitored and approved in advance of the purchase.</i>	<input type="checkbox"/>	✓	<input type="checkbox"/>
	• Payroll <i>District interviews indicated that various payroll functions, including creating supplemental pay for an employee and reconciling authorized positions to those included in the payroll process, are not adequately monitored and segregated to prevent errors and misappropriation.</i>	<input type="checkbox"/>	✓	<input type="checkbox"/>
	• Human resources <i>District interviews indicated that various functions within human resources, including the creation of a new position and the assignment of a position to a salary schedule, lack sufficient segregation of duties, oversight and established processes that are consistently followed.</i>	<input type="checkbox"/>	✓	<input type="checkbox"/>
	• Associated student body (ASB)	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Warehouse and receiving	✓	<input type="checkbox"/>	<input type="checkbox"/>
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?	✓	<input type="checkbox"/>	<input type="checkbox"/>
15.5	Does the district review and clear prior year accruals by first interim?	✓	<input type="checkbox"/>	<input type="checkbox"/>
15.6	Does the district reconcile all suspense accounts, including salaries and benefits, at least at each interim reporting period and at the close of the fiscal year?	✓	<input type="checkbox"/>	<input type="checkbox"/>

- |       |   |   |   |   |
|-------|---|---|---|---|
| 15.7  | Has the district reconciled and closed the general ledger (books) within the time prescribed by the county office of education?   | ✓ | ☐ | ☐ |
| 15.8  | Does the district have processes and procedures to discourage and detect fraud?<br><i>While Administrative Regulation (AR) 3400 requires that “the Superintendent shall investigate reports of fraudulent activity,” site interviews and documentation received by FCMAT did not provide evidence that the district has comprehensive fraud detection controls.</i> | ☐ | ✓ | ☐ |
| 15.9  | Does the district maintain an independent fraud reporting hotline or other reporting service(s)?<br><i>The district lacks a fraud reporting hotline or other reporting service used for this purpose.</i>   | ☐ | ✓ | ☐ |
| 15.10 | Does the district have a process for collecting and following up on reports of possible fraud?<br><i>Site interviews and a review of district documentation determined that the district does not have a formal or documented process for collecting reports of possible fraud, or ensuring those reports are appropriately addressed.</i>                          | ☐ | ✓ | ☐ |
| 15.11 | Does the district have an internal audit process?<br><i>The district lacks an internal audit department or process.</i>   | ☐ | ✓ | ☐ |

**16. Leadership and Stability**

- |      |  | Yes | No | N/A |
|------|--|-----|----|-----|
| 16.1 | Does the district have a chief business official who has been with the district more than two years?<br><i>The district’s chief business official position was vacant at the time of FCMAT’s site visit although the position was subsequently filled.</i>   | ☐   | ✓  | ☐   |
| 16.2 | Does the district have a superintendent who has been with the district more than two years?<br><i>At the time of our site visit, the district’s superintendent had been with the district approximately four months.</i>   | ☐   | ✓  | ☐   |
| 16.3 | Does the superintendent meet on a scheduled and regular basis with all members of the administrative cabinet?  | ✓   | ☐  | ☐   |
| 16.4 | Is training on financial management and budget provided to site and department administrators who are responsible for budget management?<br><i>Budget training was provided to some administrators and site personnel by the former chief business official; however interviews determined this was not done consistently. Some department administrators indicated they have received no budget training.</i> | ☐   | ✓  | ☐   |
| 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 | Is training on the budget and governance provided to board members at least every two years?<br><i>Interviews indicated this is an area of recognized need for improvement since governing board members do not regularly receive training on governance and the budget.</i>   | ☐   | ✓  | ☐   |
| 16.8 | Is the superintendent’s evaluation performed according to the terms of the contract?<br><i>While the new superintendent has not been evaluated since he has been with the district only a short time, district interviews, submitted documentation, and board minutes suggest prior superintendents were not consistently evaluated in accor-</i>  | ☐   | ✓  | ☐   |

dance with their contract terms.

<b>17. Multiyear Projections</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
17.1 Has the district developed multiyear projections that include detailed assumptions aligned with industry standards?	✓	<input type="checkbox"/>	<input type="checkbox"/>
17.2 To help calculate its multiyear projections, did the district prepare an LCFF calculation with multiyear considerations?	✓	<input type="checkbox"/>	<input type="checkbox"/>
17.3 Does the district use its most current multiyear projection in making financial decisions?	✓	<input type="checkbox"/>	<input type="checkbox"/>
17.4 If the district utilizes a broad adjustment category in its multiyear projection such as line B10, Other Adjustments, in the SACS form MYP/MYPI, is there a detailed list of what is included in the adjustment amount?	<input type="checkbox"/>	<input type="checkbox"/>	✓
<b>18. Non-Voter-Approved Debt and Risk Management</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
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?	<input type="checkbox"/>	<input type="checkbox"/>	✓
18.2 If the district has issued non-voter-approved debt, has its credit rating remained stable or improved in the current or prior two fiscal years?	<input type="checkbox"/>	<input type="checkbox"/>	✓
18.3 If the district is self-insured, does the district have a recent (every 2 years) actuarial study and a plan to pay for any unfunded liabilities?	<input type="checkbox"/>	<input type="checkbox"/>	✓
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?	<input type="checkbox"/>	<input type="checkbox"/>	✓
<b>19. Position Control</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
19.1 Does the district account for all positions and costs?  <i>During interviews, FCMAT could not identify a consistent and verifiable correlation between positions in the position control system and those in both the payroll and budget systems. Interviews determined that payroll and budget functions sometimes lacked the necessary information on new employees to properly account for the employees within the budget and payroll systems.</i>	<input type="checkbox"/>	✓	<input type="checkbox"/>
19.2 Does the district analyze and adjust staffing based on staffing ratios and enrollment?	✓	<input type="checkbox"/>	<input type="checkbox"/>
19.3 Does the district reconcile budget, payroll and position control regularly, meaning at least at budget adoption and interim reporting periods?  <i>Documentation shows the use of a position control system; however, interviews did not indicate the use of an established, documented process to reconcile the position control system with budget and payroll. Interviews suggested this may have been done by a former staff member, but is not performed regularly.</i>	<input type="checkbox"/>	✓	<input type="checkbox"/>
19.4 Does the district identify a budget source for each new position before the position is authorized by the governing board?  <i>Interviews indicated the CBO typically identifies and/or approves the budget source for each new position. However, this administrative position was vacant during FC-MAT's fieldwork, and it was unclear who oversaw this function during the vacancy. Documentation provided by the district demonstrates that the budget source is included in the forms used for hiring and other staffing adjustments; however, samples provided indicate this information may not be consistently included.</i>	<input type="checkbox"/>	✓	<input type="checkbox"/>
19.5 Does the governing board approve all new positions and extra assignments (e.g., stipends) before positions are posted?	<input type="checkbox"/>	✓	<input type="checkbox"/>

*The district posts positions in anticipation of board approval, with the process occurring concurrently in some instances.*

19.6 Has the district adopted staffing ratios for certificated, classified and administrative positions in the past three years, and is the district following those ratios?

*District interviews indicated that staffing ratios are used for certificated staff, although ratios for classified and administrative positions are currently under development and have not been approved by the governing board.*

19.7 Do managers and staff responsible for the district’s human resources, payroll and budget functions meet regularly to discuss issues and improve processes?

*The district’s human resources, payroll and budget functions do not meet regularly to discuss issues and improve processes.*

**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?

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)?

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?

20.6 Is the district’s rate of identification of students as eligible for special education comparable with countywide and statewide average rates?

*The district’s rate of identification of students as eligible for special education was 10.53% for 2018-19. This is below the statewide average of 11.73%, but slightly higher than the countywide average of 10.38%.*

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

**Total Risk Score, All Areas** **38.7%**

**Key to Risk Score**

*High Risk: 40% or more*

*Moderate Risk: 25-39%*

*Low Risk: 24% and lower*

## Summary

The Cabrillo Unified School District has consistently self-identified as a fiscal concern since the beginning of the 2018-19 fiscal year with concurrence from the San Mateo County Office of Education. For 2018-19, the district's budget was conditionally approved, and it had a qualified certification for both the first and second interim reporting periods. The budget for 2019-20 was conditionally approved, and the San Mateo County Office of Education identified the district as a lack of going concern in October 2019.

This report determines the district to be at moderate risk of insolvency, identifies the signs of fiscal weakness and identifies risks of insolvency.

This Fiscal Health Risk Analysis identified a number of risk factors, some more influential to the district's solvency than others. Those directly correlated with the district's insolvency risk include the inability to maintain sufficient reserves because of forecasted deficit spending and the lack of a plan and action to resolve the trend. These issues are influenced and likely caused by several other underlying factors.

The district is in declining enrollment. Enrollment and the resulting student attendance are the most significant drivers of district revenues; therefore, the district must pay close attention, plan and react in a timely manner to reduce expenses and mitigate the fiscal impact. There are indications that the opportunity to plan and react to reduce expenses were overlooked and/or not responded to in a timely manner in the past.

The district has a history of poor budget development and monitoring. Budget development lacked structure and inclusion. No procedures were found to provide for an organized process to inform and include district and department decision-makers in budget development. This includes the involvement of district leaders in helping resolve budget shortfalls. Further, FCMAT found a lack of budget monitoring, which included the following:

- Communicating assumptions to the board and district leadership.
- Regular updating and revising the budget to meet expected revenue and expenditures.
- Implementing and enforcing controls to adhere to budgets.
- Thoroughly explaining variances from budget and prior periods.

Because of a historical lack of controls in employment and payroll, FCMAT could not correlate position control, payroll and the district budget. There is little coordination of human resources with departments, and the employment of positions is allowed without prior board approval and identified funding. The lack of these controls also interferes with the ability to provide valid information for decision-making. FCMAT found that the district's expenditures for salaries and benefits exceeded the statewide average in 2015-16, 2016-17, and 2017-18, yet the district settled collective bargaining agreement increases that exceeded the funded cost-of-living adjustment. No detailed plan was identified to fund the increases, and no action was taken to offset the increased costs.

Some of the district's risk factors relate to district leadership and stability. The district lacks consistent budget training for administrators and trustees, and staff accountability has lapsed because of the lack of regular evaluations. The district recently experienced changes in leadership with a new superintendent on July 15, 2019, a new CBO started November 22, 2019, the assistant superintendent of curriculum and instruction started July 1, 2019, and the director of technology leaving the district at the end of November 2019. Turnover of these positions is seen as a risk factor due to the dearth of institutional knowledge and momentum in addressing district issues.

The district recently passed a parcel tax to extend the prior tax that is scheduled to sunset in June 2020. This continuation of the parcel tax partially alleviated revenue concerns. In addition, the district board of trustees passed Resolution 30-19 committing to the expenditure reductions and budget savings necessary to restore district fiscal sustainability. These actions reflect favorably on the district's fiscal forecast; however, improvements in budget tracking, monitoring and control are needed to provide the information foundation for district decision-making. The governing board is ultimately responsible for the district's fiscal solvency. Management has the responsibility of presenting sound financial information based on current and accurate data so the board can make informed decisions. The failure of the district to act decisively on accurate information may result in fiscal insolvency and the loss of local control.