

# FCMAT

FISCAL CRISIS & MANAGEMENT  
ASSISTANCE TEAM

## Coachella Valley Unified School District

### Fiscal Health Risk Analysis

September 16, 2019

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# About FCMAT

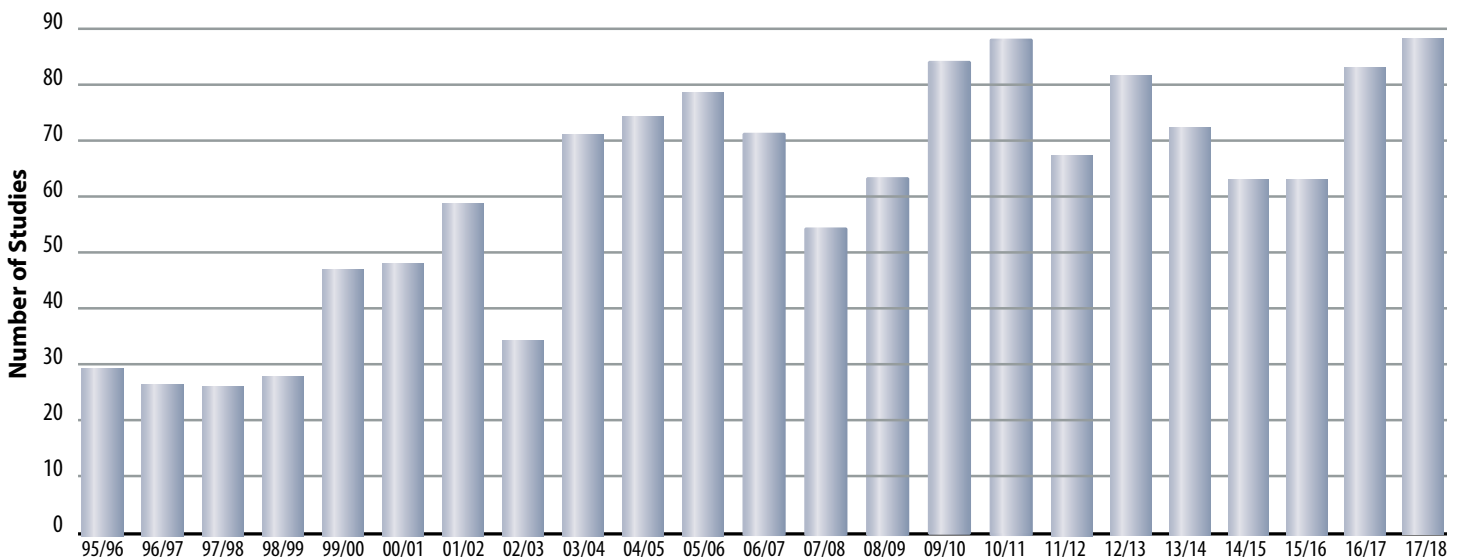
FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related 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 development 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 became effective. 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 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, 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 their oversight process and activities already 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 Coachella Valley Unified School District in February 2019. FCMAT visited the district on May 1-3, 2019 to conduct interviews, collect data and review documents. Following fieldwork, FCMAT continued to review and analyze documents.

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:

Diane Branham  
FCMAT Chief Analyst

Shayleen Harte  
FCMAT Deputy Executive Officer

Jackie Martin\*  
FCMAT Consultant

Scott Sexsmith  
FCMAT Intervention Specialist

John Lotze  
FCMAT Technical Writer

\*As a member of this study team, this consultant was not representing her employer but was working solely as an independent contractor for FCMAT.

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

## District Overview

Located in Riverside County, the Coachella Valley Unified School District has a seven-member governing board and serves approximately 17,786 students at 14 elementary, three junior high, one grade 7-12, one continuation high, and two comprehensive high schools. The district also oversees one independent charter school.

According to data from the California Department of Education (CDE), student enrollment peaked at 18,666 in 2014-15 and has decreased each year since that time. The district's California Longitudinal Pupil Achievement Data System (CALPADS) records show that the unduplicated pupil percentage, which includes those students who qualify for free and reduced-price meals, English learners and foster youth, is 94.44%.

The district's 2016-17 and 2017-18 unaudited actuals reports show deficit spending of \$12.8 million and \$7 million, respectively, in the unrestricted general fund. The district's 2018-19 second interim report shows that the district will avoid deficit spending in the unrestricted general fund in 2018-19 but projects deficits of \$6.1 million in 2019-20 and \$9 million in 2020-21. If not corrected, the district projects it will have an unrestricted general fund ending balance of negative \$6.9 million in 2020-21. The district's first and second interim reports for 2017-18 and 2018-19 were all certified as qualified.

Under the conditions outlined in the 2018-19 State Budget Act, FCMAT performed a fiscal health risk analysis to determine the district's level of risk for insolvency. This report is a result of that analysis.





# Fiscal Health Risk Analysis

## For K-12 Local Educational Agencies



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 or potential 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 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 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: Coachella Valley Unified School District

Dates of Fieldwork: May 1-3, 2019

1. Annual Independent Audit Report	Yes	No	N/A
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 checked="" type="checkbox"/>	<input type="checkbox"/>
<i>The district's 2017-18 audit report identified material weakness findings in the following areas:</i>			
<i>The district did not meet the minimum reserve requirement as stipulated in Title 5 California Code of Regulations Section 15450(a). The district had a reserve of 2.95%, rather than the statutory 3% minimum.</i>			
<i>The district had a structural deficit of \$559,626 in its Child Development Fund.</i>			
<i>The district had a structural deficit of \$1,798,903 in its Cafeteria Fund.</i>			
<i>The report issued an unmodified opinion for all programs except for the Unduplicated Local Control Funding Formula (LCFF) Pupil Counts and included the following finding:</i>			
<i>The district misclassified 202 students as eligible for free or reduced-price meals in its unduplicated pupil count resulting in a \$152,776 decrease of its LCFF revenue.</i>			
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 checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- 1.3 Was the district's most recent independent audit report free of material findings? . . . . . ☐ ☒ ☐
- Per item 1.1 above, the district's 2017-18 audit report identified three material weakness findings and included a qualified opinion related to the fourth finding, which addressed unduplicated local control funding formula pupil counts.*

- 1.4 Has the district corrected all reported audit findings from the current and past two audits? . . . ☒ ☐ ☐

- 1.5 Has the district had the same audit firm for at least three years? . . . . . ☒ ☐ ☐

## 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? . . . . . ☐ ☒ ☐

*The district does not have clearly written and articulated budget assumptions for the current and subsequent years that are included with the budget documents presented to the board. Also, based on the information provided to FCMAT, it is unclear whether the board is consistently provided all the SACS documents. The district provides the county office of education its LCFF calculator, which articulates some of the revenue assumptions used in the budget and multiyear projections.*

- 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? . . . . . ☒ ☐ ☐

- 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's 2016-17 adopted budget was approved unconditionally; however, the district's 2017-18 and 2018-19 adopted budgets were both approved conditionally. In addition, the district certified its 2017-18 and 2018-19 first and second interim reports as qualified.*

- 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? . . . . . ☐ ☒ ☐

*Although the 2017-18 Form CAT shows that the district is slowly spending carryover funds in some restricted resources, numerous other restricted resources, including special education, have large carryover balances. The 2017-18 unaudited actuals report shows a restricted ending fund balance of \$6,197,116. In addition, staff indicated that the district had to return some unspent 2016-17 Title I funds to the CDE because of excess carryover.*

- 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? . . . . . ☐ ☒ ☐

*The financial system report provided to FCMAT shows large negative amounts budgeted in resource 0000 object 1130 and resource 0001 object 5500. District staff indicated that these accounts are used to transfer expenditures from the 0000 and 0001 resources to the 1400 and 1100 resources, respectively.*

- 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? . . . . . ☐ ☒ ☐

*The district does not have a documented policy and/or procedure for evaluating the proposed acceptance of grants and other types of restricted funds. District staff indicated that new grant opportunities are discussed at cabinet, and that discussion includes the matching funds requirement and if the requirements of the grant are sustainable.*

- 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? . . . . . ☒ ☐ ☐

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

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

*The financial system report provided to FCMAT shows several account lines with negative balances, which indicates that revenues and expenses are not consistent with the current budget.*

- 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? . . . . . ☐ ☒ ☐

*Based on the documents provided to FCMAT, the district does not provide the board clearly written and articulated budget assumptions that support budget revisions with each interim report. Instead, the district provides the board a generic summary page of changes by resource.*

- 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? . . . . . ☒ ☐ ☐

- 3.5 Does the district provide a complete response to the variances identified in the criteria and standards? . . . . . ☒ ☐ ☐

- 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? . . . . . ☐ ☒ ☐

*Although the district has not consistently provided a written document to the county office of education to address the deficiencies identified, county office staff indicated that verbal communication regarding the district's budget status has improved with the current district administration, and that the district has implemented "small sustainable corrective actions over the course of the two years, but was unable to fully resolve the structural deficit."*

*The district has developed an optimization plan, dated February 14, 2019, with 2019-20 budget changes to eliminate the deficit and achieve the 3% minimum reserve requirement. However, the changes shown in the plan were not included in the district's 2018-19 second interim report.*

- 3.7 Does the district prohibit processing of requisitions or purchase orders when the budget is insufficient to support the expenditure? . . . . . ☐ ☒ ☐

*The financial system report provided to FCMAT shows several account lines with negative balances. The financial system includes a feature that stops a purchase requisition from being processed at the site and department level if an account has insufficient funds; however, the business office is able to override the system and process the requisition. Individuals interviewed indicated that this is done routinely if a site or department does not have sufficient funds in a specific account but has funds in its overall budget.*

- 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 each interim report, at a minimum? . . . . . ☒ ☐ ☐

- 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? . . . . . ☒ ☐ ☐

#### 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? . . . . . ☒ ☐ ☐

- 4.2 Does the district reconcile all bank (cash and investment) accounts with bank statements monthly? . . . . . ☐ ☒ ☐

*Business office staff complete bank statement reconciliations, and a management staff member reviews and approves them. However, some of the documents provided to FCMAT do not include the date the reconciliation was prepared and the date it was reviewed and approved, so it is not known if all of the reconciliations are completed in a timely manner.*

- 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? . . . . . ☐ ☒ ☐

*The district completes cash flow projections for the current and one subsequent year at budget adoption and at each interim reporting period. However, at the 2018-19 second interim reporting period, the 2019-20 cash flow projection did not balance to the projected budget.*

- 4.4 Does the district have a reasonable plan to address cash flow needs during the current fiscal year? . . . . . ☒ ☐ ☐

- 4.5 Does the district have sufficient cash resources in its other funds to support its current and projected obligations in those funds? . . . . . ☐ ☒ ☐

*Fund 12 (child development) and fund 13 (cafeteria) both rely on the general fund for cash flow needs.*

- 4.6 If interfund borrowing is occurring, does the district comply with Education Code section 42603? . . . . . ☒ ☐ ☐

- 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? . . . ☐ ☐ ☒

5. Charter Schools		Yes	No	N/A
5.1	Are all charters authorized by the district going concerns? . . . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input 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 checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.4	Does the district have a board policy or other written document(s) regarding charter oversight? . . . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input 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 checked="" type="checkbox"/>	<input type="checkbox"/>	<input 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 checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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 checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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"/>
<p><i>The funded statutory COLA was 0.00% in 2016-17 and 1.56% in 2017-18. On January 4, 2017, the board ratified an agreement with the Coachella Valley Teachers Association. In addition to other negotiated changes to the certificated contract, the agreement provided salary increases as follows: 3.0% effective July 1, 2015; a one-time payment of 3% for 2015-16; 3.3% effective July 1, 2016 (for two more professional development days); 2.8% effective January 1, 2017; 3.0% effective July 1, 2017; and an additional 4.75% effective July 1, 2017 (for 20 more instructional minutes). The district's AB 1200 disclosure documents indicated that deficit spending would increase in 2016-17, but it would be able to maintain the minimum reserve amount in 2016-17 and the subsequent two years. However, the AB 1200 disclosure did not specifically identify all the budget reductions needed to pay for the agreement. The December 29, 2016 letter from the county office of education regarding the tentative collective bargaining agreement expressed concerns about some of the district's budget assumptions, including a projected 99.5% student attendance rate.</i></p>				
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 type="checkbox"/>	<input checked="" type="checkbox"/>
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 type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

*The district completes AB 1200 disclosure documents and provides them to the county office of education for review. Although the district had a qualified certification for each interim reporting period in the 2017-18 and 2018-19 fiscal years, county office staff indicated the disclosure documents are not routinely provided for review and comment at least 10 working days before they are placed on the board agenda.*

- 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? . . . . . ☒ ☐ ☐
- 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? . . . . . ☐ ☒ ☐

*The district has experienced deficit spending in the Cafeteria Special Revenue Fund in fiscal years 2015-16 (\$1,993,268), 2016-17 (\$5,185,811), and 2017-18 (\$1,686,943). The district's 2018-19 second interim report projects that this fund will generate a \$910,803 surplus in the 2018-19 fiscal year; however, if the surplus does not materialize, the district may need to make a transfer from the unrestricted general fund in the current and/or future fiscal years, which is not included in its multiyear financial projections.*

*The district has also experienced deficit spending in the Child Development Fund in fiscal years 2015-16 (\$343,405.59), 2016-17 (\$623,542), and 2017-18 (\$559,626), which required a contribution from the unrestricted general fund for the deficit amount each year. The 2018-19 second interim report projects that the fund will deficit spend \$698,895, and a transfer from the unrestricted general fund to cover the operating deficit is included in the district's multiyear projections.*

- 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? . . . . . ☐ ☒ ☐

*The district's contributions for restricted programs was \$32,923,156 in fiscal year 2016-17; this was 20.10% higher than it was in fiscal year 2015-16. The district's contributions for restricted programs was \$35,843,746 in fiscal year 2017-18; this was 8.87% higher than it was in fiscal year 2016-17. The district's 2018-19 second interim budget for restricted program contributions is \$34,808,244; this is 2.89% lower than in fiscal year 2017-18. Individuals interviewed stated that the 2018-19 unrestricted general fund contribution to special education is projected to decrease from the prior year amount; however, based on prior year trends, this projected change should be monitored closely.*



**8. Deficit Spending****Yes No N/A**8.1 Is the district avoiding deficit spending in the current fiscal year? . . . . . ☒ ☐ ☐8.2 Is the district projected to avoid deficit spending in both of the two subsequent fiscal years? . ☐ ☒ ☐

*The district's 2018-19 second interim report projects deficit spending in both of the two subsequent fiscal years. The district projects a general fund deficit of \$7,757,425 in 2019-20 and \$11,181,602 in 2020-21. The unrestricted general fund portion of this projected deficit is \$6,144,733 in 2019-20 and \$8,997,304 in 2020-21. If not corrected, the district projects it will have a negative unrestricted general fund ending balance of \$6,926,362 in 2020-21.*

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? . . . ☒ ☐ ☐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? . . . . . ☐ ☒ ☐

*The collective bargaining agreement with the California School Employees Association (CSEA) stipulates that twelve-month employees may carry one-half year's allocated vacation over to the next year. The language related to the carryover of vacation does not limit the total accrual of vacation balances, exposing the district to a large financial liability. The 2017-18 audit report states, "The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2018, amounted to \$2,994,939."*

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? . . . . . ☐ ☒ ☐

*Enrollment has declined each year since 2014-15, and CALPADS reports show that enrollment has declined by the following amounts since 2016-17:*

Year	2016-17	2017-18	2018-19
Enrollment	18,501	18,146	17,786
Change	-150	-355	-360

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? . . . . . ☐ ✓ ☐
- The 2016-17, 2017-18 and 2018-19 enrollment projection documents provided to FCMAT include projections for each of those budget years based on historical data. However, the documents do not include enrollment projections for the two subsequent years, which are needed to complete multiyear financial projections. Although enrollment had declined each year since 2014-15 and the October 2018 enrollment census date had passed, the district's first interim report included unchanged enrollment for 2018-19.*
- 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? . . . . . ☐ ✓ ☐
- Interviews indicated that school sites and some departments are given CALPADS reports to review for accuracy before the data is submitted to the state; however, the director of nutrition services and the Human Resources Department are not given the reports. As discussed above in question 1.1, the 2017-18 audit report found that 202 students were misclassified as eligible for free or reduced-price meals in the district's unduplicated pupil count.*
- 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 meeting the required qualifications are approved? . . . . . ☐ ✓ ☐
- District staff indicated that interdistrict transfer requests were not closely reviewed in the past, which resulted in a net outflow of approximately 1,400 students. Staff reported that they now meet with parents to try to correct this issue. The Interdistrict Transfer Requests document shows that 790 requests to transfer out of the district and 266 requests to transfer into the district were approved in 2018-19; 313 requests to transfer out of the district and three requests to transfer into the district were denied.*
- 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? . . . . . ✓ ☐ ☐

## 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? . . . . . ☐ ☐ ✓
- 11.2 Does the district have sufficient and available capital outlay and/or bond funds to cover all contracted obligations for capital facilities projects? . . . . . ✓ ☐ ☐
- 11.3 Does the district properly track and account for facility-related projects? . . . . . ✓ ☐ ☐



- 11.4 Does the district use its facilities fully in accordance with the Office of Public School Construction's loading standards? . . . . . ☐ ☒ ☐
- The district's enrollment has declined for the last three years, and based on its School Capacity Report 2018-19, its current average facility utilization is 93%. The 2017 draft facilities master plan shows an average utilization of 63%.*
- 11.5 Does the district include facility needs (maintenance, repair and operating requirements) when adopting a budget? . . . . . ☒ ☐ ☐
- 11.6 Has the district met the facilities inspection requirements of the Williams Act and resolved any outstanding issues? . . . . . ☒ ☐ ☐
- 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 an up-to-date long-range facilities master plan? . . . . . ☒ ☐ ☐

## 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? . . . . . ☒ ☐ ☐
- 12.2 Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years? . . . . . ☐ ☒ ☐

*The 2018-19 second interim report projects the 2019-20 3% minimum reserve requirement to be \$7.8 million and shows that the district falls short of meeting the reserve by \$5.8 million. The district projects that in 2020-21 its minimum reserve requirement will be \$8 million, and it will have an unrestricted fund balance of negative \$6.9 million, a shortage of almost \$15 million.*

- 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? . . . . . ☐ ☒ ☐

*The governing board approved four resolutions on March 7, 2019 to reduce a total of 81 certificated and classified positions (including management). The 2018-19 second interim report indicated that the district was continuing its work on fiscal stabilization, and the budget optimization plan (dated February 14, 2019) includes approximately \$8.1 million in 2019-20 unrestricted general fund revenue increases and expenditure reductions. However, staff indicated that the plan was approved by the board after the 2018-19 second interim reporting period; therefore, the changes were not included in the multiyear projection.*

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

*As shown on the 2018-19 second interim report, the unrestricted general fund balance is projected to decrease in each of the two subsequent fiscal years. The unrestricted ending fund balance is projected to decline by \$6,144,733 in 2019-20 and to decline by an additional \$8,997,304 in 2020-21.*

- 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? . . . . . ☐ ☒ ☐

*The 2018-19 second interim report indicates pending litigation regarding a personnel matter. However, a final judgement had not yet been reached; therefore, no funds were reserved for this matter.*

### 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? . . . ☐ ☒ ☐

*The district's deficit spending trend indicates that it has used one-time resources to 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? . . . . . ☐ ☒ ☐

*The district's 2018-19 projected unrestricted general fund salaries and benefits are 91.64% of the expense budget. The statewide average for unified school districts as of 2017-18 (the latest data available) was 87.06%.*

- 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? . . . . . ☐ ☒ ☐

*The district's unrestricted general fund salaries and benefits were 87.74% of the expense budget in 2016-17 and 92.43% in 2017-18. For both of these years this was above the statewide average for unified school districts, which was 86.14% in 2016-17 and 87.06% in 2017-18.*

- 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's 2017-18 Form CAT shows unused grant award funds that were not allowed to be carried over to the next year. The federal grant awards show \$2,136,071 in unused grant award funds with only \$1,530,510 in carryover allowed. The state grant awards show \$846,532 in unused grant award funds with only \$786,318 in carryover allowed. The 2017-18 Form CAT indicates that the district had to return funds to grantors; staff also indicated that Title I funds had to be returned to the CDE because of excess carryover in 2016-17.*

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

*The district does not charge the full allowable indirect cost rate to all of its restricted resources and other funds. The district should charge the allowable indirect costs to all restricted programs and funds, including special education programs, to reflect the true costs of these programs.*

14. Information Systems and Data Management		Yes	No	N/A
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? . . . . .	✓	<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"/>
<p><i>The district's 2017-18 audit report issued a modified opinion for the Unduplicated Local Control Funding Formula (LCFF) Pupil Counts and included the following finding:</i></p> <p><i>The district misclassified 202 students as eligible for free or reduced-price meals in its unduplicated pupil count resulting in a \$152,776 decrease of its LCFF revenue.</i></p> <p><i>Documents provided to FCMAT indicate that the district has implemented additional procedures to try and rectify this issue going forward.</i></p>				
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"/>	✓
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 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"/>
<p><i>The district uses the Galaxy financial system, which is hosted and supported by the Riverside County Office of Education. The county office grants access to various modules and capabilities in the system at the request of the district. Staff indicated that the Personnel Action Form is used as the prompt to add and delete system access when employees are hired and when they leave the district. The Galaxy User Screen Permissions document, dated May 6, 2019, does not include current job titles for some business office staff, and based on the documents provided to FCMAT it appears that the access and authorization permissions are not routinely updated, and/or are not updated in a timely manner.</i></p>				
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 payable warrants are printed at the county office and sent to the district, where they are distributed, on a rotating basis, by two of the four accounts payable staff members who processed them. To provide better segregation of duties, the individual responsible for generating accounts payable warrants should not distribute them.*

- |                                      |                          |                          |                          |
|--------------------------------------|--------------------------|--------------------------|--------------------------|
| • Accounts receivable (AR) . . . . . | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| • Purchasing and contracts . . . . . | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| • Payroll. . . . .                   | <input type="checkbox"/> | ✓                        | <input type="checkbox"/> |

*Payroll warrants are printed at the county office and sent to the district, where they are distributed by the payroll technicians who processed them. To provide better segregation of duties, the individual responsible for generating payroll warrants should not distribute them.*

- |                                          |                          |                          |                          |
|------------------------------------------|--------------------------|--------------------------|--------------------------|
| • Human resources . . . . .              | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| • Associated student body (ASB). . . . . | <input type="checkbox"/> | ✓                        | <input type="checkbox"/> |

*The district's 2016-17 and 2017-18 audit reports note several deficiencies in internal controls for processes related to cash collections, disbursements, deposits, and fundraising.*

- |                                    |                          |   |                          |
|------------------------------------|--------------------------|---|--------------------------|
| • Warehouse and receiving. . . . . | <input type="checkbox"/> | ✓ | <input type="checkbox"/> |
|------------------------------------|--------------------------|---|--------------------------|

*Staff indicated they were unsure when a districtwide physical inventory was last completed. In addition, the district's 2016-17 and 2017-18 audit reports note that capital asset lists have not been adjusted for assets the district has disposed of.*

- |                                                                                                                                                        |   |                          |                          |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|---|--------------------------|--------------------------|
| 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"/> |
|-----------------------------------------------------------------------------------------|--------------------------|---|--------------------------|

*Individuals interviewed indicated that district staff attempt to, but typically cannot, clear all prior year accruals by the first interim reporting period. However, staff reported that the county office also follows up on pending items.*

- |                                                                                                                                                                                   |   |                          |                          |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--------------------------|--------------------------|
| 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"/> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|--------------------------|--------------------------|

- |                                                                                                                                                |   |                          |                          |
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| 15.7 Has the district reconciled and closed the general ledger (books) within the time prescribed by the county office of education? . . . . . | ✓ | <input type="checkbox"/> | <input type="checkbox"/> |
|------------------------------------------------------------------------------------------------------------------------------------------------|---|--------------------------|--------------------------|

- |                                                                                                |   |                          |                          |
|------------------------------------------------------------------------------------------------|---|--------------------------|--------------------------|
| 15.8 Does the district have processes and procedures to discourage and detect fraud? . . . . . | ✓ | <input type="checkbox"/> | <input type="checkbox"/> |
|------------------------------------------------------------------------------------------------|---|--------------------------|--------------------------|

- |                                                                                                                 |                          |   |                          |
|-----------------------------------------------------------------------------------------------------------------|--------------------------|---|--------------------------|
| 15.9 Does the district maintain an independent fraud reporting hotline or other reporting service(s)? . . . . . | <input type="checkbox"/> | ✓ | <input type="checkbox"/> |
|-----------------------------------------------------------------------------------------------------------------|--------------------------|---|--------------------------|

*Individuals interviewed indicated that the district does not have a fraud reporting hotline or other reporting service. Board Policy 3400 states, "...the Superintendent or designee shall establish a method for employees and outside persons to anonymously report any suspected instances of fraud, impropriety, or irregularity." However, no evidence of such an established method was provided to FCMAT.*

- |                                                                                                                |   |                          |                          |
|----------------------------------------------------------------------------------------------------------------|---|--------------------------|--------------------------|
| 15.10 Does the district have a process for collecting and following up on reports of possible fraud? . . . . . | ✓ | <input type="checkbox"/> | <input type="checkbox"/> |
|----------------------------------------------------------------------------------------------------------------|---|--------------------------|--------------------------|

- |                                                                   |                          |   |                          |
|-------------------------------------------------------------------|--------------------------|---|--------------------------|
| 15.11 Does the district have an internal audit process? . . . . . | <input type="checkbox"/> | ✓ | <input type="checkbox"/> |
|-------------------------------------------------------------------|--------------------------|---|--------------------------|

Some business office positions are assigned to oversee various ASB financial transactions; however, the district does not have a formal 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 more than two years? . . . . . ☐ ☒ ☐

*The assistant superintendent of business services started with the district on November 6, 2017. At the time of FCMAT's fieldwork, he had not been with the district for more than two years.*

- 16.2 Does the district have a superintendent who has been with the district more than two years? . . . . . ☐ ☒ ☐

*The superintendent started with the district on June 12, 2017. At the time of FCMAT's fieldwork, he had not been with the district for more than two years.*

- 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? . . . . . ☒ ☐ ☐

- 16.5 Does the governing board adopt and revise policies and administrative regulations annually? . . . . . ☐ ☒ ☐

*The district's website includes numerous policies and administrative regulations (ARs) that are outdated; the dates on many indicate more than 10 years have passed since the last revision. The district's leaders are working with the California School Boards Association to review all board policies and ARs, make recommendations to update and revise existing documents, and adopt new policies and ARs as needed.*

- 16.6 Are newly adopted or revised policies and administrative regulations implemented, communicated and available to staff? . . . . . ☐ ☒ ☐

*FCMAT was not able to identify any formal or structured district process for communicating to staff any changes in board policies or administrative regulations.*

- 16.7 Is training on the budget and governance provided to board members at least every two years? . . . . . ☐ ☒ ☐

*FCMAT found no evidence that training on the budget and governance was provided to board members in the last two years.*

- 16.8 Is the superintendent's evaluation performed according to the terms of the contract? . . . ☒ ☐ ☐

## 17. Multiyear Projections

Yes No N/A

- 17.1 Has the district developed multiyear projections that include detailed assumptions aligned with industry standards? . . . . . ☐ ☒ ☐

*Based on the documents provided to FCMAT, the district does not include detailed assumptions for its multiyear projections with the budget documents provided to the board. District staff reported that they use the School Services of California dashboard and information from the county office of education for multiyear projection assumptions.*

- 17.2 To help calculate its multiyear projections, did the district prepare an 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 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? . . . . . ☐ ☒ ☐

*The district does not include detailed written assumptions for multiyear projections with the budget documents provided to the board. The district does not use the SACS form MYP/MYPI; instead, it uses a summary spreadsheet for multiyear projections.*

## 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 district has three COPs/lease refinancings for COPs. The 2018-19 annual payments total \$3 million for these three issuances of non-voter-approved debt, and the 2017-18 audit report shows that the payments increase by approximately \$100,000 each year through 2022-23. District staff indicated that the repayment source is redevelopment agency (RDA) funds; however, FCMAT was not provided supporting documentation for projected annual RDA revenue. Therefore, it is unclear if annual RDA revenue will continue to support the debt service payments.*

*The district has also entered into capital lease agreements for an energy savings project. The 2018-19 annual payments total approximately \$341,000, and the 2017-18 audit report shows that the lease payments increase each year. The 2022-23 payment is approximately \$531,000. District staff indicated that the repayment source is the unrestricted general fund.*

- 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? . . . . . ☒ ☐ ☐
- 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? . . . . . ☐ ☒ ☐

*The district is self-insured for employee dental and vision benefits; however, no evidence of an actuarial study was provided to FCMAT. The district accounts for these benefits in fund 67, and the 2017-18 unaudited actuals report shows an ending net position of \$1.2 million.*

- 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? . . . . . ☒ ☐ ☐

## 19. Position Control

Yes No N/A

- 19.1 Does the district account for all positions and costs? . . . . . ☐ ☒ ☐

*The district uses the position control module in the Galaxy financial system to account for salaries and benefits of regular positions. However, costs for items such as extra duty, stipends, substitutes and vacation payouts are kept on a separate spreadsheet and are entered in the budget manually. The district's 2018-19 second interim financial system*

report shows numerous salary and benefit accounts that are over budget; therefore, it is unclear if the necessary processes exist to ensure information is accurately transferred from position control and the spreadsheet to the budget.

- 19.2 Does the district analyze and adjust staffing based on staffing ratios and enrollment? . . . ☐ ☒ ☐

Maximum class sizes are stipulated in the district's collective bargaining agreement with certificated employees. However, individuals interviewed indicated that the district has not adopted staffing ratios for classified and administrative positions.

The district's enrollment has declined each fiscal year since 2014-15, and the 2018-19 second interim report projects that enrollment will continue to decline in each of the two subsequent years. Although district staff indicated that layoffs occurred for 2018-19 and 2019-20, the second interim report shows no reduction in certificated, classified or management positions in the subsequent fiscal years.

- 19.3 Does the district reconcile budget, payroll and position control regularly, meaning 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? . . . ☐ ☒ ☐

Two of the six sample board agenda items provided to FCMAT state that the budget source is "To Be Determined."

- 19.5 Does the governing board approve all new positions and extra assignments (e.g., stipends) before positions are posted? . . . ☒ ☐ ☐

- 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? . . . ☐ ☒ ☐

Maximum class sizes are stipulated in the district's collective bargaining agreement with certificated employees. However, individuals interviewed indicated that the district has not adopted staffing ratios for classified and administrative positions.

- 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? . . . ☒ ☐ ☐

## 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)? . . . ☐ ☒ ☐

Staff reported that the district provides special education services for the NOVA Academy Charter School and that the district receives the charter school's special education funding directly. Staff indicated that the funding does not cover all costs associated with the services provided; however, the charter school does not pay the excess costs for the services or any portion of the district's unrestricted general fund contribution to special education.

- 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)? . . . ☐ ☒ ☐



The district did not provide evidence of appropriate tools used to help make informed decisions related to adding services. Staff reported that the district has a special circumstance instructional assistance process but that it is used inconsistently to determine whether more restrictive services will be offered (e.g., a 1-to-1 instructional assistant). Staff also indicated that a special education task force recently developed decision trees to be used when determining if transportation or extended school year will be offered to special education students, with plans to train staff on these new processes.

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)? . . . . . ☐ ☒ ☐

The district does not charge indirect costs to all of its special education programs. This results in an understatement of the true cost of these programs.

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? . . . . . ☒ ☐ ☐

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

The district indicated it does not analyze whether it will meet the maintenance of effort (MOE) requirement at each interim reporting period; rather, it does so twice a year, at budget adoption and unaudited actuals.

**Total Risk Score, All Areas** **44.7%**

**Key to Risk Score**

- High Risk: 40% or more
- Moderate Risk: 25-39%
- Low Risk: 24% and lower



## Summary

*The governing board is ultimately responsible for the district's budget. Management is responsible for providing accurate financial information supported by trend analysis, budget assumptions and multiyear projections based on reliable data so the board can make sound decisions.*

*Since 2017-18 the Riverside County Office of Education's oversight letters have cautioned the district about several areas of concern, including deficit spending, negative unrestricted general fund ending balances, declining enrollment, and ending cash balances. The 2017-18 audit report included findings regarding the district's failure to meet the 3% minimum reserve requirement and the structural deficits in the child development and cafeteria funds.*

*This fiscal health risk analysis shows the district is at High Risk of insolvency and identifies multiple areas of concern that contribute to the district's fiscal distress. Of significant concern is the loss of revenue due to the year-over-year enrollment decline, which the district projects will continue into the subsequent fiscal years. From 2014-15 to 2018-19, enrollment declined by 880 students, a decrease of 4.7%. In response to declining enrollment, districts must make reductions in staffing and other operating expenses to compensate for the loss of revenue. The district has worked to reverse the enrollment decline by implementing processes to help reduce the number of interdistrict transfers out of the district, and the board has approved layoffs of management, certificated and classified employees. However, these actions have not been sufficient to resolve the district's budget shortfalls.*

*Also of significant concern is the erosion of the unrestricted general fund ending balance because of ongoing deficit spending. Deficit spending began in 2016-17 and is projected to continue through 2020-21, the last year projected in the 2018-19 second interim report. The second interim report shows that the unrestricted general fund balance will decline from \$7.6 million at the start of the 2018-19 fiscal year to negative \$6.9 million at the end of 2020-21. The projections show that the district will not be able to meet the 3% reserve requirement in 2019-20 and 2020-21. If the district does not increase revenue and/or decrease expenses, and if it continues to spend more than it receives, it will deplete its cash resources and become fiscally insolvent.*

*The second interim report indicated that the district was continuing its work on fiscal stabilization, and the February 14, 2019 budget optimization plan includes \$8.1 million in unrestricted general fund revenue increases and expenditure reductions for 2019-20. Staff indicated that the plan was approved by the board after the 2018-19 second interim reporting period; therefore, the changes were not included in the multiyear projection.*

*The district's significant risk factors include, but are not limited to, declining enrollment, deficit spending, erosion of the unrestricted general fund balance, and inadequate reserves. These risk factors will require the governing board and administration to continue to make and implement difficult decisions to ensure that the district remains fiscally solvent. Failure to act quickly and decisively may result in fiscal insolvency; the consequences of becoming insolvent are severe and result in the loss of local control and governance.*

### Subsequent Events

*In June 2019 the district superintendent resigned, and the board appointed the assistant superintendent of human resources to the superintendent position.*