

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

Gateway Unified School District

Fiscal Health Risk Analysis

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About FCMAT

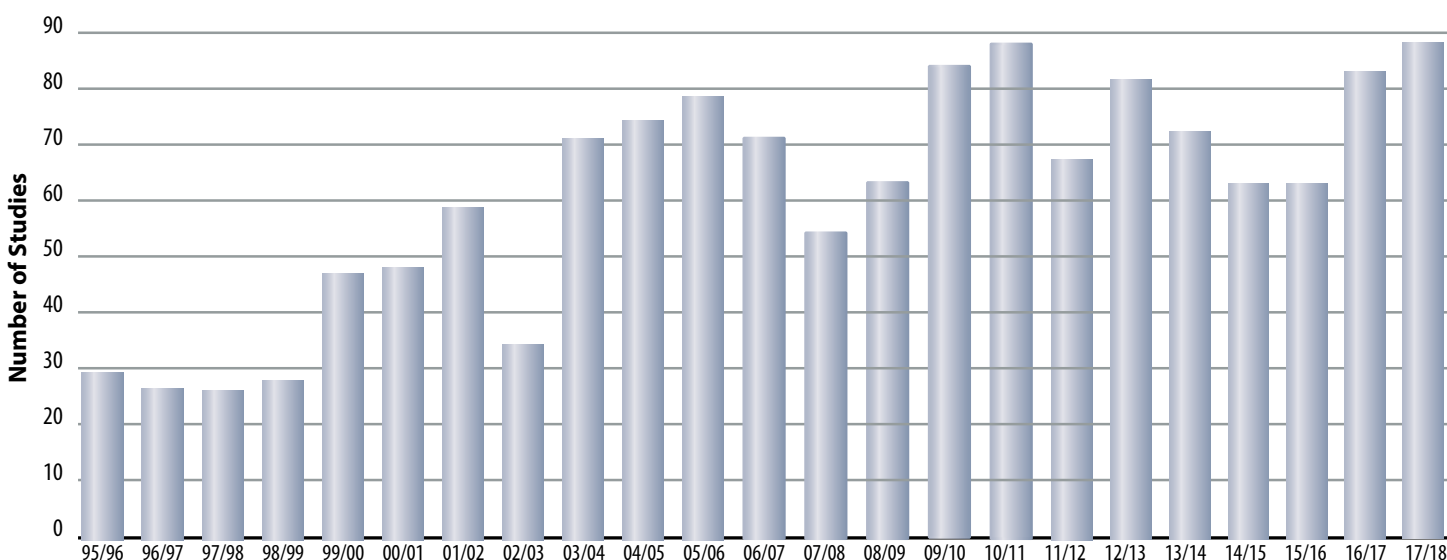
FCMAT’s primary mission is to assist California’s local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related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

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

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

FCMAT has continued to make adjustments in the types of support provided based on the changing dynamics of K-14 LEAs and the implementation of major educational reforms.

Studies by Fiscal Year



FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help LEAs operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) division of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS). CSIS also hosts and maintains the Ed-Data website (www.ed-data.org) and provides technical expertise to the Ed-Data partnership: the California Department of Education, EdSource and FCMAT.

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

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

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

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

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

Introduction

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

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

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

Study Guidelines

FCMAT entered into a study agreement with the Gateway Unified School District on May 7, 2019.

FCMAT visited the district on June 24-25, 2019 to conduct interviews, collect data and review 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:

Tami Ethier

FCMAT Intervention Specialist

John Von Flue

FCMAT Chief Management Analyst

John Lotze

FCMAT Technical Writer

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

District Overview

The Gateway Unified District was officially organized in 1991 and covers approximately 500 square miles, including portions of the incorporated cities of Redding and Shasta Lake, as well as unincorporated areas of Shasta county.

The district operates one K-5 school, two K-8 schools, one comprehensive high school (9- 12), one continuation high school (10-12), and two alternative education schools. The district has also authorized Rocky Point Charter, a K-8 charter school.

Primary industries in the area include a wide range of service professions such as healthcare, retail and tourism. The median household income within the district's boundaries is \$46,389, and housing is affordable with 53.4% of residents owning homes.

The district is on the same financial accounting system as the Shasta County Office of Education.

Under the 2018-19 State Budget Act, because the school district had three consecutive qualified interim reports, the district became eligible for FCMAT to perform a fiscal health risk analysis to determine the level of risk for insolvency. This report is a result of that analysis.

Fiscal Health Risk Analysis

For K-12 Local Educational Agencies



CSIS California School Information Services

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

The FHRA includes 20 sections, each containing specific questions. Each section and specific question is included based on FCMAT’s work since the inception of AB 1200; they are the common indicators of risk or potential insolvency for districts that have neared insolvency and needed assistance from outside agencies. Each section of this analysis is critical to an organization, and lack of attention to these critical areas will eventually lead to financial insolvency and loss of local control. The analysis focuses on essential functions and processes to determine the level of risk at the time of fieldwork; however, it is not a detailed review of all systems and finances, nor does it consider subsequent events.

The greater the number of “no” answers to the questions in the analysis, the higher the score, which points to a greater potential risk of insolvency or fiscal issues for the district. Not all sections in the analysis and not all questions within each section carry equal weight; some areas carry higher risk and thus count more heavily toward or against a district’s fiscal stability percentage. For this tool, 100% is the highest total risk that can be scored. A “yes” or “n/a” answer is assigned a score of 0, so the risk percentage increases only with a “no” answer.

To help the district, narratives are included for responses that are marked as “no” so the district can better understand the reason for the response and actions that may be needed to obtain a “yes” answer.

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

District or LEA Name: Gateway Unified School District

Dates of Fieldwork: June 24-25, 2019

1. Annual Independent Audit Report	Yes	No	N/A
1.1 Can the district correct prior year audit findings without affecting its fiscal health (e.g., material apportionment or internal control findings)?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
1.2 Has the independent audit report for the most recent fiscal year been completed and presented to the board within the statutory timeline? (Extensions of the timeline granted by the State Controller’s Office should be explained.)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.3 Was the district’s most recent independent audit report free of material findings?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.4 Has the district corrected all reported audit findings from the current and past two audits?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.5 Has the district had the same audit firm for at least three years?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.2 Does the district use a budget development method other than a prior-year rollover budget, and if so, does that method include tasks such as review of prior year estimated actuals by major object code and removal of one-time revenues and expenses?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.3 Does the district use position control data for budget development?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.4 Does the district calculate the Local Control Funding Formula (LCFF) revenue correctly?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- 2.5 Has the district's budget been approved unconditionally by its county office of education in the current and two prior fiscal years? ✓
- 2.6 Does the budget development process include input from staff, administrators, the governing board, the community, and the budget advisory committee (if there is one)? . . . ✓
- 2.7 Does the district budget and expend restricted funds before unrestricted funds? ✓
- 2.8 Have the LCAP and the budget been adopted within statutory timelines established by Education Code sections 42103 and 52062 and filed with the county superintendent of schools no later than five days after adoption or by July 1, whichever occurs first, for the current and past two fiscal years?. ✓
- 2.9 Has the district refrained from including carryover funds in its adopted budget? ✓
- 2.10 Other than objects in the 5700s and 7300s and appropriate abatements in accordance with the California School Accounting Manual, does the district avoid using negative or contra expenditure accounts? ✓
- 2.11 Does the district have a documented policy and/or procedure for evaluating the proposed acceptance of grants and other types of restricted funds and the potential multiyear impact on the district's unrestricted fund? ✓
- 2.12 Does the district adhere to a budget calendar that includes statutory due dates, major budget development tasks and deadlines, and the staff member/department responsible for completing them? ✓

The district provided a fiscal year calendar, which lacked the level of detail expected for a budget calendar. District staff could easily use the provided fiscal year calendar to create a detailed budget calendar that includes due dates and staff members and departments responsible for tasks.

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 before the next financial reporting period? ✓
- 3.5 Does the district provide a complete response to the variances identified in the criteria and standards? ✓
- 3.6 Has the district addressed any deficiencies the county office of education has identified in its oversight letters in the current and prior two fiscal years? ✓

The Shasta County Office of Education has expressed concerns related to the district's deficit spending in every oversight letter issued since budget adoption for fiscal year 2016-17. The letters have included details such as dollar amounts of the deficit and reserve percentages in both chart and graph form.

- 3.7 Does the district prohibit processing of requisitions or purchase orders when the budget is insufficient to support the expenditure? ✓
- 3.8 Does the district encumber and adjust encumbrances for salaries and benefits? ✓
- 3.9 Are all balance sheet accounts in the general ledger reconciled at each interim report, at a minimum? ✓
- 3.10 Have the interim reports and the unaudited actuals been adopted and filed with the county superintendent of schools within statutory timelines established by Education Code? ✓

4. Cash Management

Yes No N/A

- 4.1 Are accounts held by the county treasurer reconciled with the district’s and county office of education’s reports monthly? ✓
- 4.2 Does the district reconcile all bank (cash and investment) accounts with bank statements monthly? ✓
- 4.3 Does the district forecast its cash receipts and disbursements at least 18 months out, updating the actuals and reconciling the remaining months to the budget monthly to ensure cash flow needs are known? ✓
The district has historically projected its cash flow for only 12 months into the future. FCMAT recommends preparing cash flow projections for an 18-month period.
- 4.4 Does the district have a reasonable plan to address cash flow needs during the current fiscal year? ✓
- 4.5 Does the district have sufficient cash resources in its other funds to support its current and projected obligations in those funds? ✓
- 4.6 If interfund borrowing is occurring, does the district comply with Education Code section 42603? ✓
- 4.7 If the district is managing cash in any funds through external borrowing, has the district set aside funds for repayment attributable to the same year the funds were borrowed? . . . ✓

5. Charter Schools

Yes No N/A

- 5.1 Are all charters authorized by the district going concerns? ✓
- 5.2 If the district has any charters in fiscal distress, has the district performed its statutory fiscal and operational oversight functions, including the issuance of formal communication to the charter, such as Notices of Violation? ✓
- 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 district does not have evidence that it has fulfilled its oversight responsibilities for the authorized charter school.
- 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? ✓

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

6.1 Has the district settled with all its bargaining units for the prior two fiscal year(s)? ✓

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? ✓

6.4 Did the district conduct a presettlement analysis and identify related costs or savings, if any (e.g., statutory benefits, and step and column salary increase), for the current and subsequent years, and did it identify ongoing revenue sources or expenditure reductions to support the agreement? ✓

6.5 In the current and prior two fiscal years, has the district settled the total cost of the bargaining agreements at or under the funded cost of living adjustment (COLA)? ✓

6.6 If settlements have not been reached in the past two years, has the district identified resources to cover the estimated costs of settlements? ✓

6.7 Did the district comply with public disclosure requirements under Government Code sections 3540.2 and 3547.5 and Education Code section 42142? ✓

6.8 Did the superintendent and CBO certify the public disclosure of collective bargaining agreement prior to board approval? ✓

6.9 Is the governing board's action consistent with the superintendent's and CBO's certification? ✓

7. Contributions and Transfers **Yes No N/A**

7.1 Does the district have a board-approved plan to eliminate, reduce, or control any contributions/transfers from the unrestricted general fund to other restricted programs and funds? ✓

Contributions to special education are budgeted to increase from \$3,284,842 to \$3,700,9873 from 2018-19 to 2020-21. The district does not have a plan to control or reduce these contributions. According to the district's 2017-18 unaudited actuals report, the district's contributions equal 47.9% of its special education budget.

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 prior two fiscal years, and there is a need in the current year, did the district budget for them at reasonable levels? ✓

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

8.1 Is the district avoiding deficit spending in the current fiscal year?

The 2018-19 2nd interim budget includes deficit spending of \$1,102,778 in unrestricted and \$336,203 in restricted, for a total of \$1,438,981 in general fund deficit spending.

8.2 Is the district projected to avoid deficit spending in both of the two subsequent fiscal years? .

The multiyear projection prepared with the 2018-19 budget shows combined general fund deficit spending of \$1,110,073 for the 2019-20 fiscal year and \$1,316,241 for the 2020-21 fiscal year.

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? . . .

The district formed a budget advisory committee that recommended \$774,000 in budget reductions for 2019-20. At the time of fieldwork, the district's board had not implemented the reductions recommended by the committee. On May 9, 2019, the board did vote to reduce staffing by 3.29 full-time equivalent positions (FTE); however, this action did not include all of recommendations made by the committee.

8.4 Has the district decreased deficit spending over the past two fiscal years?

Deficit spending increased over the prior year in 2017-18 and is estimated to have decreased slightly in 2018-19. Total general fund deficit spending was \$1,288,622 in 2016-17, \$1,664,796 in 2017-18, and an estimated \$1,438,981 for 2018-19 per the district's second interim financial report.

9. Employee Benefits **Yes No N/A**

9.1 Has the district completed an actuarial valuation in accordance with Governmental Accounting Standards Board (GASB) requirements to determine its unfunded liability for other post-employment benefits (OPEB)?

9.2 Does the district have a plan to fund its liabilities for retiree health and welfare benefits?. . .

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

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?

The district provided no evidence of a verification of benefit eligibility within the last five years. The district has an established process for collecting employee benefit contributions, and it reconciles these contributions toward benefits regularly. However, it has performed no review to ensure benefits are provided to those who are eligible for them.

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?

According to CALPADS data, enrollment has been in overall decline since 2008-09; it was 2,796 students in that year and declined to 2,302 by 2016-17. Enrollment increased slightly to 2,324 students in 2017-18, but declined again in 2018-19 to 2,293 students, and the district projects the decrease to continue for the next two 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)?

10.3 Does the district track historical enrollment and ADA data to predict future trends?

10.4 Do school sites maintain an accurate record of daily enrollment and attendance that is reconciled monthly at the site and district levels?

10.5 Has the district certified its California Longitudinal Pupil Achievement Data System (CALPADS) data by the required deadlines (Fall 1, Fall 2, EOY) for the current and two prior years?

10.6 Are the district’s enrollment projections and assumptions based on historical data, industry-standard methods, and other reasonable considerations?

10.7 Do all applicable sites and departments review and verify their respective CALPADS data and correct it as needed before the report submission deadlines?

10.8 Has the district planned for enrollment losses to charter schools?

10.9 Does the district follow established board policy to limit outgoing interdistrict transfers and ensure that only students meeting the required qualifications are approved?

District board policy (BP) 5117 and administrative regulation (AR) 5117 provide the authority and conditions under which interdistrict transfers may be permitted and/or limited. AR 5117 states that the superintendent or superintendent’s designee may approve transfers for the following:

- 1) victim of bullying,*
- 2) child care needs,*
- 3) special needs,*
- 4) avoid family splitting,*
- 5) complete the school year,*
- 6) remain in graduating class,*
- 7) attend senior year in same school as junior year,*
- 8) moving during school year,*
- 9) living out of school for less than year,*
- 10) recommended by school attendance review board,*
- 11) educational program not offered by district,*
- 12) personal or social adjustment.*

For 2018-19, FCMAT was provided with a report that identified more than 400 students as approved for transfer out, with an additional list of more than 70 students who had incomplete or in-process transfer requests. The list also included 18 students for which their transfer request was denied. The prior year, 2017-18, the district had a similar number and breakdown of transfers. Most of the reasons listed for the transfers were those in board policy and regulations; however, some had other reasons not included in policy, such as “smaller school,” “ratings,” “comfort,” “transportation,” “heard great things,” “word of mouth,” “better,” “choice,” etc.

10.10 Does the district meet the average class enrollment for each school site of no more than 24-to-1 class size ratio in TK-3 classes or does it have an alternative collectively bargained agreement? ✓

11. Facilities

Yes No N/A

11.1 If the district participates in the state’s School Facilities Program, has it met the 3% Routine Restricted Maintenance Account requirement? ✓

11.2 Does the district have sufficient and available capital outlay and/or bond funds to cover all contracted obligations for capital facilities projects? ✓

11.3 Does the district properly track and account for facility-related projects? ✓

11.4 Does the district use its facilities fully in accordance with the Office of Public School Construction’s (OPSC’s) loading standards?. ✓

Based on OPSC loading standards, the district is not fully using its facilities. The district’s facilities master plan stated that for the 2017-18 school year its facilities were used at 52.8% of OPSC capacity. Currently, the district is not strictly using loading standards as a criterion for facility use. The district continues to make adjustments to its facility use as enrollment declines and has organized a budget committee to address budget issues. The committee has made recommendations to consolidate, close and sell school sites.

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? ✓

In November 2008, Measure G, a Proposition 39 bond in the amount of \$19,000,000, was authorized by voters in the district. The district’s bond audits for the fiscal years ending June 30, 2016, 2017 and 2018 reported no findings about the use or oversight of bond funds for these years and concluded that the district properly accounted for its bond expenditures. However, although the district budgeted to expend \$1, 506,730 in the 2018-19 fiscal year, FCMAT found that the district’s bond oversight committee has not been active for the year.

11.8 Does the district have an up-to-date long-range facilities master plan? ✓

12. Fund Balance and Reserve for Economic Uncertainty		Yes	No	N/A
12.1	Is the district able to maintain the minimum reserve for economic uncertainty in the current year (including funds 01 and 17) as defined by criteria and standards?	✓	<input type="checkbox"/>	<input type="checkbox"/>
12.2	Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years?	✓	<input type="checkbox"/>	<input type="checkbox"/>
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?	<input type="checkbox"/>	<input type="checkbox"/>	✓
12.4	Is the district’s projected unrestricted fund balance stable or increasing in the two subsequent fiscal years?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>Per the 2018-19 multiyear financial projection presented as part of the second interim report, the unrestricted general fund balance is projected to decrease by \$900,169 in 2019-20 and by \$1,111,265 in 2020-21.</i>			
12.5	If the district has unfunded or contingent liabilities or one-time costs, does the unrestricted fund balance include any assigned or committed reserves above the recommended reserve level?	✓	<input type="checkbox"/>	<input type="checkbox"/>

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?	✓	<input type="checkbox"/>	<input type="checkbox"/>
13.2	Is the percentage of the district’s general fund unrestricted budget that is allocated to salaries and benefits at or below the statewide average for the current year?	✓	<input type="checkbox"/>	<input type="checkbox"/>
13.3	Is the percentage of the district’s general fund unrestricted budget that is allocated to salaries and benefits at or below the statewide average for the two prior years?	✓	<input type="checkbox"/>	<input type="checkbox"/>
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)?	<input type="checkbox"/>	<input type="checkbox"/>	✓
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?	✓	<input type="checkbox"/>	<input type="checkbox"/>
13.6	Is the district using its restricted dollars fully by expending allocations for restricted programs within the required time?	✓	<input type="checkbox"/>	<input type="checkbox"/>
13.7	Does the district consistently account for all program costs, including the maximum allowable indirect costs, for each restricted resource?	<input type="checkbox"/>	✓	<input type="checkbox"/>

The district does not apply maximum allowable indirect cost rates to all programs, including federal and state programs in the general fund and programs in other operational funds. The district’s 2017-18 unaudited actuals report an approved indirect cost rate of 11.41%; however, the report also states the highest rate used in any program was 8.65%. The unaudited actuals identify indirect costs charged to only eight programs, with rates charged as low as 0.39%. In other programs, no indirect charges are made.

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

15. Internal Controls and Fraud Prevention		Yes	No	N/A
15.1	Does the district have controls that limit access to its financial system and include multiple levels of authorizations?	✓	<input type="checkbox"/>	<input type="checkbox"/>
15.2	Are the district’s financial system’s access and authorization controls reviewed and updated upon employment actions (e.g., resignations, terminations, promotions or demotions) and at least annually?	✓	<input type="checkbox"/>	<input type="checkbox"/>
15.3	Does the district ensure that duties in the following areas are segregated, and that they are supervised and monitored?	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Accounts payable (AP)	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Accounts receivable (AR).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	• Purchasing and contracts	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Payroll.	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Human resources	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Associated student body (ASB).	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Warehouse and receiving.	✓	<input type="checkbox"/>	<input type="checkbox"/>
15.4	Are beginning balances for the new fiscal year posted and reconciled with the ending balances for each fund from the prior fiscal year?	✓	<input type="checkbox"/>	<input type="checkbox"/>
15.5	Does the district review and clear prior year accruals by first interim?.	✓	<input type="checkbox"/>	<input type="checkbox"/>
15.6	Does the district reconcile all suspense accounts, including salaries and benefits, at least at each interim reporting period and at the close of the fiscal year?	✓	<input type="checkbox"/>	<input type="checkbox"/>
15.7	Has the district reconciled and closed the general ledger (books) within the time prescribed by the county office of education?	✓	<input type="checkbox"/>	<input type="checkbox"/>
15.8	Does the district have processes and procedures to discourage and detect fraud?	✓	<input type="checkbox"/>	<input type="checkbox"/>

- 15.9 Does the district maintain an independent fraud reporting hotline or other reporting service(s)?
- The district does not maintain a fraud reporting hotline or other reporting service. However, BP and AR 3400 require that all employees be alert and report suspected "fraud, impropriety, or irregularity" to their immediate supervisor and/or the superintendent.*
- 15.10 Does the district have a process for collecting and following up on reports of possible fraud?
- The district does not have an established process for receiving reports of and following up on possible fraud.*
- However, BP and AR 3400 state that the superintendent or superintendent's designee shall investigate reports of fraudulent activity in a manner that protects the confidentiality of the parties and the facts. Further, if found to be substantiated, a report shall be made to the appropriate personnel and the governing board, and the final decision about whether to file a report with law enforcement will be made with legal counsel.*
- 15.11 Does the district have an internal audit process?
- The district does not have an internal audit process.*
- The district has a draft document titled Understanding of Internal Controls, which identifies processes and procedures for cash handling, payroll, inventory and asset controls, treasury activities, and reporting. The staff were well aware of this document and referred to it during interviews. Duties are distributed and segregated to ensure, at minimum, a second review, segregation of duties, and reasonable internal controls.*

16. Leadership and Stability

Yes No N/A

- 16.1 Does the district have a chief business official who has been with the district more than two years?
- The district has had multiple chief business officials (CBOs) over the last 15 years with the most recent serving the district for approximately two years and nine months. Because it has not been able to attract a qualified CBO, the district has filled this position with an interim CBO. The individual serving as interim CBO has been with the district for 15 years in various positions in school administration and in instructional services at the district level. The interim CBO has not had business office experience but has enrolled in a recognized CBO training program.*
- In addition, the district has had changes in administrative support, human resources, and business office positions within the last year.*
- 16.2 Does the district have a superintendent who has been with the district more than two years?
- 16.3 Does the superintendent meet on a scheduled and regular basis with all members of the administrative cabinet?
- 16.4 Is training on financial management and budget provided to site and department administrators who are responsible for budget management?
- 16.5 Does the governing board adopt and revise policies and administrative regulations annually?

- 16.6 Are newly adopted or revised policies and administrative regulations implemented, communicated and available to staff? ✓
- 16.7 Is training on the budget and governance provided to board members at least every two years? ✓
- 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 LCFF calculation with multiyear considerations? ✓
 - 17.3 Does the district use its most current multiyear projection in making financial decisions? . . . ✓
- In Interviews, staff indicated that the multiyear projection may not always be considered when making financial decisions.*
- 17.4 If the district utilizes a broad adjustment category in its multiyear projection such as line B10, Other Adjustments, in the SACS form MYP/MYPI, is there a detailed list of what is included in the adjustment amount? ✓

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 in the current or prior two fiscal years? ✓
- 18.3 If the district is self-insured, does the district have a recent (every 2 years) actuarial study and a plan to pay for any unfunded liabilities? ✓
- 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, meaning at least at budget adoption and interim reporting periods? ✓
- 19.4 Does the district identify a budget source for each new position before the position is authorized by the governing board?. ✓
- 19.5 Does the governing board approve all new positions and extra assignments (e.g., stipends) before positions are posted? ✓

- 19.6 Has the district adopted staffing ratios for certificated, classified and administrative positions in the past three years, and is the district following those ratios?
- The district has not adopted any staffing ratios in the past three years.*
- The district and the Gateway Teachers Association agreed to language in the collective bargaining agreement for the 2018-19 contract that gives teachers a stipend when class size exceeds a certain number of students for more than half of the year. The thresholds are 26 students for grades K-3, 30 students for grades 4-6 (self-contained), 32 students for grades 6-12, and 50 students for physical education classes. These class size numbers serve as an informal gauge when planning for classes and for staffing.*
- 19.7 Do managers and staff responsible for the district’s human resources, payroll and budget functions meet regularly to discuss issues and improve processes?

20. Special Education **Yes No N/A**

- 20.1 Does the district monitor, analyze and adjust staffing ratios, class sizes and caseload sizes to align with statutory requirements and industry standards?
- 20.2 Does the district access available funding sources for costs related to special education (e.g., excess cost pool, legal fees, mental health)?
- 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)?
- The district is not charging the full allowable indirect cost rate to the special education program; this is causing it to understate the full costs of special education.*
- 20.5 Is the district’s contribution rate to special education at or below the statewide average contribution rate?
- 20.6 Is the district’s rate of identification of students as eligible for special education comparable with countywide and statewide average rates?
- The district’s identification rate for 2018-19 was 17.32% which is significantly higher than both the state and county identification rates of 11.73% and 11.30%, respectively.*
- 20.7 Does the district analyze whether it will meet the maintenance of effort requirement at each interim reporting period?
- The district performs this analysis annually, not at each interim reporting period.*

Total Risk Score, All Areas **15.3%**

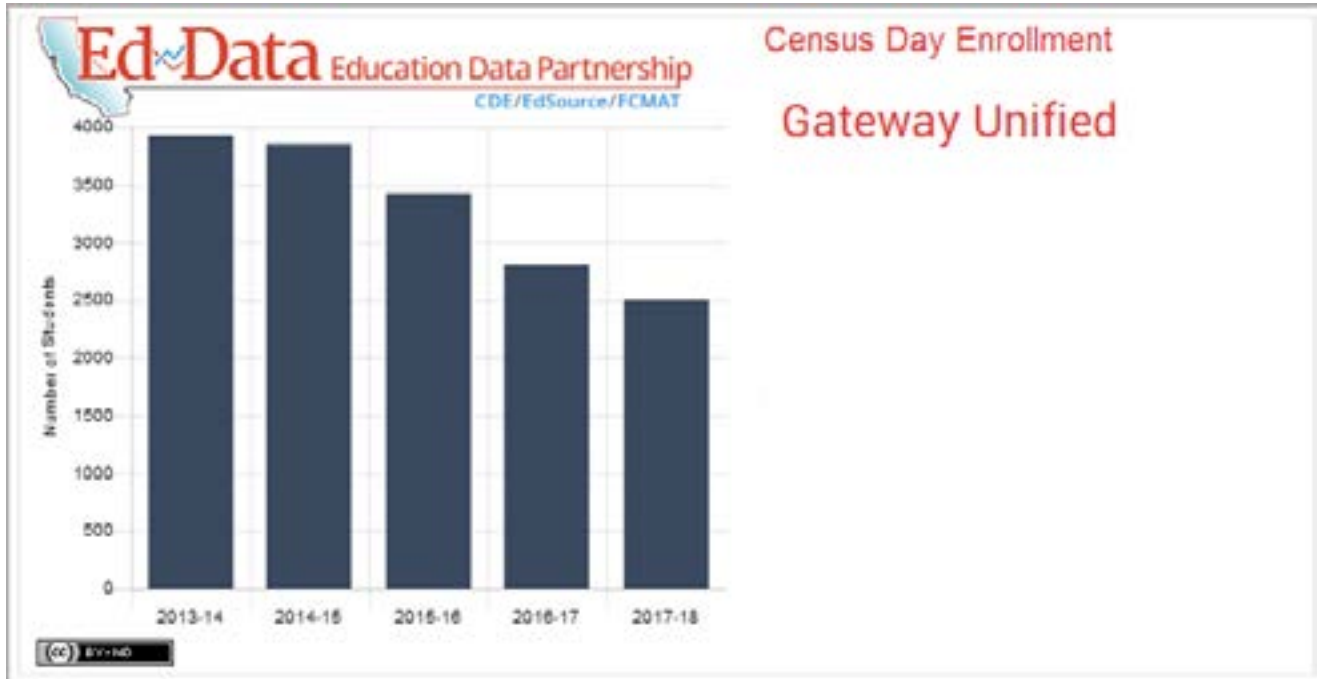
Key to Risk Score

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

Summary

The fiscal health risk analysis result for the Gateway Unified School District indicates the district's risk of insolvency is low; however, the district is on course for insolvency in the near future unless it takes action.

The district is in a period of transition. It has experienced a sharp decline in enrollment in the past five years, dropping from 3,928 students in 2013-14 to 2,502 students in 2017-18, as shown in the chart below.



In addition to changes in its residential population, the district has lost significant enrollment because of interdistrict transfers as educational opportunities are sought and approved for a variety of reasons. The decline in student enrollment is projected to continue into the future, and the district needs to respond proactively to mitigate the enrollment loss and to responsibly size its resources.

The loss of enrollment results in lower average daily attendance (ADA) which reduces revenue for the district. As a result, the district has been deficit spending more than \$1,000,000 per year since 2016-17. Deficit spending depletes reserves, which are one-time in nature. If the district continues to deficit spend at or near current levels, it will become financially insolvent in the near future..

To reduce the level of deficit spending, the district needs to prepare budgets that align staffing with the decreased number of pupils enrolled. This requires preparation for several years in advance. Because the decline in enrollment has been substantial, part of this process will include reducing the number of school sites. Board-approved staffing ratios for schools also need to be implemented and adhered to by school and district administrators.

The district formed a budget committee in the past year to study opportunities to address the deficit and balance the budget. The committee has developed recommendations, but the board has implemented only a portion of the recommendations.

The district has also experienced a turnover of staff in the district office, including key leadership positions in business and instruction. As a result, the district has several staff who are learning new positions and taking on additional responsibilities. Notably, the director of instructional services has taken over the duties of the CBO, and instructional leadership responsibilities have been distributed between the CBO and district superintendent positions. There is concern about the ability to sustain this model without adversely affecting the district through loss of the leadership's attention to governance, instruction, and fiscal responsibilities.

The overall risk score produced by this analysis shows that the district has reserves at the current time. If the reserves were lower, the risk would be much higher. If the district does not reduce its level of deficit spending, its risk score one year from now will be much higher. The district needs to act to reduce deficit spending in the current fiscal year to ensure that its reserve balances are not depleted to a point that threatens its fiscal solvency.