FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Fiscal Health Risk Analysis

September 8, 2020

Denair Unified School District

Michael H. Fine
Chief Executive Officer

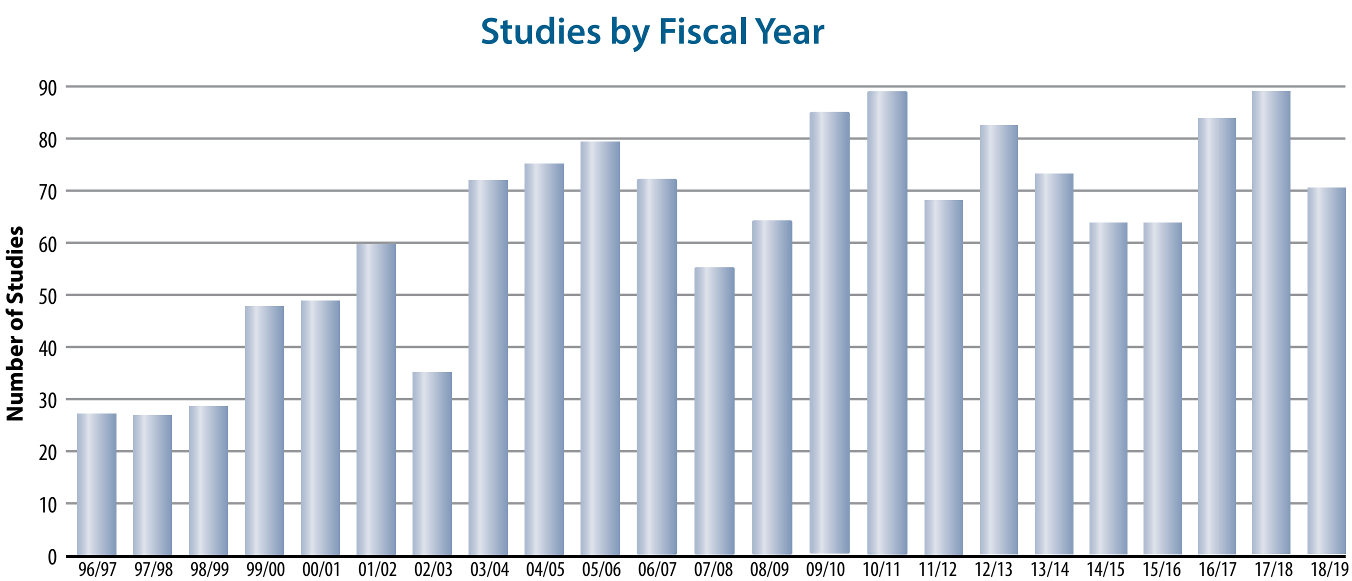
Contents

About FCMAT

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

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

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



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

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

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

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

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

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

Introduction

Background

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

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

Under these conditions, FCMAT will perform a fiscal health risk analysis to determine the level of risk for insolvency. FCMAT has updated its Fiscal Health Risk Analysis (FHRA) tool that weights each question based on high, moderate and low risk. The analysis will not be performed more than once in a 12-month period per district, and the engagement will be coordinated with the county superintendent and build on their oversight process and activities already in place per Assembly Bill (AB) 1200. There is no cost to the county superintendent or to the district for the analysis. This fiscal health risk analysis is being conducted because the district received a "lack of going concern" designation from the Stanislaus County Office of Education, under which an analysis is required by the 2018-19 State Budget Act. This designation indicates a concern by the county office that the district may be unable to meet its financial obligations in the current or two subsequent fiscal years.

The Denair Unified School District is located near the city of Turlock in southeastern Stanislaus County. Under the governance of a five-member board, the district serves approximately 1,315 students in transitional kindergarten (TK) through grade 12 in one elementary charter school, one middle school, one high school, and one home-school charter school. According to Ed-Data, for the 2019-20 school year, 53.6% of the district's students were economically disadvantaged and 17% were English learners; these percentages contribute to a combined single-year unduplicated pupil percentage of 58.56%. This is the percentage of students who were English learners, foster youth, and/or qualify for free or reduced-price meals.

According to a letter from the county office of education to the district, dated June 5, 2020, "Since the 2018-19 school year, the Stanislaus County Office of Education has communicated fiscal solvency concerns both orally and in writing to district administration and the Board of Trustees." After agreeing with the district's self-certified positive status on the 2019-20 second interim financial report, the county office designated the district a "lack of going concern," in accordance with Education Code Section 42127. The county's determination was based on an erosion of the district's fund balance and cash reserves because of deficit spending; the district's dependence on combining its general fund ending balance with those of its two charter schools to achieve a positive certification; inaccurate or incomplete cash flow projections that do not balance with the county's financial system or county treasury ledger; specific funding streams that are not regularly balanced and reconciled, resulting in deficit balances; and additional factors excluded from budget projections such as rising special education costs and lower than anticipated developer fee revenues needed to fund debt service payments.

As a result of the lack of going concern designation, the county office assigned a fiscal advisor with stay and rescind authority, and is requiring the district to do the following:

- conduct a study of its financial and budgetary conditions
- encumber all contracts and other obligations
- prepare appropriate cash flow analyses of all funds
- perform quarterly budget revisions
- appropriately record all receivables and payables
- submit a proposal to address its fiscal condition

Following the district's lack of going concern designation, FCMAT performed a fiscal health risk analysis to determine the district's level of risk for insolvency.

Fiscal Health Risk Analysis Guidelines

FCMAT entered into a study agreement with the Denair Unified School District on June 16, 2020. Because of the COVID-19 virus, FCMAT did not visit the district in person but conducted interviews with district and school site staff via Zoom on July 8-10, 2020, and collected data and reviewed documents. Following fieldwork, the study team continued to receive, review and analyze documents, although some were not provided to the team following multiple requests. 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:

Shayleen Harte
FCMAT Deputy Executive Officer

Jennifer Noga
FCMAT Intervention Specialist

Andrea Dodson
FCMAT Intervention Specialist

John Lotze
FCMAT Technical Writer

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

Fiscal Health Risk Analysis
For K-12 School Districts

FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Date(s) of fieldwork: July 8-10, 2020

District: Denair Unified School District

Summary

The governing board is ultimately responsible for the district's budget and fiscal solvency. Management has the responsibility to present sound financial information based on current and accurate data so the board can make informed decisions. Any failure of the district to act decisively on accurate and timely information may result in fiscal insolvency and the loss of local control. Although the district's 2019-20 second interim financial report was the basis for this report, it was developed before, and without any of the additional burdens that are now being encountered because of, COVID-19 and the impending national recession. It is natural to expect the district's risk for fiscal insolvency to worsen during this time without immediate action by the district's governing board and administration to eliminate the structural deficit.

The district has been identified as a fiscal concern since the 2018-19 fiscal year, according to the Stanislaus County Office of Education's oversight letters, and the county office has cautioned the district about several areas of concern. FCMAT's analysis for this FHRA determined that the district has a high risk of insolvency. The risk score from the 20 numbered sections of the FHRA is 34.5%, which is rated as moderate; however, the existence of any condition from the Budget and Fiscal Status section (shown below), and/or an answer of "no" in the Material Weakness Questions (also shown below) elevates the district's risk. Accordingly, the district's fiscal solvency risk level is designated as high.

The district has a history of deficit spending. District staff reported that this was planned because of one-time money that had been set aside for that purpose, with some used to reverse salary reductions from the Great Recession in 2007-2008. Deficit spending is projected to continue through 2021-22, with the ending fund balance declining during this same period. According to the district's 2016-17 unaudited actuals financial report, the district had a beginning balance of $2,274,789. According to the district's 2019-20 second interim financial report, its projected ending fund balance will be $365,445. This is a projected decrease of $1,909,344, or 83.9%, over four years.

Although the district's governing board adopted a resolution on June 4, 2020 identifying the need to develop and implement a plan to reduce 2021-22 spending by at least $151,593 to eliminate its ongoing deficit spending, if the anticipated spending reductions do not occur, the district's ending fund balance will continue to decline and the district will be unable to meet its minimum reserve for economic uncertainty. It is therefore vital that the district develop, adopt and implement a comprehensive budget balancing plan, with identified expenditure reductions and/or revenue increases, to maintain its minimum reserve and avoid any further erosion of the ending fund balance.

Any district's general fund (Fund 01) is its main operating fund. It is used to account for all activities not accounted for in another fund. The district is on the same financial accounting system as the Stanislaus County Office of Education; however, because of how the district records the financial information related to its two charter schools and the fact that it combines the charters schools' finances with its own general fund, it is difficult to ascertain the district's true financial condition without a deeper analysis. The California School Accounting Manual states that the Charter Schools Special Revenue Fund (Fund 09):

> . . . may be used by authorizing LEAs [local educational agencies] to account separately for the operating activities of LEA-operated charter schools that would otherwise be reported in the authorizing LEA's general fund. If an LEA uses this fund for any of a charter school's operating activities, it should use this fund for all of the charter school's operating activities.

To address the concern from the county office that the district relies on the charters' ending fund balances to achieve positive certification, and to achieve greater transparency, the district could use the Charter Schools Special Revenue Fund to distinguish the district's financial status separately from that of the charter schools it authorizes.

FCMAT was not provided with evidence that a presettlement analysis was performed as part of the collective bargaining process. The absence of an analysis detailing the impact of a proposed bargaining agreement and its effects on multiyear projections indicates that the district entered into tentative agreements without full knowledge of the settlement costs. The district did not provide AB 1200 disclosure documents for the period under review, and some board documents did not include the required signatures prior to board approval certifying that the district could afford the cost of the agreement.

In 2004, the district issued non-voter-approved debt in the form of certificates of participation (COPs) totaling $3,930,000, with debt payments expected to continue through 2025. The district uses funds received from developer fees as the primary source of repayment. Although the 2019-20 fiscal year ended with substantial increase in developer fees over the prior year sufficient to fund the COPs debt with one year in reserve, there is little assurance that these funds will continue with any consistency. If the anticipated revenue is not realized, this COPs debt repayment would become a burden on the general fund and cause a further erosion of the district's ending fund balance.

FCMAT also found that the district has weaknesses in internal controls in accounts payable, accounts receivable, payroll, and purchasing and contracts. Although it is difficult for small districts to ensure proper internal controls and oversight of critical functions, the district should make certain that processes and procedures, access to systems, and segregation of duties are sufficient to safeguard its assets at all times. A lack of proper internal controls puts the district at high risk for fraud and embezzlement.

FCMAT's study was performed during the COVID-19 pandemic and the severe economic downturn that it is causing. Although the full impact to state and federal funding for K-12 districts remains uncertain at the time of this report, school districts throughout California are reasonably anticipating a sharp decline in funding beginning with the 2021-22 school year. That anticipated decline was not included in this analysis but could ultimately threaten the district's fiscal solvency. Assuming that funding reductions occur as anticipated, the district will need to identify significant expenditure reductions beyond those included in its 2019-20 second interim report to maintain its fiscal solvency.

District Fiscal Solvency Risk Level: High

About the Analysis

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

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

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

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

Areas of High Risk

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

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

	Material Weakness Questions	Yes	No	N/A
2.5	Has the district's budget been approved unconditionally by its county office of education in the current and two prior fiscal years?	✓	☐	☐
3.4	Following board approval of collective bargaining agreements, does the district make necessary budget revisions in the financial system to reflect settlement costs in accordance with Education Code Section 42142?	✓	☐	☐
3.6	Has the district addressed any deficiencies the county office of education has identified in its oversight letters in the most recent and two prior fiscal years?	☐	✓	☐
4.3	Does the district forecast its general fund cash flow for the current and subsequent year and update it as needed to ensure cash flow needs are known?	✓	☐	☐
4.4	If the district's cash flow forecast shows insufficient cash in its general fund to support its current and projected obligations, does the district have a reasonable plan to address its cash flow needs for the current and subsequent year?	✓	☐	☐
5.2	If the district has any charters in fiscal distress, has the district performed its statutory fiscal and operational oversight functions, including formal communication to the charter, such as notices of violation?	☐	☐	✓
5.3	Has the district fulfilled and does it have evidence showing fulfillment of its oversight responsibilities in accordance with Education Code Section 47604.32?	☐	✓	☐
6.3	Does the district accurately quantify the effects of collective bargaining agreements and include them in its budget and multiyear projections?	☐	✓	☐
6.4	Did the district conduct a presettlement analysis and identify related costs or savings, if any (e.g., statutory benefits, and step and column salary increase), for the current and subsequent years, and did it identify ongoing revenue sources or expenditure reductions to support the agreement?	☐	✓	☐
7.2	If the district has deficit spending in funds other than the general fund, has it included in its multiyear projection any transfers from the unrestricted general fund to cover any projected negative fund balance?	☐	☐	✓
8.3	If the district has deficit spending in the current or two subsequent fiscal years, has the board approved and implemented a plan to reduce and/or eliminate deficit spending to ensure fiscal solvency?	☐	✓	☐
10.6	Are the district's enrollment projections and assumptions based on historical data, industry-standard methods, and other reasonable considerations?	✓	☐	☐
11.2	Does the district have sufficient and available capital outlay and/or bond funds to cover all contracted obligations for capital facilities projects?	✓	☐	☐
12.1	Is the district able to maintain the minimum reserve for economic uncertainty in the current year (including Fund 01 and Fund 17) as defined by criteria and standards?	✓	☐	☐
12.2	Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years?.	✓	☐	☐
12.3	If the district is not able to maintain the minimum reserve for economic uncertainty, does the district's multiyear financial projection include a board-approved plan to restore the reserve?	☐	☐	✓
19.1	Does the district account for all positions and costs?	✓	☐	☐

Score Breakdown by Section

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

1.	Annual Independent Audit Report	0.0%
2.	Budget Development and Adoption	2.9%
3.	Budget Monitoring and Updates	2.0%
4.	Cash Management	1.6%
5.	Charter Schools	0.2%
6.	Collective Bargaining Agreements	5.9%
7.	Contributions and Transfers	1.0%
8.	Deficit Spending (Unrestricted General Fund)	2.9%
9.	Employee Benefits	0.0%
10.	Enrollment and Attendance	2.9%
11.	Facilities	0.2%
12.	Fund Balance and Reserve for Economic Uncertainty	1.0%
13.	General Fund - Current Year	0.2%
14.	Information Systems and Data Management	2.0%
15.	Internal Controls and Fraud Prevention	6.1%
16.	Leadership and Stability	1.6%
17.	Multiyear Projections	1.0%
18.	Non-Voter-Approved Debt and Risk Management	1.0%
19.	Position Control	1.0%
20.	Special Education	1.0%
Score		**34.5%**

Fiscal Health Risk Analysis Questions

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

1. Annual Independent Audit Report

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

2. Budget Development and Adoption

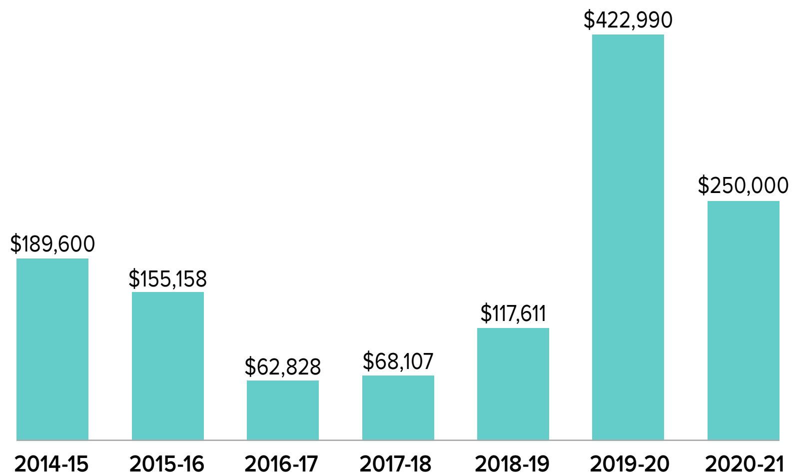
		Yes	No	N/A
2.1	Does the district develop and use written budget assumptions and multiyear projections that are reasonable, are aligned with the county office of education instructions, and have been clearly articulated?	☐	✓	☐

The district communicates its written budget and multiyear assumptions in a budget presentation and a report that includes the statutorily required standardized account code system (SACS) forms.

The budget and multiyear projections are based on standard practices of removing one-time activity, including standardized changes to salaries and benefits, and including Local Control and Accountability Plan (LCAP) activity. However, outside of these adjustments, the district fails to account for inflation, increased services for programs that typically grow, or the general fund contribution increases due to these factors.

Because of the understated budget assumptions listed above, the district's unrestricted ending fund balance is likely overstated. The district indicates that developer fee revenues will fund existing certificates of participation (COPs) debt through the life of the debt. The 2019-20 fiscal year ended with a substantial increase in developer fees over prior year, which gives the Capital Facilities Fund sufficient balance to fund the COPs debt and have one year in reserve. However, the COPs debt schedule continues through 2025. Changes in the economy or housing market may cause developer fees collections to decrease, but the district does not have an alternative resource to fund the debt if this happens. The debt schedule indicates the payment ranges from $238,385 to $244,925 each year. As the chart below illustrates, historical developer fee collections have varied significantly and are not consistent and possibly insufficient. The *district may be required to make additional general fund adjustments to cover the COPs debt if developer fee collections decrease.*

Annual Developer Fee Collections Vary



Projected activity for 2019-20 and 2020-21 per the district's 2020-21 adopted budget report.
Activity for 2014-15 through 2018-19 per the CDE's published annual financial data.

The practice of reporting the charter schools' finances within the district's general fund in the SACS reports, including the multiyear projection and Criteria & Standards, commingles the finances of the separate LEAs and may prevent the district from identifying budget issues early enough to implement changes and protect the district's financial solvency. In interviews, employees indicated the district calculates each charter's share of operating costs by calculating the charter's percentage of enrollment and applying that percentage to prorate the cost among the three LEAs. According to the 2020-21 district budget disclosures, this transfer does not appear to be calculated consistently or applied to each charter school. In particular, a note in the adopted budget states, "Transfers in reflect DCA [Denair Charter Academy] support to help cover DECA's [Denair Elementary Charter Academy's] share of operating costs."

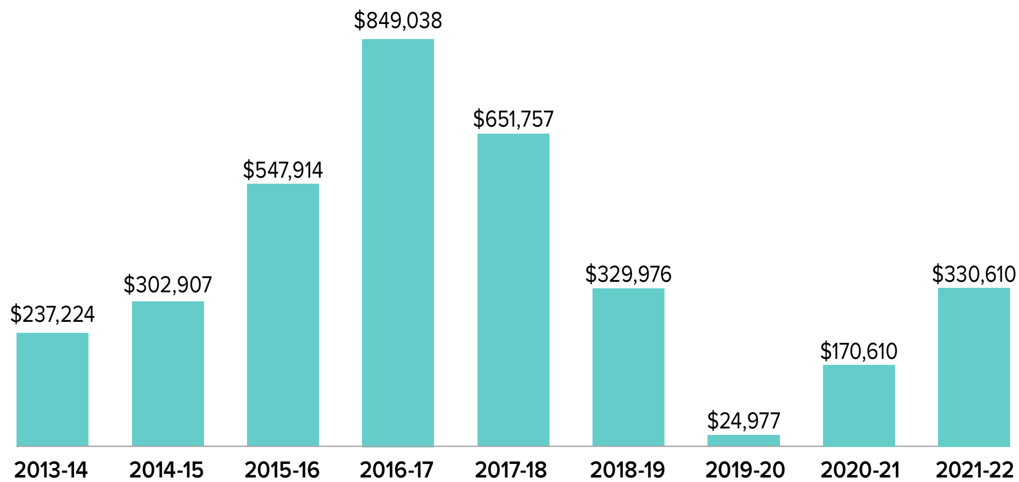
2.2	Does the district use a budget development method other than a prior-year rollover budget, and, if so, does that method include tasks such as review of prior year estimated actuals by major object code and removal of one-time revenues and expenses?	✓	☐	☐
2.3	Does the district use position control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

Employees indicated that budget development occurs mainly in the business office and does not include meetings with stakeholders before budget adoption. Changes to the current year budget are then applied during the year as requests are received from staff and administrators.

2.7 Does the district budget and expend restricted funds before unrestricted funds? . . . . ☐ ✓ ☐

The district does not always fully use restricted funds. As the chart below shows, after a period of years that more than doubled the restricted ending fund balance, the district began to use the restricted funds and spend down the balances. The district's 2019-20 second interim multiyear projection indicates the total restricted ending fund balance will increase significantly from 2019-20 through 2021-22.

Restricted Funds Not Fully Used; Balances Remain Each Year



Projected activity for 2019-20 through 2021-22 according to the district's 2019-20 second interim report.
Activity for 2013-14 through 2018-19 per the CDE's published annual financial data.

2.8 Have the Local Control and Accountability Plan (LCAP) and the budget been adopted within statutory timelines established by Education Code Sections 42103 and 52062 and filed with the county superintendent of schools no later than five days after adoption or by July 1, whichever occurs first, for the current and one prior fiscal year? . . . . ✓ ☐ ☐

2.9 Has the district refrained from including carryover funds in its adopted budget? . . . . ✓ ☐ ☐

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 general fund? . . . . ☐ ✓ ☐

Employees indicated the district does not have a documented policy or procedure for evaluating any proposed acceptance of grants and other types of restricted funds. However, the superintendent reviews the proposed award, spending plan and multiyear impact before the district accepts such funds.

2.12 Does the district adhere to a budget calendar that includes statutory due dates, major budget development tasks and deadlines, and the staff members/departments responsible for completing them? . . . . ☐ ✓ ☐

Employees indicated the district does not adhere to a budget calendar other than the mandatory LCAP development process.

3. Budget Monitoring and Updates		Yes	No	N/A
3.1	Are actual revenues and expenses consistent with the most 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?	✓	☐	☐
3.4	Following board approval of collective bargaining agreements, does the district make necessary budget revisions in the financial system to reflect settlement costs in accordance with Education Code Section 42142?	✓	☐	☐
3.5	Do the district's responses fully explain the variances identified in the criteria and standards?	✓	☐	☐
3.6	Has the district addressed any deficiencies the county office of education has identified in its oversight letters in the most recent and two prior fiscal years?	☐	✓	☐

The district has not addressed the following items identified in the county office of education's oversight letters:

- *multiyear deficit spending in the multiyear projection, initially identified in the 2017-18 adopted budget response letter*
- *use of the charter schools' unrestricted ending balances to meet the district's legally required reserve for economic uncertainty, initially identified in the 2019-20 first interim response letter*
- *rising special education costs, initially identified in the 2018-19 second interim response letter*
- *ongoing spending patterns in restricted programs without ongoing, dedicated revenue sources, initially identified in the 2018-19 second interim response letter*

		Yes	No	N/A
3.7	Does the district prohibit processing of requisitions or purchase orders when the budget is insufficient to support the expenditure?	☐	✓	☐

Employees indicated the requisition process is paper-based and cannot be traced until a requisition is received in the business office for entry into the financial system.

Purchase orders are generated in the financial system; however, the district does not use the built-in security setting to prevent a purchase order from being created when the budget for it is insufficient.

Encumbrances are updated manually once a month in a spreadsheet that is accessible to the school sites and departments. However, a considerable lag exists from the time a requisition is created to the time a purchase order is generated, and then to the time the encumbrance balance is updated. During this lag, school site and department staff are basing any future purchase decisions on outdated information about the remaining budget.

		Yes	No	N/A
3.8	Does the district encumber and adjust encumbrances for salaries and benefits?	✓	☐	☐
3.9	Are all balance sheet accounts in the general ledger reconciled at least at each interim report and at year end close?	✓	☐	☐
3.10	Have the interim reports and the unaudited actuals been adopted and filed with the county superintendent of schools within the timelines established in Education Code?	✓	☐	☐

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?	☐	✓	☐

The district's March, April and May 2020 bank statements were reconciled, but not monthly. During interviews, staff indicated there was a problem with a Coffee Cart program run by the district and the use of Square for credit card purchases, which caused a delay in the reconciliation. Bank statements should be reconciled monthly by an employee other than the individual responsible for the original transaction and recording.

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

Education Code Section 42603 states that any district may temporarily transfer funds from one fund to another at the governing board's direction. The Education Code allows one fund to borrow money from another but specifies that funds shall be "repaid either in the same fiscal year, or in the following fiscal year if the transfer takes place within the final 120 calendar days of the fiscal year."

The Stanislaus County Office of Education allows the aggregating of district funds without requiring district board action to transfer or borrow between funds. The county office's year-to-date cash balancing documents through May 2020 identify negative fund balances in the district's general fund, cafeteria fund and building fund. Records indicate the district has been allowed to incur negative fund balances for certain months within the fiscal year. Because district funds are available in aggregate, the procedure allowed in Education Code Section 42603 is not used to transfer moneys between funds.

The California School Accounting Manual (CSAM) and Generally Accepted Accounting Principles (GAAP) state:

> *. . . a fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives . . .*

The CSAM further states:

> *The principal role of funds is to demonstrate fiscal accountability. The financial transactions of LEAs are separated into various funds in order to permit administrators to ensure, and report on, compliance with the laws and regulations that affect LEAs.*

The consequence of and concern with this arrangement of aggregating funds is the loss of fiscal control and accountability.

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

5. Charter Schools

		Yes	No	N/A
5.1	Are all charters authorized by the district going concerns?	✓	☐	☐
5.2	If the district has any charters in fiscal distress, has the district performed its statutory fiscal and operational oversight functions, including formal communication to the charter, such as notices of violation?	☐	☐	✓
5.3	Has the district fulfilled and does it have evidence showing fulfillment of its oversight responsibilities in accordance with Education Code Section 47604.32?	☐	✓	☐

The terms "independent" and "dependent" when referring to charter schools describe the relationship between an authorizing district and a charter school, even though they are not defined in the Charter Schools Act (CSA).

Typically, when a charter school is described as dependent, it has often been created by a district's governing board, is treated as one of the district's schools and is governed by the district's governing board. This type of charter school is what the CSA describes as a conversion charter school. In contrast, charter schools described as independent have usually been formed by parents, teachers, community members, or charter management organizations. This type of charter school is what the CSA describes as a startup school.

Regardless of the type of charter school or the terms used to define it, Education Code Section 47601 states that charters are required to "operate independently from the existing school district structure." Therefore, authorizers must ensure that their relationship with a charter school is balanced with their role as the charter school's oversight agency and with the statutory directive that a charter school operate independently from the public school system.

FCMAT's interviews and review of the district's documents indicated that the district refers to its two charter schools as dependent and therefore operates each charter school as if it were part of the school district. The district and the charter schools are operationally integrated even to the point that their financial reporting requirements and statements are combined and approved by the district's governing board simultaneously.

The Charter Schools Act does not prohibit a school district's governing board from acting as a charter school's governing board; however, Education Code Section 47605 states that each charter school must have its own governance structure. This governance structure must ensure that there is representation of all interested parties, including parental involvement, in the charter school.

Because the district's governing board is acting as the governing entity for the charter schools, it is questionable whether the board is also performing its oversight responsibilities for those charter schools as outlined in Education Code Section 47604.32 and mentioned above. The district did not provide evidence of how oversight is performed in accordance with Education Code Section 47604.32 or whether it is collecting the associated oversight fees pursuant to Education Code Section 47613.

Charter schools are also required to maintain fiscal independence from their respective authorizing agencies, and are thus responsible for managing their financial activities.

The district handles its charters schools' finances and commingles school district funds with those of each charter school. Its governing board also makes decisions based on these combined finances.

		Yes	No	N/A
5.4	Does the district have a board policy or other written document(s) regarding charter oversight?.	✓	☐	☐
5.5	Has the district identified specific employees in its various departments (e.g., human resources, business, instructional, and others) to be responsible for oversight of all approved charter schools?	☐	✓	☐

Although the district treats both charter schools as if they were schools within the district and supports them operationally, instructionally and financially with staff in various departments, the district provided no evidence of persons responsible for the oversight of Denair Elementary Charter Academy or Denair Charter Academy.

The district identifies the superintendent as the contact person for both charter schools, as required under Education Code Section 47604.32. However, FCMAT could find no evidence that the district fulfills its oversight authority independent of daily operations; therefore, it is not following Education Code Section 47613, which states that a charter authorizing entity may charge a charter school fees for the costs of oversight as described in Education Code Section 47604.32. Education Code Section 47613 states that the charter authorizer may charge the charter school under the following conditions:

- *It may charge for the actual costs of supervisorial oversight of a charter school not to exceed 1 percent of the revenue of the charter school.*
- *It may charge for the actual costs of supervisorial oversight of a charter school not to exceed 3 percent of the revenue of the charter school if the charter school is able to obtain substantially rent free facilities from the chartering authority.*

FCMAT's review of the district's 2019-20 second interim report shows transfers out from each charter school into the school district's general fund; however, no supporting documents were provided to explain those transfers. If the fees are related to the above described oversight responsibilities, the school district is not properly following the guidelines as stated in Education Code Section 47613.

6. Collective Bargaining Agreements

		Yes	No	N/A
6.1	Has the district settled with all its bargaining units for the past two fiscal years?	✓	☐	☐
6.2	Has the district settled with all its bargaining units for the current year?	✓	☐	☐
6.3	Does the district accurately quantify the effects of collective bargaining agreements and include them in its budget and multiyear projections?	☐	✓	☐

FCMAT was not provided with any analysis of the impact of proposed bargaining agreements and their effects on multiyear financial projections. Because of the timing of the most recently approved tentative agreements with the Denair Unified Teachers' Association (DUTA) and the California School Employees Association (CSEA) Denair Chapter No. 113, the district stated that the costs of each settlement agreement are included in the 2020-21 adopted budget.

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? . . . . ☐ ✓ ☐

FCMAT was not provided any presettlement analysis that identifies costs or savings in the current and subsequent years.

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)? . . . . . ☐ ✓ ☐

The district's 2019-20 settlement with the classified employees' bargaining unit included a 3.5% salary increase, which was more than the funded COLA of 3.26%. In addition, in 2018-19 the district gave an off-schedule one-time payment to the classified employees equal to 3.5% of salary as well as a salary increase of 1.7%, which when combined exceeded the funded COLA of 3.7%, as shown in the table below.

Salary Increases

Fiscal Year	COLA	DUTA	CSEA	One Time or Ongoing
2015-16	1.02%	0.00%	0.00%	Ongoing
2016-17	0.00%	0.00%	0.00%	Ongoing
2017-18	1.56%	1.00%	1.00%	Ongoing
2018-19	3.70%	1.00%	1.70%	Ongoing
		1.75%	3.50%	Additional One-time/Off Schedule
2019-20	3.26%	1.75%	**3.50%**	Ongoing
2020-21	2.29%	1.00%	Not settled	Ongoing

6.6 If settlements have not been reached in the past two years, has the district identified resources to cover the costs of the district's proposal(s)? . . . . ☐ ☐ ✓

6.7 Did the district comply with public disclosure requirements under Government Code Sections 3540.2 and 3547.5, and Education Code Section 42142? . . . . ☐ ✓ ☐

The district does not provide completed AB 1200 disclosure documents to the county office of education for review before the board takes action. During the 2018-19 fiscal year, the board approved settlement agreements in January and April for both DUTA and CSEA, but the AB 1200 disclosures were not approved until June. In addition, the district approved a one-time salary restoration for all staff in fiscal year 2018-19, and an ongoing salary restoration for all staff in fiscal year 2019-20; however, no AB 1200 disclosure was completed and submitted to the county office for these items.

Government Code 3547.5 states:

> *Before a public school employer enters into a written agreement with an exclusive representative covering matters within the scope of representation, the major provisions of the agreement, including, but not limited to, the costs that would be incurred by the public school employer under the agreement for the current and subsequent fiscal years, shall be disclosed at a public meeting of the public school employer in a format established for this purpose by the Superintendent of Public Instruction.*

> *Of the three AB 1200 disclosures that FCMAT reviewed, two did not have the required signatures from the superintendent and chief business official (CBO) certifying that the district can afford the cost of the agreement.*

		Yes	No	N/A
6.8	Did the superintendent and CBO certify the public disclosure of collective bargaining agreement prior to board approval?.	☐	✓	☐
	The AB 1200 disclosures taken to the board for the tentative agreements with the CSEA and the DUTA in April and June of 2020, respectively, were not signed by the superintendent or CBO.			
6.9	Is the governing board's action consistent with the superintendent's and CBO's certification?	☐	✓	☐
	The governing board approved the bargaining agreements as submitted; however, the certifications were not signed by the superintendent or CBO.			

7. Contributions and Transfers

		Yes	No	N/A
7.1	Does the district have a board-approved plan to eliminate, reduce or control any contributions/transfers from the unrestricted general fund to other restricted programs and funds?	☐	✓	☐
	The district lacks a board-approved plan to eliminate, reduce or control any contributions/transfers from the unrestricted general fund to restricted programs and funds, including special education. *As of the 2019-20 second interim report, the district projected a contribution of $1,844,211 to the special education program.*			
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?	☐	☐	✓
7.3	If any contributions/transfers were required for restricted programs and/or other funds in either of the two prior fiscal years, and there is a need in the current year, did the district budget for them at reasonable levels?	✓	☐	☐

8. Deficit Spending (Unrestricted General Fund)

		Yes	No	N/A
8.1	Is the district avoiding deficit spending in the current fiscal year?	☐	✓	☐
	According to the 2019-20 second interim multiyear projection, the district will deficit spend $67,223 in the 2019-20 fiscal year.			
8.2	Is the district projected to avoid deficit spending in both of the two subsequent fiscal years?	☐	✓	☐
	According to the 2019-20 second interim multiyear projection, the district will deficit spend $112,616 in 2020-21 but have a net surplus of $21,072 in 2021-22.			
8.3	If the district has deficit spending in the current or two subsequent fiscal years, has the board approved and implemented a plan to reduce and/or eliminate deficit spending to ensure fiscal solvency?	☐	✓	☐
	At its June 4, 2020 meeting, the board adopted resolution 06042020-R15, which identifies the need to develop and implement a plan to reduce spending by at least $151,593 in 2021-22 to eliminate ongoing deficit spending. However, according to interviews with staff, the district was still planning how to begin that process with stakeholders.			
8.4	Has the district decreased deficit spending over the past two fiscal years?	✓	☐	☐

9. Employee Benefits

		Yes	No	N/A
9.1	Has the district completed an actuarial valuation in accordance with Governmental Accounting Standards Board (GASB) requirements to determine its unfunded liability for other post-employment benefits (OPEB)?	✓	☐	☐
9.2	Does the district have a plan to fund its liabilities for retiree health and welfare benefits with the total of annual required service payments no greater than 2% of the district's unrestricted general fund revenues?	✓	☐	☐
9.3	Has the district followed a policy or collectively bargained agreement to limit accrued vacation balances?	✓	☐	☐
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?.	✓	☐	☐
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)?	☐	✓	☐
	In January 2020, the district held a board study session at which district administrators presented some comparative data about enrollment and attendance. In interviews, employees indicated enrollment is monitored weekly through the census day in October. Then attendance is projected as a percentage of enrollment. However, the district does not monitor attendance at least monthly through the second attendance reporting period.			
10.3	Does the district track historical enrollment and ADA data to establish future trends?	✓	☐	☐
10.4	Do school sites maintain an accurate record of daily enrollment and attendance that is reconciled monthly at the site and district levels?	✓	☐	☐
10.5	Has the district certified its California Longitudinal Pupil Achievement Data System (CALPADS) data by the required deadlines (Fall 1, Fall 2, EOY) for the current and two prior years?.	☐	✓	☐
	In 2018-19, the district failed to submit data on discipline for the end of year certification.			
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?	☐	✓	☐
	Although the CBO reviews the CALPADS data to determine if it is in alignment with the budget, it is not reviewed and verified by the school sites or any other departments before it is submitted.			
10.8	Has the district planned for enrollment losses to charter schools?	✓	☐	☐
10.9	Does the district follow established board policy to limit outgoing interdistrict transfers and ensure that only students who meet the required qualifications are approved?.	✓	☐	☐

		Yes	No	N/A
10.10	Does the district meet the student-to-teacher ratio requirement of no more than 24-to-1 for each school in grades TK-3 classes, or, if not, does it have and adhere to an alternative collectively bargained agreement?	☐	☐	✓

11. Facilities

		Yes	No	N/A
11.1	If the district participates in the state's School Facilities Program, has it met the required contribution for the Routine Restricted Maintenance Account?	✓	☐	☐
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?	☐	✓	☐
	Staff stated that the district installed portables and began an energy efficiency project in 2019-20. No planning and activity documents were provided to FCMAT to indicate the district is tracking the progress, costs and timelines of these projects to prevent cost overruns.			
11.4	Does the district use its facilities fully in accordance with the Office of Public School Construction's loading standards?	☐	✓	☐
	A capacity statement provided by the district for its two district schools, Denair Middle School and Denair High School, indicates that the district is not fully using its facilities. According to OPSC loading standards, the classroom capacity of these two schools is significantly underused, at 44.0% and 56.5%, respectively. Low use percentages indicate that the district is likely spending more for cleaning and maintenance than what would otherwise be necessary for its student population.			
11.5	Does the district include facility needs (maintenance, repair and operating requirements) when adopting a budget?	☐	✓	☐
	In interviews, employees indicated the district's facilities budget is based on prior year activity. As facility needs arise throughout the year, the available budget balance is reviewed and individual items are approved. The district does not use any planning tools, such as a facilities master plan or documented maintenance schedule, to project facilities needs in advance.			
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 a long-range facilities master plan that reflects its current and projected facility needs?.	☐	✓	☐
	Information from interviews and documents shows that the district does not have a long-range facilities master plan to use when planning and budgeting for future facility needs.			

12. Fund Balance and Reserve for Economic Uncertainty

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

		Yes	No	N/A
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?	☐	☐	✓
12.4	Is the district's projected unrestricted fund balance stable or increasing in the two subsequent fiscal years?	☐	✓	☐

The district's 2019-20 second interim report's multiyear projection indicates that the unrestricted ending fund balance is projected to decline by $158,767, from $432,668 at the beginning of the 2019-20 fiscal year to $273,901 at the end of the 2021-22 fiscal year.

		Yes	No	N/A
12.5	If the district has unfunded or contingent liabilities or one-time costs other than post-employment benefits, does the unrestricted general fund balance include sufficient assigned or committed reserves above the recommended reserve level?	☐	☐	✓

13. General Fund – Current Year

		Yes	No	N/A
13.1	Does the district ensure that one-time revenues do not pay for ongoing expenditures?	✓	☐	☐
13.2	Is the percentage of the district's general fund unrestricted expenditure budget that is allocated to salaries and benefits at or below the statewide average for the current year?	✓	☐	☐
13.3	Is the percentage of the district's general fund unrestricted expenditure budget that is allocated to salaries and benefits at or below the statewide average for the two prior years?	✓	☐	☐
13.4	If the district has received any uniform complaints or legal challenges regarding local use of supplemental and concentration grant funding in the current or two prior years, is the district addressing the complaint(s)?	☐	☐	✓
13.5	Does the district either ensure that restricted dollars are sufficient to pay for staff assigned to restricted programs or have a plan to fund these positions with unrestricted funds?	✓	☐	☐
13.6	Is the district using its restricted dollars fully by expending allocations for restricted programs within the required time?	✓	☐	☐
13.7	Does the district account for program costs, including the maximum allowable indirect costs, for each restricted resource and other funds?	☐	✓	☐

The district indicated it does not charge indirect costs to programs if a restricted program will require a general fund contribution in the same fiscal year. In addition, FCMAT found that indirect costs attributable to the cafeteria fund were not charged at the maximum allowable rate.

The industry-standard practice is to always account for the maximum indirect costs in all restricted resources, including special education and routine restricted maintenance account, to accurately reflect the true cost of a program.

14. Information Systems and Data Management

		Yes	No	N/A
14.1	Does the district use an integrated financial and human resources system?	☐	✓	☐

The district uses Harris School Solutions' HSS-OASIS software (formerly known as QSS) as its financial system, and Frontline Education's Digital Schools software as its human resources system.

		Yes	No	N/A
14.2	Does the district use the system(s) to provide key financial and related data, including personnel information, to help the district make informed decisions?	✓	☐	☐

		Yes	No	N/A
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?	☐	✓	☐

The district does not have any audit findings stating that it overidentifies students as eligible for free or reduced-price meals, English learners or foster youth. However, interviews with staff indicated that the district underidentified students as eligible for free or reduced-price meals in the 2019-20 fiscal year because all students receive free meals through the community eligibility provision, so parents had no incentive to complete and return the eligibility form. For 2020-21, the district has changed its eligibility form and included it in the back-to-school parent packet to encourage parents to complete the form so students can be identified accurately.

		Yes	No	N/A
14.4	Is the district using the same financial system as its county office of education?	✓	☐	☐
14.5	If the district is using a separate financial system from its county office of education and is not fiscally independent, is there an automated interface with the financial system used by the county office of education?	☐	☐	✓
14.6	If the district is using a separate financial system from its county office of education, has the district provided the county office with direct access so the county office can provide oversight, review and assistance?	☐	☐	✓

15. Internal Controls and Fraud Prevention

		Yes	No	N/A
15.1	Does the district have controls that limit access to its financial system and include multiple levels of authorization?	☐	✓	☐

The district uses the HSS-Oasis financial system, which is hosted and supported by the county office of education. The county office grants access to various modules and capabilities at the district's request. The county office technology department receives a request signed by the district's superintendent and CBO and works with the district to grant access to the various modules based on the needs of the position being given access. Employees indicated that often the county office is asked to "mirror" another employee's access rather than to provide access based on an evaluation of a position's current duties. This lack of analysis of job functions and level of access needed can compromise internal controls.

		Yes	No	N/A
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?	☐	✓	☐

The district did not provide FCMAT with any evidence that this occurs.

15.3 Does the district ensure that duties in the following areas are segregated, and that they are supervised and monitored?:

	Yes	No	N/A
• Accounts payable (AP)	☐	✓	☐

Accounts payable warrants are printed at the county office and sent to the district. The district employee who generated the payment also receives and distributes the warrants to the vendors. These duties should be segregated. An individual who is responsible for generating payments to vendors should not also be responsible for distributing those payments to vendors. This could allow an employee to set up a fictitious vendor in the financial system and generate payments to that vendor.

- Accounts receivable (AR) . . . . . ☐ ✓ ☐

  The accounts payable technician is also responsible for accounts receivable, issuing invoices, collecting payments, and preparing and depositing the bank deposit. Receipt of payments should be segregated from invoicing, recording payments and preparing deposits.

- Purchasing and contracts. . . . . ☐ ✓ ☐

  The district does not have proper segregation of duties: a single staff member can control a transaction from initiation to completion. To ensure proper segregation of duties, a different employee should handle the receiving of all purchased items.

- Payroll . . . . . ☐ ✓ ☐

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

- Human resources (i.e., duties relative to position control and payroll processes) . . . . . ✓ ☐ ☐

15.4 Are beginning balances for the new fiscal year posted and reconciled with the ending balances for each fund from the prior fiscal year? . . . . . ✓ ☐ ☐

15.5 Does the district review and work to clear prior year accruals throughout the year? . . . . . ✓ ☐ ☐

15.6 Has the district reconciled and closed the general ledger (books) within the time prescribed by the county office of education? . . . . . ✓ ☐ ☐

15.7 Does the district have processes and procedures to discourage and detect fraud? . . . . . ☐ ✓ ☐

Although Board Policy 3400 requires "developing internal controls which aid in the prevention and detection of fraud . . .," interviews with staff and documentation received by FCMAT did not provide evidence that the district has comprehensive fraud detection controls.

15.8 Does the district have a process for collecting reports of possible fraud (such as an anonymous fraud reporting hotline) and for following up on such reports? . . . . . ☐ ✓ ☐

The district's Board Policy and Administrative Regulation 3400 states:

> *. . . all employees shall be alert for any indication of fraud, financial impropriety, or irregularity within their area of responsibility. Any employee who suspects fraud, impropriety, or irregularity shall immediately report those suspicions to his/her immediate supervisor and/or the Superintendent or designee. In addition, 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, the district lacks a formal process for collecting and following up on reports of possible fraud.

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

The district does not have a formal internal audit department or process.

16. Leadership and Stability

		Yes	No	N/A
16.1	Does the district have a chief business official who has been with the district as chief business official for more than two years?.	✓	☐	☐
16.2	Does the district have a superintendent who has been with the district as superintendent for more than two years?	✓	☐	☐
16.3	Does the superintendent meet on a scheduled and regular basis with all members of their administrative cabinet?	✓	☐	☐
16.4	Is training on financial management and budget provided to site and department administrators who are responsible for budget management?	☐	✓	☐

In interviews, employees indicated that there has not been training in financial management and budgeting for school site or department administrators who are responsible for budget management. However, staff indicated that they can ask questions of the CBO and district staff, who are responsive to those requests.

		Yes	No	N/A
16.5	Does the governing board adopt and revise policies and administrative regulations annually?	✓	☐	☐
16.6	Are newly adopted or revised policies and administrative regulations implemented, communicated and available to staff?	✓	☐	☐
16.7	Do all board members attend training on the budget and governance at least every two years?	☐	✓	☐

Although board members are enrolled in the California School Boards Association's Masters in Governance courses, the budget session will be taught in fall 2020, and board members have not attended training on budget in the last two years.

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

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?	☐	✓	☐

In 2004, the district issued non-voter-approved debt totaling $3,930,000 in the form of COPs.

The COPs were issued primarily to finance phase II of the construction and equipping of a library science and business building.

The district uses funds received from developer fees as the primary source of repayment. According to the 2018-19 unaudited actuals report, the district collected $117,611 in developer fees for 2018-19. According to the 2019-20 second interim report, the district has budgeted to collect $318,023 in the 2019-20 fiscal year.

Because developer fees are collected from new construction permits issued, there is little assurance that these funds will continue with any consistency, and the district cannot depend on this as the sole source of repayment without a contingency plan, which it lacks. Without an alternative plan, the general fund would be required to make the debt service payment if developer fees are insufficient.

		Yes	No	N/A
18.2	If the district has issued non-voter-approved debt, has its credit rating remained stable or improved during the current and two prior fiscal years?	✓	☐	☐
18.3	If the district is self-insured, has the district completed an actuarial valuation as required and have a plan to pay for any unfunded liabilities?	☐	☐	✓
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?	✓	☐	☐
19.2	Does the district analyze and adjust staffing based on staffing ratios and enrollment?	✓	☐	☐
19.3	Does the district reconcile budget, payroll and position control regularly, at least at budget adoption and interim reporting periods?	✓	☐	☐
19.4	Does the district identify a budget source for each new position before the position is authorized by the governing board?	✓	☐	☐
19.5	Does the governing board approve all new positions and extra assignments (e.g., stipends) before positions are posted?	☐	✓	☐

Requests for new positions prompt the creation of a personnel action form that is reviewed by the CBO for budget and then by the superintendent for approval. Once that process is complete, human resources posts the vacancy, conducts recruiting, and helps select a candidate. After a candidate is selected and an individual is hired, the employment action is taken to the board for ratification. The board also ratifies all resignations, contract adjustments and retirements.

		Yes	No	N/A
19.6	Do managers and staff responsible for the district's human resources, payroll and budget functions meet regularly to discuss issues and improve processes?.	✓	☐	☐

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)?	☐	✓	☐
	The district did not provide evidence of appropriate tools used to help make informed decisions about adding special education services. Staff reported that each case is considered and discussed during the individualized educational plan meeting, and that assessment information is reviewed, but that no formal process is in place.			
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 the maximum allowable 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?	☐	✓	☐
	The district's contribution rate to special education for 2019-20 is projected to be 68.6% of the special education budget. The last published statewide average contribution rate was 65.88%.			
20.6	Is the district's rate of identification of students as eligible for special education at or below the countywide and statewide average rates?	✓	☐	☐
20.7	Does the district analyze whether it will meet the maintenance of effort requirement at each interim reporting period?	✓	☐	☐

Risk Score, 20 numbered sections only: 34.5%

Key to Risk Score from 20 numbered sections only

High Risk: 40% or more

Moderate Risk: 25-39.9%

Low Risk: 24.9% and lower

District Fiscal Solvency Risk Level, all FHRA factors: High

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