FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

December 13, 2021

Honorable Keely Bosler, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Honorable Phil Ting, Chair
California State Assembly Committee on Budget
State Capitol, Room 6026
Sacramento, CA 95814

Honorable Nancy Skinner, Chair
California State Senate Committee on Budget and Fiscal Review
State Capitol, Room 5019
Sacramento, CA 95814

Dear Director Bosler, Chairperson Skinner and Committee Members, and Chairperson Ting and Committee Members:

This letter is submitted for your consideration in accordance with FCMAT's responsibilities under Assembly Bill (AB) 1840 (Chapter 426 / 2018) regarding the Inglewood Unified School District. The intent of this letter is to provide an update of events that have occurred since our letter dated March 1, 2021.

Inglewood Unified School District had no projected deficit in fiscal year 2021-2022; therefore, the district was not eligible for an AB 1840 apportionment as part of the 2021-2022 budget act. This letter serves as our follow-up letter regarding the district's 2020-2021 unaudited actuals and the district's continued progress to date.

Exhibits A Through L are available here:

Second Interim Report

The county administrator for the district approved the second interim report (Exhibit A) on March 10, 2021 with a positive certification. The district's narrative accompanying its second interim report stated that its previous projected operating deficit was significantly reduced due to the use of one-time COVID-19 revenues that were not identified in the 2020-2021 adopted budget. This $20.5 million in additional funds, known as Elementary and Secondary School Emergency Relief (ESSER) II, is anticipated to be spent in fiscal years 2021-2022 and 2022-2023. The narrative pointed out that these additional funds are one-time and that the district will still need to address deficit spending and its ongoing structural deficit.

On April 15, 2021, the Los Angeles County Superintendent of Schools concurred with the district's positive certification but expressed concerns about the projected deficit spending and the impact it could have on the district's recovery plan. Therefore, the county superintendent required an updated fiscal stabilization plan (FSP) that addresses the deficit spending with the district's 2021-2022 adopted budget. (Exhibit B)

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Certificated and Classified Layoffs

At the March 10, 2021 board meeting, the county administrator approved five resolutions (Exhibit C) to reduce or discontinue particular kinds of service by seven certificated full-time equivalents (FTEs), nonreelect two probationary and 16 temporary certificated employees and release/reassign three certificated administrators for the 2021-2022 school year. Following the March 10 approval of a reduction in services, the district determined that additional staff would be required in 2021-22 to meet student needs and did not fully implement the reduction in services.

The county administrator also approved two resolutions, 33/2020-2021 and 34/2020-2021 (Exhibit D), at the March 10, 2021 board meeting to reduce two classified management positions effective July 1, 2021.

Unaudited Actuals and General Fund Analysis

The 2020-2021 unaudited actuals report had a net improvement in unrestricted fund balance of slightly less than $19 million and in restricted fund balance of $10.6 million. This is approximately $2.7 million more than what was estimated on the district's estimated actuals report approved in June 2021. Most of the unanticipated increase can be attributed to reduced special education expenses in response to the pandemic, which reflects a reduced number of support services, behavioral aides and contracted services typically provided to these students in the traditional classroom setting. Additionally, due to the pandemic and virtual school setting, the district did not have to contract with outside vendors for transportation services and provided very little transportation with in-house staff. This resulted in a decrease of approximately 26% in special education transportation services, which also contributed to the reduction in the overall contributions from the unrestricted general fund for special educational services.

During the year-end closing process, the district transferred approximately $4.547 million to other district funds. Of those, $3,084 was transferred to fund 67 – self-insurance fund used to account for the district's workers' compensation program. This fund is still not self-supporting, but because of the COVID-19 pandemic, the district appeared to experience a reduction in the number of claims for fiscal year 2020-2021, requiring less of a general fund contribution. The district should continue to closely monitor the workers' compensation rate applied against payroll to ensure revenues are sufficient to address estimated claims. The additional transfer of approximately $4.544 million was to the newly approved fund 17 - special reserve fund for other than capital outlay projects. During the May 26, 2021 board meeting, the county administrator approved Resolution No. 42/2020-2021 (Exhibit E), which established fund 17 for the following purposes:

- Preparing for future budget obligations with regards to the state loan payment.
- Making future purchases in technology and equipment.
- Mitigating the impacts of the State Teachers' Retirement System (STRS)/Public Employees' Retirement System (PERS) increases and other fiscal priorities that will assist the district with maintaining fiscal solvency.

As stated in the March 1, 2021 letter, FCMAT had made adjustments to the district's projected salaries and benefits as they appeared to be overbudgeted. The table below shows the salaries and benefits for each of the various financial reports as they compare to the final unaudited actuals. This data shows that the district's salaries and benefits were overstated by more than 3% for both unrestricted and restricted expenditures at first interim as compared to the unaudited actuals. However, those variances decreased throughout the year, and the district's estimated actuals, which were submitted with the district's 2021-2022 adopted budget, were only slightly underbudget. It appears that the work that is being done during the estimated actuals review of employees' salaries, and benefits should be completed with the same thoroughness at each of the interim financial reporting periods.

Fiscal Year 2020-2021

Reporting Period	Adopted Budget		First Interim		Second Interim		Estimated Actuals		Unaudited Actuals	
EXPENDITURES:	Unrestricted	Restricted	Unrestricted	Restricted	Unrestricted	Restricted	Unrestricted	Restricted	Unrestricted	Restricted
Certificated Salaries	27,139,030	11,890,069	28,193,430	12,159,062	28,004,261	11,754,807	27,285,827	11,462,005	26,954,252	11,107,888
Classified Salaries	9,162,770	5,584,634	9,087,746	6,031,638	8,717,759	5,904,084	7,762,585	5,820,448	7,405,018	6,121,038
Employee Benefits	15,267,247	6,923,837	15,716,078	7,215,200	15,487,551	7,217,947	15,803,189	7,101,819	16,669,389	7,316,300
TOTAL EXPENDITURES:	$51,569,047	$ 24,398,540	$52,997,254	$25,405,901	$52,209,570	$24,876,837	$50,851,601	$24,384,272	$51,028,660	$ 24,545,226
Variances										
Vs. Unaudited Actual	-1.05%	0.60%	-3.71%	-3.39%	-2.26%	-1.33%	0.35%	0.66%		

The district has worked continually to implement processes and procedures and ensure both Business Services, including Payroll, and Human Resource departments' staff have been trained correctly on position control. In addition, these departments meet monthly to review and reconcile positions within position control, but the actual payroll and position control systems are never reconciled. Unfortunately, the district continues to experience turnover in both the Business Services and Human Resources departments, both of which have critical roles in maintaining the position control system.

Upon review of the district's 2020-2021 unaudited actuals, FCMAT found that the district has not reconciled and cleared its balance sheet accounts, which were the same issues raised in FCMAT's review of the district's prior two years unaudited actuals. Unreconciled balance sheet and general ledger accounts, especially over multiple years, are an internal control weakness, the consequence of which can be adverse to the district's operating budget, cash and net position. District leadership should make reconciliation a priority in the current year. While staff members indicated they are researching these issues and will work to resolve them, it is evident that this has not occurred. This supports the findings in FCMAT's most recent 2021 comprehensive progress report that states that the district does not routinely reconcile and clear its balance sheet accounts, which can lead to material misstatements of its fund balance. A copy of the district' unaudited actuals financial report is included as Exhibit F to this letter.

Key Personnel Changes

The district lost a key member of its executive-level cabinet when the chief human resource officer resigned as of August 2021, after holding the position for less than two years. Additionally, various human resources positions have experienced turnover as well as new temporary staff added with ESSER funds. In the Business Department, the director of fiscal services position remained vacant throughout the 2020-2021 school year. The position was filled as of August 2021. In April 2021, the district filled the following positions, payroll supervisor, lead payroll technician and a procurement manager. As of October 2021, the accounts payable clerk resigned. Unfortunately, the lead payroll technician resigned after less than two months, and the procurement manager resigned as of October 2021 after serving in the position for less than six months.

As mentioned in the July 2021 annual comprehensive progress report, the turnover of personnel can be directly attributable to relatively low district compensation. Because many of the newly hired candidates lack expertise in their positions, the district is required to provide them with additional training. This takes time and resources. When these new employees receive training and some experience, many often accept employment at other districts with higher compensation. Because of this trend, the district continues to rely heavily on various consultants and the county office to assist with day-to-day functions. As stated in FCMAT's March 2021 letter, the district continues to lack internal capacity because of its heavy reliance on outside consultants.

Facilities Closure and Consolidation Plan

At the May 12, 2021 board meeting the county administrator approved an agreement with Davis Demographics & Planning, Inc. (Exhibit G) to provide an analysis of the district's enrollment forecasting, facilities planning, preparation of reports, committee and public support along with Geographic Information System (GIS) data development. The information gathered from this report will assist the district with short- and long-term facilities planning for its programs and school sites.

At the May 12, 2021 board meeting the district's legal counsel outlined the school consolidation and closure process. At the June 30, 2021 board meeting, the county administrator approved Resolution No. 49/2020-2021 (Exhibit H), which established a committee consisting of at least seven members and then approved the committee's bylaws, duties and rights. The committee is to serve in an advisory capacity and is responsible for making recommendations to the county administrator in developing a plan to close and/or consolidate schools in alignment with AB 1840 and Education Code Section 42161. The committee is assigned to make its recommendations to the county administrator no later than December 2021. (Note: the committee is not functioning as the District Advisory Committee as defined in Education Code 17387, et seq.)

The district's facilities master plan has not been updated since November 2018; therefore, the district solicited request for qualifications and proposals for consulting services for the development of a facilities master plan. Of the four firms that submitted responses, two were selected to be interviewed and a contract with Little Diversified Architectural Consulting (Exhibit I) was approved during the October 6, 2021 board meeting.

After an extensive RFP process, the district retained the services of CBRE (Exhibit J) who will provide real estate brokerage services for all surplus space or real property as identified by the district's surplus property advisory committee. As mentioned in a previous letter, the district has approximately 22.6 acres of real property located on portions of the Morningside High School and Woodworth Elementary School campuses that it no longer uses. The district is authorized to enter into leases and agreements with any private person, firm, local governmental agency, or corporation in which the other party either constructs, or provides for the construction of, a building for joint occupancy through a request for proposal (RFP) process. It may select the proposal that best meets district needs, according to Education Code Section 17515 et seq., for a term of less than 99 years. With the assistance of CBRE, the district plans to market the property nationally and locally in hopes of generating multiple development proposals for the county administrator to consider. During the May 12, 2021 board meeting Resolution No. 40/2020-2021 (Exhibit K) was adopted which authorizes the district to advertise and solicit proposals for the joint occupancy of the identified property in the manner required. Specifically, the resolution authorizes district staff to issue an RFP, according to Education Code Section 17521, and to evaluate all proposals, plans, and packages submitted in response and provide a report and recommendation to the county administrator for consideration.

Fiscal Stabilization Plan

The district's fiscal stabilization plan approved with the 2021-2022 adopted budget (Exhibit L) included expenditure reductions totaling $4.6 million in 2021-2022, and additional reductions of $1.9 million in 2022-2023 and $1.3 million in 2023-2024. Although the district continues to identify expenditure reductions/revenue enhancements, it does not have a plan that eliminates the deficit spending forecasted in the outyears. The county superintendent has required the district to submit an updated FSP that addresses the projected deficit spending and submit it with its 2021-2022 first interim report.

Conclusion

The county administrator, the executive cabinet and the advisory board have many critical roles and responsibilities in the district's recovery. Continuous, consistent and strong leadership, the successful implementation of the district fiscal stabilization plan and the facilities closure and consolidation plan are critical to the district's continued recovery. Without successful formation and implementation of these plans, the district's recovery will lag. Additionally, the district must focus on building internal capacity and lessen its dependence on outside consultants.

Sincerely,

Jennifer Noga

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Intervention Specialist, CFE

C: Debra Duardo, Ed.D., Los Angeles County Superintendent of Schools
Brooks Allen, Executive Director, California State Board of Education
Jessica Holmes, Chief Deputy Executive Director, California State Board of Education
Lisa Constancio, Deputy Superintendent, California Department of Education
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