

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

Lennox School District

Fiscal Health Risk Analysis

March 3, 2020

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Chief Executive Officer



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About FCMAT

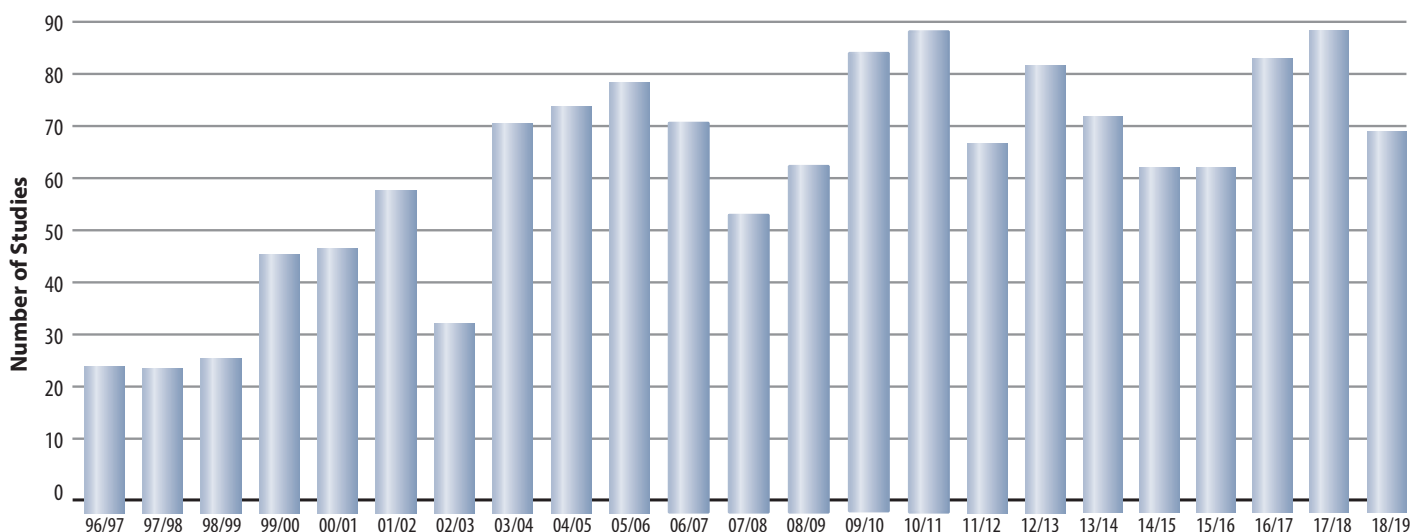
FCMAT’s primary mission is to assist California’s local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related 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

Studies by Fiscal Year



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 1,000 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(FHRA) to determine the level of risk for insolvency. FCMAT has updated its FHRA tool that weights each question based on high, medium and low risk. The analysis will not be performed more than once in a 12-month period per district, and the engagement will be coordinated with the county superintendent and build on their oversight process and activities already in place per AB 1200. There is no cost to the county superintendent or to the district for the analysis.

Study Guidelines

FCMAT entered into the study agreement with the Lennox School District on July 12, 2019.

FCMAT visited the district on December 3 and 4, 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, CFE

FCMAT Intervention Specialist

Davis, CA

Julie Auvil, CPA, CGMA, CICA

FCMAT Intervention Specialist

Bakersfield, CA

Leonel Martínez

FCMAT Technical Writer

Bakersfield, CA

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

District Overview

The Lennox School District includes a preschool, five elementary schools and one middle school serving approximately 5,100 students. Lennox is an unincorporated community of 1.3 square miles and is located in metropolitan Los Angeles between the cities of Hawthorne, Inglewood and the Los Angeles International Airport.

Primary industries in the community include accommodation and food services, administrative waste management services and retail. The median household income within the district's boundaries is \$41,022 and the homeownership rate is 29%, which is lower than the national average of 63.9%. Median property values as of 2017 were \$371,100.

The district is on the same financial accounting system as the Los Angeles County Office of Education (LACOE).

Under the 2018-19 State Budget Act, the district became eligible for FCMAT to perform a fiscal health risk analysis to determine the level of risk for insolvency because LACOE assigned a lack of going concern. This report is a result of that analysis.

Fiscal Health Risk Analysis

For K-12 Local Educational Agencies



FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

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: Lennox School District

Dates of Fieldwork: December 3 - 4, 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"/>
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 type="checkbox"/>	<input type="checkbox"/>
1.3	Was the district’s most recent independent audit report free of material findings?	✓	<input type="checkbox"/>	<input type="checkbox"/>
1.4	Has the district corrected all reported audit findings from the current and past two audits?	✓	<input type="checkbox"/>	<input type="checkbox"/>
1.5	Has the district had the same audit firm for at least three years?	✓	<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 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? <i>The district uses a rollover budget development model. According to staff interviews, a more accurate budget where one-time revenues and expenses are removed is prepared at first interim.</i>	<input type="checkbox"/>	✓	<input type="checkbox"/>
2.3	Does the district use position control data for budget development? <i>The district does not have reliable position control data. In the past, consultants were used to develop the salary and benefit portions of the budget. The district is preparing new procedures on position control, training staff to use the process and working to reconcile position control to budget and payroll.</i>	<input type="checkbox"/>	✓	<input type="checkbox"/>

- | | | | | |
|------|--|-------------------------------------|-------------------------------------|--------------------------|
| 2.4 | Does the district calculate the Local Control Funding Formula (LCFF) revenue correctly?
<i>In 2015-16, the district calculated a \$2.6 million overstatement of its revenues using the LACOE provided LCFF calculator. LACOE caught the error, but the district did not reverse the accrual until the 2018-19 fiscal year. Subsequent years have been calculated correctly.</i> | <input type="checkbox"/> | <input checked="" 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?
<i>LACOE disapproved the district's 2019-20 budget on September 5, 2019. The budgets for both 2017-18 and 2018-19 were approved unconditionally.</i> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 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)?
<i>Historically, the former chief business official (CBO) and former superintendent handled budget development with little input from stakeholders, with exception of the input of the "District Site Leadership Team," which provides guidance for the LCAP expenditures. Staff indicated that the district intends to modify this practice to include input from all stakeholders.</i> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 2.7 | Does the district budget and expend restricted funds before unrestricted funds? | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 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? | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2.9 | Has the district refrained from including carryover funds in its adopted budget? | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 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? | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 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?
<i>The district does not have a policy or procedure for evaluating the proposed acceptance of grants or other types of restricted funds. Staff indicated the need for the development of such policy.</i> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 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?
<i>The district provided a fiscal year calendar that lacked the level of detail expected for a budget calendar. District staff could easily build from the provided fiscal year calendar to create a detailed budget calendar including staff members and departments responsible for tasks.</i> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |

3. Budget Monitoring and Updates

Yes No N/A

- | | | | | |
|-----|---|-------------------------------------|-------------------------------------|--------------------------|
| 3.1 | Are actual revenues and expenses consistent with the most current budget? | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3.2 | Are budget revisions posted in the financial system at each interim report, at a minimum? | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3.3 | Are clearly written and articulated budget assumptions that support budget revisions communicated to the board at each interim report, at a minimum? | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 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?
<i>Budget revisions are incorporated at the next reporting period, but not before.</i> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |

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? <i>In 2017-18, LACOE identified concerns about cash flow, deficit spending and the district's ability to adequately plan for declining enrollment. The district continued to deficit spend and deplete cash reserves.</i> <i>In 2018-19, LACOE identified the same concerns as 2017-18 and requested that the district develop a fiscal stabilization plan.</i> <i>The fiscal stabilization plan was required as a part of 2019-20 budget adoption and the district provided a draft on September 24, 2019, with a final version approved on October 8, 2019.</i>	□	✓	□
3.7	Does the district prohibit processing of requisitions or purchase orders when the budget is insufficient to support the expenditure? <i>Staff indicated that the expenditure is allowed to occur and a budget transfer takes place after the fact.</i>	□	✓	□
3.8	Does the district encumber and adjust encumbrances for salaries and benefits? <i>The district does not encumber salary and benefits.</i>	□	✓	□
3.9	Are all balance sheet accounts in the general ledger reconciled at each interim report, at a minimum? <i>With the 2018-19 unaudited actuals, the district performed a full reconciliation of all balance sheet accounts. Before that, this function had not been performed for several years. Staff indicated procedures are being developed to reconcile all balance sheet accounts monthly.</i>	□	✓	□
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? <i>The district is not provided with cash reports from the county treasurer via LACOE monthly; interviews with both LACOE and district staff indicate that cash reports are provided to districts on an as-needed basis.</i>	□	✓	□
4.2	Does the district reconcile all bank (cash and investment) accounts with bank statements monthly? <i>The district does not consistently reconcile bank accounts monthly. Reconciliations have occurred, but not always on a monthly schedule.</i>	□	✓	□
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?	✓	□	□
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?	✓	<input type="checkbox"/>	<input type="checkbox"/>
5.2	If the district has any charters in fiscal distress, has the district performed its statutory fiscal and operational oversight functions, including the issuance of formal communication to the charter, such as Notices of Violation?	<input type="checkbox"/>	<input type="checkbox"/>	✓
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? <i>The district does not have evidence of fulfillment of oversight responsibilities of the authorized charter school.</i>	<input type="checkbox"/>	✓	<input type="checkbox"/>
5.4	Does the district have a board policy or other written document(s) regarding charter oversight? <i>The district does not have a board policy or other written document on charter oversight.</i>	<input type="checkbox"/>	✓	<input type="checkbox"/>
5.5	Has the district identified specific employees in its various departments (e.g., human resources, business, instructional, and others) to be responsible for oversight of all approved charter schools?	✓	<input type="checkbox"/>	<input type="checkbox"/>
6. Collective Bargaining Agreements		Yes	No	N/A
6.1	Has the district settled with all its bargaining units for the prior two fiscal year(s)?	✓	<input type="checkbox"/>	<input type="checkbox"/>
6.2	Has the district settled with all its bargaining units for the current year?	✓	<input type="checkbox"/>	<input type="checkbox"/>
6.3	Does the district accurately quantify the effects of collective bargaining agreements and include them in its budget and multiyear projections? <i>FCMAT was not provided with all of the tentative agreements that would have been reflected in its AB 1200 disclosures. In FCMAT's comparison of the tentative agreement and the AB 1200 disclosure for the Lennox Teachers Association (LTA) for 2017-18, the district did not quantify the effect of the changes to the class size stipends or the cost of substitutes in increasing the accrual of sick leave.</i>	<input type="checkbox"/>	✓	<input type="checkbox"/>
6.4	Did the district conduct a presettlement analysis and identify related costs or savings, if any (e.g., statutory benefits, and step and column salary increase), for the current and subsequent years, and did it identify ongoing revenue sources or expenditure reductions to support the agreement? <i>The interim CBO and business manager have been unable to locate any documents that would suggest that pre-settlement analyses was performed.</i>	<input type="checkbox"/>	✓	<input type="checkbox"/>
6.5	In the current and prior two fiscal years, has the district settled the total cost of the bargaining agreements at or under the funded cost of living adjustment (COLA)? <i>The 2017-18 statutory COLA was 1.56%. The disclosure documentation for all three bargaining units show a 1% salary increase to be placed on the salary schedules and 1.5% one-time payment.</i>	<input type="checkbox"/>	✓	<input type="checkbox"/>
6.6	If settlements have not been reached in the past two years, has the district identified resources to cover the estimated costs of settlements?	<input type="checkbox"/>	<input type="checkbox"/>	✓
6.7	Did the district comply with public disclosure requirements under Government Code sections 3540.2 and 3547.5 and Education Code section 42142? <i>Documentation indicates that the district completed the public disclosures of collective bargaining for fiscal years 2017-18 and 2018-19. Memoranda of understanding (MOUs) entered into during fiscal year 2019-20 were not presented to the board for approval along with their public disclosures. A review of the public disclosure documentation presented at the April 9, 2019 board meeting on the proposed settlement with LTA found it does not include signature by either the superintendent or the CBO in violation of Government Code Section 3547.5.</i>	<input type="checkbox"/>	✓	<input type="checkbox"/>

- 6.8 Did the superintendent and CBO certify the public disclosure of collective bargaining agreement prior to board approval?
- The district had settled with its bargaining units during the time of FCMAT's field-work, and the AB 1200 disclosures for those settlements had not been generated. Of the four AB 1200 disclosures available to FCMAT for 2017-18 and 2018-19, one did not include signatures of either the superintendent or CBO.*
- 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?
- The district is working on plans to reduce contributions to child nutrition; however there is a long-term contribution commitment to fund the Child Readiness Program administered through the child development fund (12).*
- 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?
- 8.2 Is the district projected to avoid deficit spending in both of the two subsequent fiscal years?
- 8.3 If the district has deficit spending in the current or two subsequent fiscal years, has the board approved and implemented a plan to reduce and/or eliminate deficit spending?
- 8.4 Has the district decreased deficit spending over the past two fiscal years?

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

- 9.1 Has the district completed an actuarial valuation in accordance with Governmental Accounting Standards Board (GASB) requirements to determine its unfunded liability for other post-employment benefits (OPEB)?
- 9.2 Does the district have a plan to fund its liabilities for retiree health and welfare benefits?
- 9.3 Has the district followed a policy or collectively bargained agreement to limit accrued vacation balances?
- With the exception of the contract with the former superintendent, the district does not have a board policy and collective bargaining contracts do not have provisions 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?
- While the district provided a year-to-year analysis of the total cost of health-and-welfare benefit costs from fiscal year 2014-15 to the 2019-20 adopted budget, it did not provide evidence that it 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?

Leave balances were tracked on paper for many years. In the past few years, those leave balances were converted to an Excel spreadsheet. Once the electronic version was created, the person who created the electronic record denied access to anyone asking to review the paper log. The district has located the paper log and began a full audit of leave balances because of errors that were found and suspicions that unauthorized hours may have been added.

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? <i>Pursuant to the district’s enrollment analysis, the district’s enrollment has been in a steady decline since 2016-17 with annual decreases of between -0.4% and -2.3%. The latter is the decrease between 2018-19 and current year.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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)? <i>While the district provided spreadsheets showing an analysis of the ADA- to-enrollment ratio, those analyses were not performed monthly. The last ratios were calculated as of September 13, 2019.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
10.3	Does the district track historical enrollment and ADA data to predict future trends?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10.4	Do school sites maintain an accurate record of daily enrollment and attendance that is reconciled monthly at the site and district levels? <i>The district has not provided evidence of its maintenance of accurate daily enrollment and that it is reconciled monthly at the site and district levels.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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? <i>The district certified all submissions by the deadlines for 2017-18 and 2018-19. However, for 2019-20, the district did not certify its data by the December 20, 2019 fall 1 deadline.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
10.6	Are the district’s enrollment projections and assumptions based on historical data, industry-standard methods, and other reasonable considerations?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10.8	Has the district planned for enrollment losses to charter schools? <i>None of the district’s enrollment projections provided show losses to charter schools.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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? <i>The district adopted Board Policy 5117 on January 13, 2015 but comparison to CSBA’s Gamut Online shows that further revision is needed as of December 2019. The district has not provided interdistrict transfers to allow further analysis.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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?	✓	<input type="checkbox"/>	<input type="checkbox"/>
11.2	Does the district have sufficient and available capital outlay and/or bond funds to cover all contracted obligations for capital facilities projects? <i>The district recently discovered that it will need a general fund contribution of \$2 million for a construction project because the Los Angeles World Airports (LAWA) withdrew funding to the district.</i>	<input type="checkbox"/>	✓	<input type="checkbox"/>
11.3	Does the district properly track and account for facility-related projects? <i>The district has not provided evidence of its tracking and accounting for facility-related projects.</i>	<input type="checkbox"/>	✓	<input type="checkbox"/>
11.4	Does the district use its facilities fully in accordance with the Office of Public School Construction’s loading standards? <i>The district has not provided evidence of its loading standards in accordance with the Office of Public School Construction.</i>	<input type="checkbox"/>	✓	<input type="checkbox"/>
11.5	Does the district include facility needs (maintenance, repair and operating requirements) when adopting a budget?	✓	<input type="checkbox"/>	<input type="checkbox"/>
11.6	Has the district met the facilities inspection requirements of the Williams Act and resolved any outstanding issues? <i>The district has not provided evidence of meeting facilities inspection requirements of the Williams Act or resolving outstanding issues.</i>	<input type="checkbox"/>	✓	<input type="checkbox"/>
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?	<input type="checkbox"/>	<input type="checkbox"/>	✓
11.8	Does the district have an up-to-date long-range facilities master plan? <i>The district has not provided evidence of having a facilities master plan.</i>	<input type="checkbox"/>	✓	<input type="checkbox"/>
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? <i>The district’s required minimum reserve percentage is 3%; however combined reserves equal 2.63%. The district is 0.37% short of meeting the statutory minimum reserve percentage.</i>	<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"/>
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? <i>The district’s deficit spending in two of the last three fiscal years indicates that it used one-time resources to pay for ongoing expenditures. The bargaining agree-</i>	<input type="checkbox"/>	✓	<input type="checkbox"/>

ment disclosure approved by the board on June 12, 2018 states that the cost of the current year salary increase will be paid with one-time discretionary funding and general fund ending fund balance, a one-time source of funds. Ongoing salary schedule increases will also be paid from the general fund ending fund balance.

- | | | | | |
|------|--|-------------------------------------|-------------------------------------|--------------------------|
| 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 checked="" type="checkbox"/> | <input type="checkbox"/> |
| | <i>The district's 2019-20 projected unrestricted general fund salaries and benefits are 91.18% of the expense budget. The statewide average for elementary districts as of 2017-18 (the latest data available) was 86.17%.</i> | | | |
| 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 checked="" type="checkbox"/> | <input type="checkbox"/> |
| | <i>The district's unrestricted general fund salaries and benefits were 85.43% of the expense budget in 2017-18 and 89.01% in 2018-19. The statewide average for elementary districts as of 2017-18 (the latest data available) was 86.17%.</i> | | | |
| 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 checked="" type="checkbox"/> | <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 checked="" type="checkbox"/> | <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 checked="" type="checkbox"/> | <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 checked="" type="checkbox"/> | <input type="checkbox"/> |
| | <i>The district does not charge the full allowable indirect cost rate to all of its restricted resources. The district should do so and include special education to reflect the true cost of these programs.</i> | | | |

14. Information Systems and Data Management

Yes No N/A

- | | | | | |
|------|---|-------------------------------------|--------------------------|-------------------------------------|
| 14.1 | Does the district use an integrated financial and human resources system? | <input checked="" type="checkbox"/> | <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 checked="" type="checkbox"/> | <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 checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 14.4 | Is the district using the same financial system as its county office of education? | <input checked="" type="checkbox"/> | <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"/> | <input checked="" 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"/> | <input checked="" 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 checked="" type="checkbox"/> | <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 checked="" type="checkbox"/> | <input type="checkbox"/> |

The district uses the PeopleSoft financial system, which is hosted and supported by LACOE. LACOE provided FCMAT with an active users list from the PeopleSoft financial system. Among those listed as active users was an employee who resigned in 2016.

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

- Accounts payable (AP)

District staff reported that an excessive number of “express payments” or pay vouchers are used, which allow payments without purchase orders. Many other items have generated purchase orders that were not presented to the board for approval in violation of Education Code Section 17605. For example, the district provided an analysis related to the Virtual Academy program where the governing board did not approve \$2,474,528 of \$3,141,384 (or 78.8%) in expenditures.

Credit cards were provided to board members without guidelines, which has led to inappropriate use.

A review of the former superintendent’s December 1, 2015 contract shows that the district agreed to pay a monthly FasTrak service to be used exclusively by the former superintendent. These charges were paid via accounts payable in the total sum of \$6,500 and are considered taxable income subject to applicable income and payroll taxes per IRS Publication 15. District administration reported that while car allowances are included on employee W-2s, expenses passed through the accounts payable process are not.

At least one, possibly two, employees that can process invoices for payment also can add new vendors or change vendor information in the accounts payable system. This provides these employees with the ability to create a false vendor, generate and potentially pay a fraudulent invoice.

District staff reported that purchase orders were not provided to the board for approval.

Accounts payable warrants are printed at the county office and sent to the district, where they are processed by the accounting clerk that generated the transaction. To provide better segregation of duties, the individual responsible for generating accounts payable warrants should not distribute them.

- Accounts receivable (AR)

After processing the cash/checks for deposit and placing the funds in a sealed bag awaiting armored transport pick up, the bag is placed in the vault. However, the vault is not always locked during the workday and documentation necessary to duplicate the documentation already in the sealed bag is also in the vault. Failure to consistently secure the vault could allow someone to remove the deposit bag entirely or remove a portion of the funds inside and regenerate the deposit information.

A label is used for the supervisor to sign in processing an approval of deposits. However, FCMAT was able to remove the label from a deposit batch, which could allow an altered deposit to be generated and then “signed” by the supervisor using a label from another batch.

- Purchasing and contracts

There is a great deal of confusion in this area and few, if any, controls could be found. Most district staff believe the accounting supervisor performs purchasing/contracting duties. The district’s Business Office Handbook 2018-2019 indicates that requests for services are sent to the accounting supervisor and requires goods to be initiated by a requisition. Beyond that, the handbook does not include any real purchasing processes/procedures, and the accounting supervisor does not perform any purchasing duties aside from obtaining quotes despite what is in the handbook.

The district has a staff member who was a buyer but performs few purchasing/contracting duties.

- Payroll

Payroll personnel are responsible for tracking leave balances. In the past, these balances were tracked on paper, but in recent years, they were converted to an Excel spreadsheet that is reportedly kept on a flash drive and not on a secured server. This leaves the district vulnerable should something happen to the flash drive. Once the electronic version was created, the person who created the electronic record denied access to anyone asking to review the paper log. The district has located the paper log and has begun a full audit of leave balances because of errors that have been found and suspicions that unauthorized hours may have been added.

Employees sign in/out at their site/department and the site/department clerical personnel convert that information into timesheets. Employees do not sign their timesheets to provide verification of the hours worked.

Stipends were reportedly paid without board approval. For example, one district administrator reported receiving one upon acceptance of the administrator's new position; however, the district could not find or provide FCMAT with board-approved schedules allowing such payments.

Once the payroll clerk has completed the payroll, no reconciliation is performed and no supervisor reviews her work or approves the payroll batch.

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

No directions are provided to site/department personnel for disbursements of the warrants/pay stubs, and employees are not required to sign any documentation to pick up either payroll document.

- Human resources

Multiple district staff reported that the prior administration bypassed the district's hiring practices to allow candidates chosen by parties outside the interview panel to be hired.

- Associated student body (ASB)

The ASB advisor signs contracts for services procured by the ASB. The advisor is not authorized to sign contracts on behalf of the district and is therefore signing the contracts personally. All ASB contracts should be brought to the district office for review, board approval and signature by someone authorized to sign on behalf of the district.

The ASB hires independent contractors for various services yet does not report the amounts paid to the district office for inclusion in the district's reporting process for Form 1099s. This leaves the district in jeopardy of being charged penalties and interest by the Internal Revenue Service, Franchise Tax Board and Employment Development Department for failure to properly report funds paid and contracts entered into.

Two people are not always involved in the following processes:

- When cash is collected and counted at the end of the event.
- When the cash is transferred to the bookkeeper for deposit processing.
- When the ASB director verifies the deposit.

After the deposit is processed and pending transfer to the bank, the funds are placed in a locked safe, which is inside a locked closet in the principal's office.

However, the closet is sometimes unlocked, and cash has been left on top of the safe until someone with the combination can place it inside.

The district does not oversee ASB funds, leaving them vulnerable to various fraud schemes. The district recently hired a new accounting clerk in the district office who is also a former ASB bookkeeper and will soon assign oversight duties to her.

- Warehouse and receiving ✓
- 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 clear prior year accruals by first interim? ✓
The district recently reversed within its books an erroneous \$2.6 million accounts receivable item that was allowed to remain in accounts receivable for three years.
- 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? ✓
The district previously did not reconcile its suspense accounts; however, all of these were reconciled and their balances brought to zero with the exception of one account with the closing of the books for 2018-19. Object 9342-earned salary advances is programmed to automatically clear next month. FCMAT tied the entries in July 2019 to clear the June 2019 balances but noticed this did not always occur each month to date for the 2019-20 fiscal year. The district is investigating these discrepancies.
- 15.7 Has the district reconciled and closed the general ledger (books) within the time prescribed by the county office of education? ✓
LACOE reported that its deadline for districts to close their books for the 2018-19 unaudited actuals was August 16, 2019. District staff reported that they were required to request at least one extension and printed their final SACS forms on September 5, 2019.
- 15.8 Does the district have processes and procedures to discourage and detect fraud? ✓
See information noted above in question 15.3.
- 15.9 Does the district maintain an independent fraud reporting hotline or other reporting service(s)? ✓
No independent and/or anonymous reporting process is in place.
- 15.10 Does the district have a process for collecting and following up on reports of possible fraud? ✓
No formal process is in place to follow-up on questionable activities.
- 15.11 Does the district have an internal audit process? ✓
The district does not have an internal audit process.

16. Leadership and Stability

Yes No N/A

- 16.1 Does the district have a chief business official who has been with the district more than two years? ✓
The district has had three people in this position since the 2017-18 fiscal year. It is operating with an interim in this position but is in the process of hiring a permanent CBO.
- 16.2 Does the district have a superintendent who has been with the district more than two years? ✓
The district has had three people in this position since the 2017-18 fiscal year including its newly hired superintendent.

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? <i>The district provided copies of school site budget meetings; however, no direct evidence indicated that budget trainings occurred. District staff reported they had not received budget training but that district personnel responsible for budgeting were responsive to any of their questions.</i>	□	✓	□
16.5	Does the governing board adopt and revise policies and administrative regulations annually? <i>The district uses the California School Board Association (CSBA) to update its board policies and administrative regulations. The CSBA has issued five updates over the past twelve months. Of those, the district partially implemented two updates (December 2018 and March 2019) and failed to implement the three most recent updates (May, July and October 2019).</i>	□	✓	□
16.6	Are newly adopted or revised policies and administrative regulations implemented, communicated and available to staff? <i>District staff reported that because of their own efforts, that they were aware of changes to board policies/administrative regulations. Many staff members indicated that they had to provide assistance to others to find the board policies/administrative regulations online. FCMAT found that online access was not immediately intuitive with the following steps needed to access online board policies/administrative regulations from the district's website: Go to "Board," "Board & Agenda," "Board Goals, Policy, and Protocols," "Board Policy," then "Click here for more information."</i>	□	✓	□
16.7	Is training on the budget and governance provided to board members at least every two years? <i>The district has not provided evidence of training board members in budget and governance.</i>	□	✓	□
16.8	Is the superintendent's evaluation performed according to the terms of the contract? <i>The district provided FCMAT with the employment contracts of the current and former superintendents. The current superintendent's tenure is not long enough to qualify to enter into the evaluation. The district has not provided evidence of entering into an evaluation of the former superintendent.</i>	□	✓	□

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? <i>Historically, the district has not used the multiyear projection when making financial decisions. With the 2019-20 fiscal year, the district has created realistic budgets and is basing financial decisions on the current multiyear projection.</i>	□	✓	□
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
<p>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?</p> <p><i>The criteria and standards review from the district's 2019-2020 revised budget reports that its certificates of participation and equipment lease purchase agreement are to be repaid from the general fund, objects 7438 and 7439. The general fund expenditures by object report from the 2019-20 revised budget has funds budgeted for objects 7438 and 7439 in unrestricted funds only.</i></p>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<p>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?</p> <p><i>The district's long-term credit rating was downgraded by both Moody's and S&P in August and October 2018.</i></p>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<p>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?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<p>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?</p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19. Position Control	Yes	No	N/A
<p>19.1 Does the district account for all positions and costs?</p> <p><i>District staff consistently reported that position control is not a fully functioning system. In its present state, it cannot be relied on to drive budget development, and the district is in the process of a concerted effort to clean up position control to return it to a fully functioning system.</i></p>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<p>19.2 Does the district analyze and adjust staffing based on staffing ratios and enrollment?</p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>19.3 Does the district reconcile budget, payroll and position control regularly, meaning at least at budget adoption and interim reporting periods?</p> <p><i>Given that position control is not a fully functioning system that cannot be relied on to drive budget, it could not be used for reconciling purposes.</i></p>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<p>19.4 Does the district identify a budget source for each new position before the position is authorized by the governing board?</p> <p><i>While the Personnel Services Handbook 2015-2016 states that funding source approval should occur before flying and/or filling a position, the district has not provided evidence that this policy was followed.</i></p>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<p>19.5 Does the governing board approve all new positions and extra assignments (e.g., stipends) before positions are posted?</p> <p><i>While the Personnel Services Handbook 2015-2016 states that board approval should occur before flying and/or filling a position, district staff reported that this procedure has not been followed. FCMAT's review of Human Resources reports provided from five separate board meetings indicated that no new positions were approved. The board's actions in those meetings were for individual employees whose names were identified with the exception of those regarding a job description and correction of dates for five summer positions.</i></p>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<p>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?</p>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

While the district provided its Administrative Regulations 4210.2 and 4310.2 on staffing patterns for its basic certificated and classified staffing, these were last revised February 10, 2015. Comparison of the staffing patterns with the district's position control report as well as e-mail confirmation of staffing from site staff show they are not followed.

- 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?
- District staff reported that under the prior administration, these meetings did not occur. However, the current administration has begun holding these meetings. There is no formal schedule as yet but there had been two in the current fiscal year.*

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?
- The district is monitoring and analyzing staffing ratios, class sizes and caseloads but does not meet industry standards in one area. Specifically, the district does not meet the industry standard for staffing of nurses. The district has one registered nurse for all students, which exceeds the standard of 1-to-2,274.*
- 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 does not charge all special education costs to the related restricted resources, understating the true cost of special education. This occurs both in legal costs and indirect costs, which are not fully charged to the special education program.*
- 20.5 Is the district's contribution rate to special education at or below the statewide average contribution rate?
- For the 19-20 budget, the district projects a contribution rate of 69.51%, which exceeds the 2017-18 statewide average (latest data) of 65.88%.*
- 20.6 Is the district's rate of identification of students as eligible for special education comparable with countywide and statewide average rates?
- 20.7 Does the district analyze whether it will meet the maintenance of effort requirement at each interim reporting period?
- The district has historically performed this analysis annually; however, in the future it intends to monitor maintenance of effort at each reporting period.*

Total Risk Score, All Areas **53%**

Key to Risk Score

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

Summary

The district has faced many obstacles over the past year. Significant deficit spending, negative cash and turn-over at the superintendent and cabinet level are just a few of the issues it has experienced. As a result of this study, the risk of district insolvency has been determined as high.

Improvements have been made; deficit spending is projected to end, and negative cash flow is anticipated to resolve in the current fiscal year. However, some issues are still present as outlined in this report. The district needs to closely monitor these to continue to improve and reduce the risk of insolvency. Some of the remaining issues are summarized below:

- **Minimum fund balance reserve concerns**
 - *The district did not reconcile and clear balance sheet accounts for several years; this resulted in an overstatement of general fund balance greater than the fund balance itself. Reconciling these accounts caused a negative fund balance. By eliminating deficit spending, which current budget and multiyear projections reflect, the district should be able to meet minimum fund balance requirements in the next year.*
- **Cash shortfall**
 - *Because the district obtained a temporary cash loan from the Los Angeles County treasurer with the assistance of LACOE, insolvency was prevented in the current fiscal year. The district must still monitor cash borrowing and needs in the coming years as recovery continues.*
- **Position Control**
 - *Position control is the system that tracks all staff employed by the district. Without a proper position control system, districts cannot tie together staffing and payroll, which decreases the accuracy of a budget. Lennox does not have a properly functioning position control system.*
- **Collective bargaining**
 - *There was no evidence of a presettlement analysis being performed as a part of the collective bargaining process. The absence of this analysis during collective bargaining means that there is no evidence that the district entered into tentative agreements with full knowledge of the settlement costs.*
- **Internal Controls**
 - *The district has significant risk because of lack of internal controls in almost every area of exposure. Lack of proper internal controls puts the district at high risk for fraud and embezzlement. Without proper controls or separation of duties, budget monitoring and management also become more difficult.*
- **Capital Outlay Costs**
 - *The recent discovery of a planned \$2 million shortfall in a capital facility project is detrimental to the district. Additional unknown costs could be a threat to recovery.*

The governing board is ultimately responsible for the district budget. Management has the responsibility of presenting sound financial information based on current and accurate data so the board can make informed decisions. The district is making progress under positive new leadership and needs to remain vigilant in the areas discussed in this report to continue on the path to fiscal recovery.