FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Fiscal Health Risk Analysis

February 16, 2022

East San Gabriel Valley Regional Occupational Program

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Chief Executive Officer

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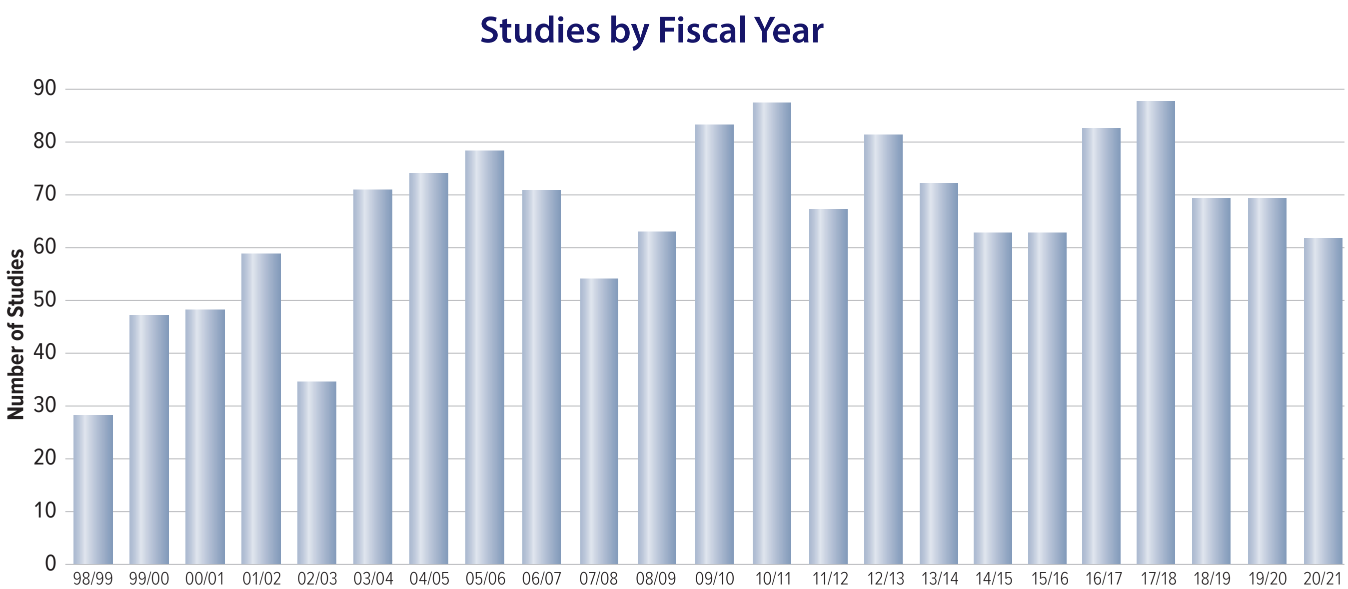
About FCMAT

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

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

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



FCMAT has continued to make adjustments in the types of support provided based on the changing dynamics of K-14 LEAs and the implementation of major educational reforms. 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 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 1,400 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Michael H. Fine, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Introduction

Background

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

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

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

This fiscal health risk analysis is being conducted because the district had the following condition(s), under which an analysis is required by the 2018-19 State Budget Act.

- "Lack of going concern" designation

The East San Gabriel Valley Regional Occupational Program is located in the Glendora California. At the start of the 2021-2022 fiscal year, this entity changed its name to San Gabriel Valley ROP. However, at the time of the FHRA trigger, the LEA was still called East San Gabriel Valley ROP. A regional occupational program (ROP) is a public education service that provides practical, hands-on career preparation and career guidance. East San Gabriel Valley ROP is one of 44 ROPs in the state and is designed to provide high school and adult students with the technical skills required for particular jobs. Community-based internships, in local business and industry sites, are offered in many classes. The ROP started in 1973 with the establishment of a legally written agreement among three school districts to form a regional center. Since then, the agency has grown to include seven school districts that have formed a partnership filed with the California Secretary of State. The legal structure of the organization is that of a joint powers agency (JPA) formed under the auspices of Government Code Section 6500. The school districts that makeup the ROP are as follows:

- West Covina Unified School District
- Azusa Unified School District
- Glendora Unified School District
- Walnut Valley Unified School District
- Baldwin Park Unified School District
- Charter Oak Unified School District
- San Gabriel Unified School District

The East San Gabriel Valley ROP's board has seven members, each appointed from the representative district within the JPA. Due to the terms of the ROP agreement, funding is determined by the representative districts based on class sections offered at each district. Unlike traditional local educational agencies (LEA) the East San Gabriel Valley ROP is not required to calculate a Local Control Funding Formula (LCFF) and is not required to complete a Local Control Accountability Plan (LCAP).

The ROP has experienced turnover in several key positions, which has resulted in the LEA's current fiscal concerns. In November 2021, the ROP received approval of its budget with conditions from the Los Angeles County Office of Education, assuming the LEA take certain actions to remedy deficiencies in the 2021-2022 budget and multiyear projection, including deficit spending and their reserve for economic uncertainty. More specifically the ROP must take the following immediate actions:

- Review and revise current year budget expenditures to accurately reflect current year operations
- Implement a position control system to allow for timely and reliable reports of staff vacancies, and adjust budgeted salary and benefit costs accordingly
- Recruit and hire a qualified chief business official (CBO)

- Identify the nature of $4.6 million in unearned revenue recognized in 2020-21 prior to incorporating these funds into the 2021-22 first interim report
- The 2020-21 ending fund balance included $1.9 million in restricted funds. The ROP was to research the balance to determine a liability is owed or if the ending fund balance was misreported and carried forward erroneously

The East San Gabriel Valley ROP is fiscally accountable and is on the same financial accounting system as the Los Angeles County Office of Education.

FCMAT performed an FHRA to determine the district's level of risk for insolvency.

Fiscal Health Risk Analysis Guidelines

FCMAT entered into a study agreement with the East San Gabriel Valley Regional Occupational Program on November 1, 2021. Due to the impact of the COVID-19 virus, FCMAT did not physically visit the district. but conducted its interviews via videoconference on December 13-15, 2021 and collected data and reviewed documents via SharePoint, a cloud-based service for document sharing. Following fieldwork, the study team continued to review and analyze documents. This report is the result of those activities.

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

Study Team

The team was composed of the following members:

Marcus Wirowek, CFE
Intervention Specialist

Julie Auvil, CPA, CGMA, CICA
Intervention Specialist

Leonel Martínez
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: December 13-15, 2021 (via video conference)

District: East San Gabriel Valley Regional Occupational Program (ESGVROP)

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 an LEA to act decisively may result in fiscal insolvency and the loss of local control.

The recent turnover in key administrative positions of the East San Gabriel Valley ROP has contributed to a higher risk of insolvency. The current administrative team is working diligently to rectify the fiscal issues and concerns. As prior administration left and members of the new administration assumed their roles in the ROP, transfer of information concerning the ROP's plans and actions was minimal and continuity suffered. Instead of overlap, there was a gap in service between the immediate previous superintendent and CBO and the individuals currently in these positions. As a result, it took a significant amount of time for these administrators to understand and identify the ROP's prior reporting and established structures, processes, and procedures and is reflected in several areas of this report.

Significant risk was found in the areas of audits, budget development and adoption, budget monitoring and updates, and cash management. For the fiscal year 2021-22, budget development and submission, supporting documents were not found nor provided to indicate detailed assumptions were developed, used and communicated to stakeholders. In addition, FCMAT found no evidence that the ROP had developed assumptions for the previous two fiscal years. The ROP's budget and general ledger are not actively monitored and adjusted throughout the year, even when significant events such as salary increases, purchases exceed budget lines, and prior year accruals are realized.

The ROP's first interim report indicated it has a structural deficit that will increase from $1.6 million to $1.9 million in 2023-24 unless appropriate board action is taken. Concurrently, the ROP's reserve, established in 2021-22, will decrease from $2.6 million to $300,000 by 2023-24. On December 15, 2021, the East San Gabriel Valley ROP passed Resolution #2021-20, requiring that the board implement an estimated $1.9 million in budget reductions in the fiscal year 2023-24. According to the resolution, the ROP will adopt a fiscal stabilization plan by the 2021-22 second interim report reflecting either $1 million in new revenues or expenditure reductions for the 202-21 adoption budget to reach the reduction requirement. The 2023-24 budget will have another $1 million in revenue increases or expenditure reductions in the fiscal stabilization plan.

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 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	Has the district fulfilled and does it have evidence showing fulfillment of its oversight responsibilities in accordance with Education Code Section 47604.32?	☐	☐	✓
5.3	Are all charters authorized by the district going concerns and not in fiscal distress?	☐	☐	✓
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	0.4%
2.	Budget Development and Adoption	5.9%
3.	Budget Monitoring and Updates	8.8%
4.	Cash Management	2.0%
5.	Charter Schools	0.0%
6.	Collective Bargaining Agreements	5.9%
7.	Contributions and Transfers	1.0%
8.	Deficit Spending (Unrestricted General Fund)	2.5%
9.	Employee Benefits	0.0%
10.	Enrollment and Attendance	0.0%
11.	Facilities	0.0%
12.	Fund Balance and Reserve for Economic Uncertainty	1.0%
13.	General Fund - Current Year	0.8%
14.	Information Systems and Data Management	1.0%
15.	Internal Controls and Fraud Prevention	3.5%
16.	Leadership and Stability	4.1%
17.	Multiyear Projections	1.0%
18.	Non-Voter-Approved Debt and Risk Management	0.0%
19.	Position Control	2.0%
20.	Special Education	0.0%
Score		**39.7%**

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

	Question	Yes	No	N/A
1.1	Has the district corrected the most recent and prior two years' audit findings without affecting its fiscal health?	☐	✓	☐

Both the 2018-19 and 2019-20 audited financial statements contained an audit finding related to "inadequate review processes related to the ESGVROP's financial statements."

That failure resulted in the ROP's 2018-19 general fund accounts receivable being overstated by $305,944, general fund accounts payable being overstated by $27,945 and the ROP's prior period net position being overstated by $1,005,052. For the 2019-20 fiscal year, that same failure resulted in general fund cash being overstated by $74,813, general fund accounts receivable overstated by $3,978,155 and general fund accounts payable overstated by $82,375. The ROP's 2020-21 audit is yet to be completed; however, the ROP was in the process of implementing corrective actions to resolve them at the time of FCMAT's fieldwork.

	Question	Yes	No	N/A
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?	☐	✓	☐

The ROP's 2018-19 and 2019-20 audited financial statements both identified material weaknesses in internal controls that related to an inadequate internal review process surrounding journal entries. These caused unreported general fund liabilities, over- and understatements within balance sheet accounts, including general fund ending fund balance, cash and accounts receivable as well as adult education ending fund balance and accounts receivable See question 1.1 above for further details.

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

The 2019-20 audit identified a repeat finding from the prior year audit related to a material weakness in internal controls regarding an inadequate review process for journal entries as discussed in questions 1.1 and 1.3 above.

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 ROP has not provided a written list of budget assumptions used in the budget adoption process since its 2019-20 budget adoption. FCMAT could not find a written list of budget assumptions used in any multiyear projection for fiscal years 2019-20 and 2020-21. The multiyear projection created for its 2021-22 first interim report included projections for PERS and STRS rates, but did not include any other assumptions.			
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?	☐	✓	☐
	The ROP could not provide FCMAT with documentation to support the methodology used in budget development. ROP staff interviewed could not provide the methodology used to create the adopted budget.			
2.3	Does the district use position control data for budget development?	☐	✓	☐
	The ROP does not have reliable position control data within its position control module. It uses an Excel spreadsheet for this data; however, that document reportedly does not contain items beyond individuals and their positions such as costs for substitutes, stipends, extra duty or vacation cashouts. The ROP is aware of the deficiencies in its position control module and was implementing corrective actions to resolve this issue at the time of FCMAT's fieldwork.			
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 ROP's fiscal year 2021-22 budget was approved with conditions on November 19, 2021, and it was required to submit a board-approved fiscal stabilization plan on or before December 15, 2021. The ROP staff reported that plan was being prepared and would be presented with the second interim report.			
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)?	☐	✓	☐
	The budget development process has been handled almost exclusively by the executive director of business services, or his or her substitute, with limited input from the governing board. While some input from other staff members and administrators may occur, no formal meetings are scheduled and no documented processes were provided. FCMAT could not determine whether the community has an active role in budget development.			
2.7	Does the district budget and expend restricted funds before unrestricted funds?	✓	☐	☐
2.8	Have the Local Control and Accountability Plan (LCAP) and the budget been adopted within statutory timelines established by Education Code Sections 42103 and 52062 and filed with the county superintendent of schools no later than five days after adoption or by July 1, whichever occurs first, for the current and one prior fiscal year?	☐	☐	✓

		Yes	No	N/A
2.9	Has the district refrained from including carryover funds in its adopted budget?	☐	✓	☐

Due to the turnover in the position of executive director of business services, ROP staff could not provide information on when carryover was included in budgets. The ROP's fiscal advisor and the interim executive director of business services were working to resolve this issue during FCMAT's fieldwork.

		Yes	No	N/A
2.10	Other than objects in the 5700s and 7300s and appropriate abatements in accordance with the California School Accounting Manual, does the district avoid using negative or contra expenditure accounts?	✓	☐	☐
2.11	Does the district have a documented policy and/or procedure for evaluating the proposed acceptance of grants and other types of restricted funds and the potential multiyear impact on the district's unrestricted general fund?	☐	✓	☐

The ROP lacks a board policy or internal procedure for evaluating proposed grants.

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

The ROP lacks a budget calendar that includes a detailed list of budget development tasks and deadlines and the staff members 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 ROP's overall 2021-22 first interim budget appears in alignment, but a review of its financial system detail report showing transactions through November 2021 found many account lines are not consistent with actual revenues and expenditures. This results in specific account lines with activity having insufficient or no budget at all. The ROP will need to adjust budget lines to provide a more clear and accurate report of its revenues and expenditures.

		Yes	No	N/A
3.2	Are budget revisions posted in the financial system at each interim report, at a minimum?	☐	✓	☐

Due to the turnover in the position of executive director of business services, the ROP staff could not provide information on who is responsible to prepare budget revisions, approve them and when those duties would occur.

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

FCMAT could not find a written list of budget assumptions used in any interim reporting for fiscal years 2019-20 and 2020-21. The multiyear projection created for the 2021-22 first interim report included projections for CalPERS and CalSTRS rates but did not include any other assumptions.

		Yes	No	N/A
3.4	Following board approval of collective bargaining agreements, does the district make necessary budget revisions in the financial system to reflect settlement costs in accordance with Education Code Section 42142?	☐	✓	☐

The ROP has no unions or collective bargaining; however, it provides for adjustments to the salaries, benefits, etc. of its employees. Due to the turnover in the position of executive director of business services, ROP staff could not provide information on how budgetary revisions are made to reflect settlement costs related to employee compensation changes.

3.5	Do the district's responses fully explain the variances identified in the criteria and standards?	☐	✓	☐

Many items in the criteria and standards do not apply to ROP/JPA entities; however, FCMAT found that, for items that apply, the criteria and standards are not consistently and fully completed, leaving some variances unidentified. When variances are identified, the response does not always fully explain the variance with specifics.

For example, in the 2019-20 adopted budget, the question on whether the JPA would end the budget year with a negative cash balance was answered "yes" without further explanation. The 2019-20 adopted budget Form CASH showed a June 2020 estimated ending cash balance of $4.7 million. Both the 2020-21 first and second interim reports explained the increase in deficit spending as "[t]he JPA is spending the Strong Workforce program and regular ROP program fund balance." These are statements of fact and do not provide the underlying reasons for the deficit spending. The criteria and standards section was omitted in the 2021-22 adopted budget.

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 county office reported that the ROP had addressed deficiencies identified in its oversight letters for fiscal year 2021-22; however, not for the two prior fiscal years. FCMAT's review of the county office's letters for the adopted budget and first interim for both fiscal years 2019-20 and 2020-21 reflect concerns regarding deficit spending and the ROP's reserve for economic uncertainties.

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

ROP staff indicated that requisitions and purchase orders may be approved even with insufficient funds in the budget line. However the accounting system will reportedly stop the process of invoice payment if the invoice exceeds 10% or more than the purchase order.

3.8	Does the district encumber and adjust encumbrances for salaries and benefits?	☐	✓	☐

The ROP does not encumber salary and benefits.

3.9	Are all balance sheet accounts in the general ledger reconciled at least at each interim report and at year end close?	☐	✓	☐

FCMAT's review of the ROP's general ledger report for 2021-22 shows that some balance sheet accounts have been reconciled and some have not. For example, the report shows entries through November 2021, yet accounts receivable and accounts payable still reflect portions of their beginning balances. The beginning balances of such accounts should be reconciled and reduced to zero as soon after the unaudited actuals are produced as is possible.

Based on the above, the nature of the audit findings identified in question 1.1 above and the county office's questioning of $4.6 million in unearned revenue recognized in 2020-21, It is evident that the balance sheet accounts reconciliations are not regularly completed..

3.10	For the most recent and two prior fiscal years, 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

	Question	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 ROP provided its August, September and October 2021 bank statements and reconciliations for its three bank accounts outside of its account with the county treasurer – revolving, clearing and foundation accounts. Because the reconciliations were not dated or signed, FCMAT could not determine if they were completed monthly. FCMAT's review of the reconciliations for its foundation account indicate differences between the bank balance and the book balance. The purpose of a reconciliation is to match the bank and book balance, and these differences should be investigated and corrected.

FCMAT also noted that the August and September 2021 bank reconciliations for its foundation account included a reconciling item dating back to October 2018. This item was over two years old and should have been investigated and resolved long before it reached the two-year mark.

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

Based on FCMAT's review of the adopted budget and first and second financial reporting documents from 2019-20 through the first interim report for 2021-22, the ROP does not consistently provide cash flow reports. The 2019-20 second interim report had no cash flow report. The 2021-22 first interim report, the 2019-20 adopted budget and first interim report as well as the 2020-21 adopted budget contained cash flow reports for the current and subsequent years. The remainder of the cash flow reports during this time span contained only the current year's cash flow.

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

	Question	Yes	No	N/A
5.1	Does the district have a board policy or other written document(s) regarding charter oversight?.	☐	☐	✓
5.2	Has the district fulfilled and does it have evidence showing fulfillment of its oversight responsibilities in accordance with Education Code Section 47604.32?	☐	☐	✓
5.3	Are all charters authorized by the district going concerns and not in fiscal distress?	☐	☐	✓
5.4	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?	☐	☐	✓

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 salary agreements, including memorandums of understanding (MOUs), and their effects on multiyear financial projections.

		Yes	No	N/A
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 with any presettlement analysis that identifies costs or savings in the current and subsequent fiscal years. In June 2021, the board did approve an increase in compensation for all employees. However, the agenda item did not specify the funding sources or fiscal impact of this new agreement.

		Yes	No	N/A
6.5	In the current and prior two fiscal years, has the district settled the total cost of the bargaining agreements including step and column increases at or under the funded cost of living adjustment (COLA)?	☐	✓	☐

Based on interviews, staff was provided an 8% increase in June 2021, which is greater than the funded COLA of 0.00% for fiscal year 2020-21.

		Yes	No	N/A
6.6	If settlements have not been reached in the past two years, has the district identified resources to cover the costs of the district's proposal(s)?	☐	☐	✓
6.7	Did the district comply with public disclosure requirements under Government Code Sections 3540.2 and 3547.5, and Education Code Section 42142?	☐	✓	☐

FCMAT reviewed board minutes and supplemental documentation provided by the ROP and found that the ROP did not disclose to the public or the county office the information and possible costs contained in its recent salary increase.

		Yes	No	N/A
6.8	Did the superintendent and CBO certify the public disclosure of collective bargaining agreement prior to board approval?.	☐	✓	☐

The Assembly Bill (AB) 1200 public disclosure documents were not included with board agendas where any settlement agreements or MOUs were being considered for approval.

		Yes	No	N/A
6.9	Is the governing board's action consistent with the superintendent's and CBO's certification?	☐	✓	☐

As stated above, FCMAT was not provided with copies of any AB 1200 public disclosures and therefore could not determine if the governing board's action was consistent with the superintendent's and CBO's certification.

7. Contributions and Transfers

		Yes	No	N/A
7.1	Does the district have a board-approved plan to eliminate, reduce or control any contributions/transfers from the unrestricted general fund to other restricted programs and funds?	☐	✓	☐

The ROP could not provide FCMAT with any evidence that the board has approved a plan to eliminate, reduce or control contributions/transfers from its unrestricted general fund to its restricted programs/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?	☐	☐	✓
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?	✓	☐	☐
8.2	Is the district projected to avoid deficit spending in both of the two subsequent fiscal years?	☐	✓	☐

The ROP is projected to deficit spend by approximately $332,000 in 2022-23 and $1.97 million in 2023-24 from its unrestricted general fund.

		Yes	No	N/A
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?	☐	✓	☐

While the board approved Resolution #2020-21 to confirm East San Gabriel Valley ROP's Joint Board of Management's Commitment to Fiscal Solvency at its December 15, 2021 meeting, it has not yet had an opportunity to identify and implement reductions in expenditures.

		Yes	No	N/A
8.4	Has the district decreased deficit spending over the past two fiscal years?	☐	✓	☐

The SACS forms utilized by the ROP/JPA do not separate the unrestricted general fund from the restricted general fund. While the ROP's fiscal advisor has accomplished this for the 2021-22 first interim report, the same cannot be said for prior years. Consequently, FCMAT cannot determine the answer to this question.

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 (legal, contractual or locally defined such as pay-as-you-go premiums, trust agreement obligations, or a board adopted commitment) 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)?	☐	☐	✓

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

11. Facilities

		Yes	No	N/A
11.1	If the district participates in the state's School Facilities Program, has it met the required contribution for the Routine Restricted Maintenance Account?	☐	☐	✓
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?	☐	☐	✓
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 a long-range facilities master plan that reflects its current and projected 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?	✓	☐	☐
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?	☐	☐	✓

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

According to the ROP's 2021-22 first interim report, its unrestricted fund balance is projected to decline from approximately $3.32 million in 2021-22 to $1.02 million at the end of 2023-24.

		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?	☐	✓	☐

The SACS forms utilized by the ROP/JPA do not separate the unrestricted general fund from the restricted general fund. While the ROP's fiscal advisor has accomplished this for the 2021-22 first interim report, the same cannot be said for prior years. Consequently, FCMAT cannot determine the answer to this question.

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

The ROP does not charge the full allowable indirect cost rate to all of its restricted resources because it had not requested to use its indirect cost rate. The ROP's fiscal advisor and the interim executive director of business services were working to resolve this issue to allow the ROP to charge indirect costs for the 2022-23 fiscal year.

14. Information Systems and Data Management

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

The ROP uses LACOE's system for financial and related data, however, they are not used to assist ESGVROP to 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?	☐	☐	✓
14.4	Is the district using the same financial system as its county office of education?	✓	☐	☐

		Yes	No	N/A
14.5	If the district is using a separate financial system from its county office of education, is there an automated interface that allows data to be sent and received by both the district and county financial systems?	☐	☐	✓
14.6	If the district is using a separate financial system from its county office of education, has the district provided the county office with direct access so the county office can provide oversight, review and assistance?	☐	☐	✓

15. Internal Controls and Fraud Prevention

		Yes	No	N/A
15.1	Does the district have controls that limit access to its financial system and include multiple levels of authorization?	✓	☐	☐
15.2	Are the district's financial system's access and authorization controls reviewed and updated upon employment actions (e.g., resignations, terminations, promotions or demotions) and at least annually?	✓	☐	☐
15.3	Does the district ensure that duties in the following areas are segregated, and that they are supervised and monitored?:			
	• Accounts payable (AP)	☐	✓	☐
	The task of entering and changing vendors resides with one position. Ideally, these functions should be done by different positions.			
	• Accounts receivable (AR)	☐	✓	☐
	The function of generating invoices and paying those invoices resides in the same position. These duties should be divided, with each function done by a different position.			
	• Purchasing and contracts	✓	☐	☐
	• Payroll	☐	✓	☐
	The task of entering payroll and picking up the payroll warrants resides in one position. These tasks should be done by different positions in the department or organization.			
	• 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?	☐	✓	☐
	Interviews with staff and documentation received by FCMAT did not provide evidence that the ROP has comprehensive fraud detection controls or programs.			
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 ROP lacks a formal process for collecting and following up on reports of possible fraud. Interviews with staff also indicated a lack of process or procedure to report fraud.			
15.9	Does the district have an internal audit process?	☐	✓	☐
	The ROP 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?.	☐	✓	☐
	The last CBO was released on April 5, 2021 and, at the time of this report, the ROP was actively recruiting for a CBO.			
16.2	Does the district have a superintendent who has been with the district as superintendent for more than two years?	☐	✓	☐
	The superintendent was hired in June 2020.			
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?	☐	✓	☐
	The ROP does not have a schedule for regular training to site and department staff. However, LACOE provides workshops.			
16.5	Does the governing board adopt and revise policies and administrative regulations annually?	☐	✓	☐
	East San Gabriel Valley ROP presented a board agenda item in June 2021 to contract with the California School Boards Association (CSBA) to assist with board policies. To date, no policies from CSBA have been presented for initial reading, second reading and adoption. Aside from the initial policy updates, CSBA sends policy updates to LEAs on the following months: March, May, July, October, and December.			
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?	☐	✓	☐
	Interviews indicated that board members do receive some budget training from their home districts. However, no documentation was provided to show that all board members attend training on governance at least every two years at the ROP.			
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?	☐	✓	☐
	FCMAT could not find a written list of budget assumptions used in any multiyear projection for fiscal years 2019-20 and 2020-21. The multiyear projection created for its 2021-22 first interim report included projections for CalPERS and CalSTRS rate,s but did not include any other assumptions.			
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?	☐	☐	✓
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?	☐	✓	☐

The ROP does not have reliable position control data in its position control module. The LEA uses an Excel spreadsheet for this data; however, that document does not reportedly contain items beyond individuals and their positions such as costs for substitutes, stipends, extra duty or vacation cash outs. The ROP is aware of the deficiencies in its position control module and was implementing corrective actions to resolve this issue at the time of FCMAT's fieldwork.

		Yes	No	N/A
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?	☐	✓	☐

Based on documents uploaded and interviews, FCMAT was not provided any evidence to demonstrate that budget, payroll and position control are regularly reconciled.

		Yes	No	N/A
19.4	Does the district identify a budget source for each new position before the position is authorized by the governing board?	✓	☐	☐
19.5	Does the governing board approve all new positions and extra assignments (e.g., stipends) before positions are posted?	✓	☐	☐
19.6	Do managers and staff responsible for the district's human resources, payroll and budget functions meet regularly to discuss issues and improve processes?.	✓	☐	☐

20. Special Education

		Yes	No	N/A
20.1	Does the district monitor, analyze and adjust staffing ratios, class sizes and caseload sizes to align with statutory requirements and industry standards?	☐	☐	✓
20.2	Does the district access available funding sources for costs related to special education (e.g., excess cost pool, legal fees, mental health)?	☐	☐	✓
20.3	Does the district use appropriate tools to help it make informed decisions about whether to add services (e.g., special circumstance instructional assistance process and form, transportation decision tree)?	☐	☐	✓

20.4	Does the district budget and account correctly for all costs related to special education (e.g., transportation, due process hearings, indirect costs, nonpublic schools and/or nonpublic agencies)?	☐	☐	✓
20.5	Is the district's contribution rate to special education at or below the statewide average contribution rate?	☐	☐	✓
20.6	Is the district's rate of identification of students as eligible for special education 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: **39.7%**

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

ROP 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.)