

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

Fiscal Health Risk Analysis

March 4, 2022



Loleta Union Elementary School District

Michael H. Fine
Chief Executive Officer

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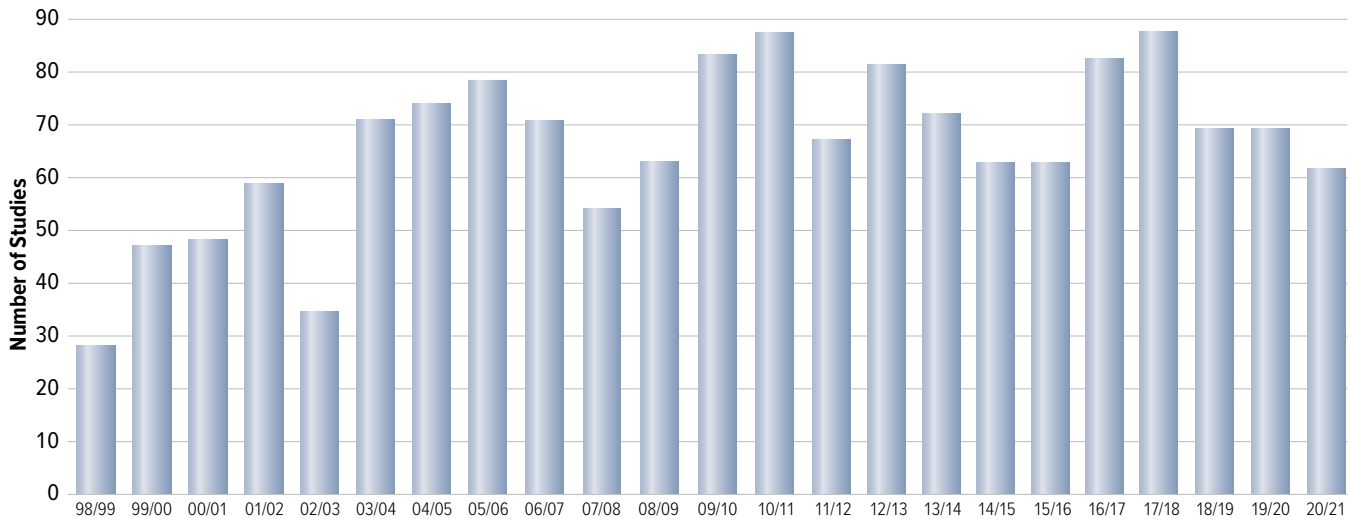
About FCMAT

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.

Studies by Fiscal Year



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

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

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

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

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

Since 1992, FCMAT has been engaged to perform more than 1,400 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Michael H. Fine, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Introduction

Background

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

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

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

This fiscal health risk analysis is being conducted because the district received a "lack of going concern" designation, under which an analysis is required by the 2018-19 State Budget Act.

The Loleta Union Elementary School District, located in Humboldt County, has only one school that serves approximately 100 in transitional kindergarten through eighth grade. The district has an unduplicated pupil percentage (that is, the percentage of students who are English Learners, foster youth, and/or qualify for free or reduced-price meals) of about 90%. The district is governed by a five-member board and operates with a current year general fund budget of approximately \$2.5 million.

On September 15, 2021, the Humboldt County Office of Education approved the district's 2021-22 Local Control and Accountability Plan (LCAP) and adopted budget. However, the county superintendent identified the district as a lack of going concern, citing concerns regarding deficit spending and its effect on the district reserves, the quality and reliability of the adopted budget and recent staff turnover in the business position. FCMAT performed a Fiscal Health Risk Analysis (FHRA) to determine the district's level of risk for insolvency.

Fiscal Health Risk Analysis Guidelines

FCMAT entered into a study agreement with the Loleta Union Elementary School District on December 7, 2021. The FCMAT study team conducted interviews virtually on January 18-20, 2022, and subsequently collected additional data and reviewed and analyzed 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:

Jennifer Noga, CFE	Julie Auvil, CPA, CGMA, CICA
Intervention Specialist	Intervention Specialist

Leonel Martínez
FCMAT Technical Writer

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

Fiscal Health Risk Analysis

For K-12 School Districts

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

Date(s) of fieldwork: January 18 – 20, 2022

District: Loleta Union Elementary School District

Summary

FCMAT concurs with the concerns cited by the Humboldt County Office of Education leading to the lack of going concern designation; this FHRA also identified issues that, in addition to other contributing factors, include negative cash, issues with budget development, monitoring and updating, collective bargaining agreements, lack of internal controls, position control and changes in key administration.

The Loleta Union Elementary School District is a small, single-school district with limited district staff; a turnover in any position can lead to a lack of transfer of information and continuity of district plans and actions. Before the past budget adoption, the district had contracted with a neighboring school district to handle all fiscal reporting. The current year budget was developed by a consultant with the assistance of a business office staff member that had no prior budget knowledge or experience. Both of these individuals have since left the district, which once again has no one to manage or monitor the budget. Because of the immediate need for these services, the district filled the business services duties with a new staff member that has no experience in school finance and was faced with a steep learning curve.

Significant risk was found in budget development and monitoring. Supporting documents did not indicate that detailed assumptions were developed and communicated for fiscal year 2021-22 budget development. Employee compensation accounted for approximately 72% of the district's expenditures in the adopted budget. Failure to use accurate employee costs in planning can quickly lead to budget imbalance. FCMAT's review of the position control report indicated that this document was not updated to include additional staff hired before the adoption of the budget. As a direct result, the district was not aware of the additional payroll expenditures, which quickly lead to a negative cash balance, and had to obtain a temporary cash loan from the Humboldt County Office of Education. At this point, the county office assigned a fiscal advisor with stay and rescind authority and required the district to revise its budget to reflect accurate revenues and expenditures, reconcile position control and submit a revised multiyear projection.

Increases in employee compensation, including salaries, health and welfare benefits, additional vacation days, etc., have a significant impact on the district's budget and should be highly evaluated before adopting any changes. However, there was no evidence that the district quantified the cost impact of bargained agreements and certified their affordability before submitting them to the board for approval.

The district's lack of internal controls creates some additional risk exposure. Because of its size and limited staff, the district lacks systems and procedures to ensure segregation of duties and oversight of business functions in areas such as accounts payable, purchasing, accounts receivable and payroll. This could leave to inaccuracies and possible fraud due to lack of prevention and detection measures.

Ultimately, the governing board is responsible for the district's budget. Management has the responsibility to maintain the integrity of the district's systems, to secure the district's assets, and to present sound financial information based on current and accurate data so the board can make informed decisions and maintain the district's fiscal solvency.

District Fiscal Solvency Risk Level: High

About the Analysis

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

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

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

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

Areas of High Risk

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

Budget and Fiscal Status: Is district currently <i>without</i> the following?:	Yes	No
Disapproved budget	✓	<input type="checkbox"/>
Negative interim report certification	✓	<input type="checkbox"/>
Three consecutive qualified interim report certifications	✓	<input type="checkbox"/>
Downgrade of an interim certification by the county superintendent	✓	<input type="checkbox"/>
“Lack of going concern” designation	<input type="checkbox"/>	✓

Material Weakness Questions	Yes	No	N/A
2.5 Has the district’s budget been approved unconditionally by its county office of education in the current and two prior fiscal years?	<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 in accordance with Education Code Section 42142?	<input type="checkbox"/>	✓	<input type="checkbox"/>
3.6 Has the district addressed any deficiencies the county office of education has identified in its oversight letters in the most recent and two prior fiscal years?	<input type="checkbox"/>	✓	<input type="checkbox"/>
4.3 Does the district forecast its general fund cash flow for the current and subsequent year and update it as needed to ensure cash flow needs are known?.	<input type="checkbox"/>	✓	<input type="checkbox"/>
4.4 If the district’s cash flow forecast shows insufficient cash in its general fund to support its current and projected obligations, does the district have a reasonable plan to address its cash flow needs for the current and subsequent year?	<input type="checkbox"/>	✓	<input type="checkbox"/>
5.2 Has the district fulfilled and does it have evidence showing fulfillment of its oversight responsibilities in accordance with Education Code Section 47604.32?	<input type="checkbox"/>	<input type="checkbox"/>	✓
5.3 Are all charters authorized by the district going concerns and not in fiscal distress?	<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?	<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?.	<input type="checkbox"/>	✓	<input type="checkbox"/>

- 7.2 If the district has deficit spending in funds other than the general fund, has it included in its multiyear projection any transfers from the unrestricted general fund to cover any projected negative fund balance? ✓
- 8.3 If the district has deficit spending in the current or two subsequent fiscal years, has the board approved and implemented a plan to reduce and/or eliminate deficit spending to ensure fiscal solvency? ✓
- 10.6 Are the district’s enrollment projections and assumptions based on historical data, industry-standard methods, and other reasonable considerations? ✓
- 11.2 Does the district have sufficient and available capital outlay and/or bond funds to cover all contracted obligations for capital facilities projects? ✓
- 12.1 Is the district able to maintain the minimum reserve for economic uncertainty in the current year (including Fund 01 and Fund 17) as defined by criteria and standards? ✓
- 12.2 Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years? ✓
- 12.3 If the district is not able to maintain the minimum reserve for economic uncertainty, does the district’s multiyear financial projection include a board-approved plan to restore the reserve? ✓
- 19.1 Does the district account for all positions and costs? ✓

Score Breakdown by Section

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

1.	Annual Independent Audit Report	0.1%
2.	Budget Development and Adoption	6.9%
3.	Budget Monitoring and Updates	6.9%
4.	Cash Management	8.0%
5.	Charter Schools	0.0%
6.	Collective Bargaining Agreements	5.9%
7.	Contributions and Transfers	2.0%
8.	Deficit Spending (Unrestricted General Fund)	2.9%
9.	Employee Benefits	1.4%
10.	Enrollment and Attendance	4.7%
11.	Facilities	0.5%
12.	Fund Balance and Reserve for Economic Uncertainty	1.6%
13.	General Fund - Current Year	2.2%
14.	Information Systems and Data Management	2.0%
15.	Internal Controls and Fraud Prevention	5.1%
16.	Leadership and Stability	3.7%
17.	Multiyear Projections	2.0%
18.	Non-Voter-Approved Debt and Risk Management	0.0%
19.	Position Control	4.9%
20.	Special Education	1.4%
Score		62.0%

Fiscal Health Risk Analysis Questions

Budget and Fiscal Status: Is the district currently <i>without</i> the following?:	Yes	No
Disapproved budget	✓	<input type="checkbox"/>
Negative interim report certification	✓	<input type="checkbox"/>
Three consecutive qualified interim report certifications	✓	<input type="checkbox"/>
Downgrade of an interim certification by the county superintendent	✓	<input type="checkbox"/>
“Lack of going concern” designation	<input type="checkbox"/>	✓

1. Annual Independent Audit Report	Yes	No	N/A
1.1 Has the district corrected the most recent and prior two years’ audit findings without affecting its fiscal health?	✓	<input type="checkbox"/>	<input type="checkbox"/>
1.2 Has the audit report for the most recent fiscal year been completed and presented to the board within the statutory timeline? (Extensions of the timeline granted by the State Controller’s Office should be explained.)	<input type="checkbox"/>	✓	<input type="checkbox"/>
<i>Education Code Section 41020.3 requires the governing board to review the annual audit by January 31 of each year. The 2019-20 Independent Auditor’s Report on Financial Statements reflects an opinion date of March 3, 2021, and the district presented this document at its April 8, 2021 board meeting.</i>			
1.3 Were the district’s most recent and prior two audit reports free of findings of material weaknesses?	✓	<input type="checkbox"/>	<input type="checkbox"/>
1.4 Has the district corrected all reported audit findings from the most recent and prior two audits?	✓	<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"/>
<i>The district does not have clearly written and articulated budget assumptions for the current and subsequent years. Interviews indicated that staff discuss budget reports at board meetings, but detailed assumptions are not articulated to the board or those affected as part of the district’s report.</i>			
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 type="checkbox"/>	✓	<input type="checkbox"/>
<i>The fiscal year 2021-22 budget was developed by a consultant with the assistance of a business office staff member that had no prior budget knowledge or experience. Both of these individuals are no longer with the district; therefore, it is unclear what method was used to create the budget or what type of analysis was done on prior year estimates.</i>			
<i>Before the past budget adoption, the district had contracted with a neighboring school district to handle all fiscal reporting. Unfortunately, that district could no longer provide these services and terminated its contract with the district in the summer of 2020, after the completion of the 2020-21 budget.</i>			

2.3 Does the district use position control data for budget development? ✓

FCMAT’s review of the position control report provided by the district showed an increase in staff as compared to the adopted budget. Besides the district’s cash flow issues, the county office’s lack of going concern letter stated the district’s salary and benefits estimates were projected to exceed the adopted budget amounts. Further analysis found that the adopted budget did not include positions that had been hired, but because of turnover in the business services office, the position control staffing report was not updated before the adoption of the budget.

Additionally, FCMAT’s review of the financial reports found significant budget revisions and journal entries to salary and benefits. The position control system’s purpose is to manage the costs of salaries and benefits and to accurately reflect the expenditures in the district’s budget. Maintaining the system is equally important since it will reduce manual adjustments that can create errors in budgeting.

2.4 Does the district calculate the Local Control Funding Formula (LCFF) revenue correctly? . . . ✓

The district does not complete the LCFF calculator. Instead, the county office requests enrollment, attendance rates and unduplicated pupil count information from the district for the current and two subsequent fiscal years. FCMAT did not receive LCFF documents to ensure they are completed correctly.

2.5 Has the district’s budget been approved unconditionally by its county office of education in the current and two prior fiscal years? ✓

The county office conditionally approved the district’s 2021-22 adopted budget. For the district to lift the conditional approval, the district was required to revise its 2021-22 LCAP by October 5, 2021. The district’s LCAP was missing data and analysis in the annual update section as well as various required metrics.

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)? . . . ✓

Interviews with staff and the board indicate budget development does not include input from staff, the governing board or the community.

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

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

According to Education Code (EC) Sections 42103, 42127 and 52062, each school district’s governing board must hold two separate governing board public meetings each year on or before July 1. The first is the LCAP and budget hearing, and the second is the LCAP and budget adoption. The LCAP approval process and budget approval process are interdependent, meaning budget approval is not possible without the approval of the district’s LCAP.

Both public hearings require that the district make the LCAP and proposed budget documents available to the public at least 72 hours before the public hearings. As mentioned above, the LCAP and budget are interdependent and therefore the LCAP public hearing must take place before the proposed budget public hearing but at the same meeting.

At a subsequent meeting, the governing board of the school district shall adopt the LCAP and the adopted budget. Again, the LCAP item must precede the budget item.

FCMAT’s review of the district’s agenda found that during the June 23, 2021 board meeting, the district showed that a public hearing would occur for the budget, but the agenda item was under the Informational Items category. No minutes indicated when the public hearing was opened and closed or whether public comments were made. In addition, no public hearing took place before the budget public hearing for the LCAP as required. On the same agenda, item number 4.9 is titled LCAP final draft, which reflects that the EC sections’ process was not accurately followed.

During the subsequent meeting, on June 30, 2021 the district took action to approve the 2021-22 budget adoption, but the minutes do not show the LCAP was approved earlier at the same meeting as required by EC.

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

2.10 Other than objects in the 5700s and 7300s and appropriate abatements in accordance with the California School Accounting Manual, does the district avoid using negative or contra expenditure accounts? ✓

2.11 Does the district have a documented policy and/or procedure for evaluating the proposed acceptance of grants and other types of restricted funds and the potential multiyear impact on the district’s unrestricted general fund? ✓

No evidence was provided to show that the district has a documented procedure for evaluating proposed grants or other types of restricted funds and their potential multiyear impact on the general 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 members/departments responsible for completing them? ✓

The district follows a calendar for statutory due dates and due dates identified by the Humboldt County Office of Education. The district does not have a budget calendar that includes statutory due dates, major budget development tasks and deadlines and the staff members responsible for completing them.

3. Budget Monitoring and Updates

Yes No N/A

3.1 Are actual revenues and expenses consistent with the most current budget? ✓

The Financial Statement by Resource Report shows numerous account lines with negative balance, including salaries and benefits, which indicates that the expenses are not consistent with the current budget.

3.2 Are budget revisions posted in the financial system at each interim report, at a minimum? . . . ✓

FCMAT’s review of the documents provided show that current revisions for the district’s revenues are processed throughout the year. However, the reports provided do not include any expenditures account data for fiscal years 2021-22 or 2020-21, and FCMAT did not receive any documentation for fiscal year 2019-20.

3.3 Are clearly written and articulated budget assumptions that support budget revisions communicated to the board at each interim report, at a minimum? ✓

FCMAT’s review of the documents provided found that the district does not give the board clearly written and articulated budget assumptions that support budget revisions with each interim report.

- 3.4 Following board approval of collective bargaining agreements, does the district make necessary budget revisions in the financial system to reflect settlement costs in accordance with Education Code Section 42142?

FCMAT was not provided with any budget reports that included expenditure accounts; therefore the team could not confirm if budget revisions were done for the 2021-22 tentative agreement.
- 3.5 Do the district’s responses fully explain the variances identified in the criteria and standards? .

The 2021-22 adopted budget report does not include complete responses for the deficit spending criterion and supplemental information criterion S8 that requests the number of certificated, classified and management FTE positions. Additionally, the reported FTE in the criteria and standards does not match the position control report document provided to FCMAT.
- 3.6 Has the district addressed any deficiencies the county office of education has identified in its oversight letters in the most recent and two prior fiscal years?

The Humboldt County Office of Education’s oversight letters issued for fiscal years 2019-20, 2020-21 and the 2021-22 adopted budget identified deficiencies in deficit spending, decreasing reserve levels, and the general fund contribution to the cafeteria fund. However, in the district’s 2021-22 budget, the district continues to project deficit spending in the current and first subsequent fiscal year, affecting available reserves, which are projected to decrease from 12.05% in 2021-22 to 5.04% in 2023-24.

In addition, the county letter for the district’s 2020-21 second interim acknowledged the district’s need to utilize Tax Revenue Anticipation Notes (TRANs) to maintain a positive cash balance in the general fund. The county office recommended that the district review cash and update projections to see whether expenditure adjustments or additional borrowing are necessary to maintain a positive cash balance as of June 30, 2021.
- 3.7 Does the district prohibit processing of requisitions or purchase orders when the budget is insufficient to support the expenditure?

Interviews indicated that the district does very little purchasing and therefore does not use the purchase order process. Further, the financial software system is not set up with a hard stop when an account has insufficient budget.
- 3.8 Does the district encumber and adjust encumbrances for salaries and benefits?
- 3.9 Are all balance sheet accounts in the general ledger reconciled at least at each interim report and at year end close?
- 3.10 For the most recent and two prior fiscal years, have the interim reports and the unaudited actuals been adopted and filed with the county superintendent of schools within the timelines established in Education Code?.

4. Cash Management **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?
FCMAT was provided with bank statements for October 2021, November 2021, and December 2021 for the revolving account, eighth grade account, ASB account and a Parent Teacher Organization account. However, no documentation was provided to show that the district reconciles its bank accounts.
- 4.3 Does the district forecast its general fund cash flow for the current and subsequent year and update it as needed to ensure cash flow needs are known?
The documents provided show that the district completed a cash flow for the current year but does not complete a projection for the subsequent year. On October 28, 2021, the county office took action to identify the district as a "lack of going concern" because of increases in expenditures that were not included in the district's adopted budget. As of the county letter's date, the district's general fund and the cafeteria fund both had negative cash balances. Had the district updated and monitored its cash flow monthly, it would have noticed the irregularities, providing additional time to address cash flow needs.
- 4.4 If the district's cash flow forecast shows insufficient cash in its general fund to support its current and projected obligations, does the district have a reasonable plan to address its cash flow needs for the current and subsequent year?
The district was not aware of its negative cash flow balance until the county office notified it. At that point the county office assigned a fiscal advisor with stay and rescind authority, and the district approved a temporary loan not to exceed \$400,000 from the county office during a special board meeting on November 8, 2021.
- 4.5 Does the district have sufficient cash resources in its other funds to support its current and projected obligations in those funds?
The district's cafeteria fund had insufficient funds as of October 2021 and will need assistance from the general fund and the county office of education.
- 4.6 If interfund borrowing is occurring, does the district comply with Education Code Section 42603?
- 4.7 If the district is managing cash in any fund(s) through external borrowing, does the district's cash flow projection include repayment based on the terms of the loan agreement?
FCMAT had not received an updated cash flow from the district at the time of this review. The county office provided FCMAT with a revised cash flow that included the repayment of the county office bridge loan within the timeline allotted; however this left the district with a projected negative cash balance as of June 30, 2022.

5. Charter Schools **Yes** **No** **N/A**

- 5.1 Does the district have a board policy or other written document(s) regarding charter oversight?
- 5.2 Has the district fulfilled and does it have evidence showing fulfillment of its oversight responsibilities in accordance with Education Code Section 47604.32?
- 5.3 Are all charters authorized by the district going concerns and not in fiscal distress?
- 5.4 Has the district identified specific employees in its various departments (e.g., human resources, business, instructional, and others) to be responsible for oversight of all approved charter schools?

6. Collective Bargaining Agreements		Yes	No	N/A
6.1	Has the district settled with all its bargaining units for the past two fiscal years?	✓	<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?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The district reported that the effects of settlements with its bargaining units are included in the district's budgets and interims as those reports become due. However, the district could not provide calculations of the effects of bargaining settlements and, therefore, FCMAT is unable to verify if those calculations were performed accurately.</i>			
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?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The district could not provide evidence that presettlement cost analysis were completed for employee groups for fiscal years 2019-20, 2020-21, and 2021-22.</i>			
6.5	In the current and prior two fiscal years, has the district settled the total cost of the bargaining agreements including step and column increases at or under the funded cost of living adjustment (COLA)?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The district could not provide FCMAT with documentation showing the total cost of its bargaining agreements for fiscal years 2019-20, 2020-21, and 2021-22. Therefore, FCMAT could not compare them to the funded COLA to determine if they were in excess of that percentage.</i>			
6.6	If settlements have not been reached in the past two years, has the district identified resources to cover the costs of the district's proposal(s)?	<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?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The last time that the district completed this task was with the public disclosure of its settlement with its classified bargaining unit in June 2019 for the fiscal year 2018-19.</i>			
6.8	Did the superintendent and CBO certify the public disclosure of collective bargaining agreement prior to board approval?.	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The district has not completed public disclosure documentation of collective bargaining agreements since June 2019. As a result, there were no documents for the superintendent and CBO to certify.</i>			
6.9	Is the governing board's action consistent with the superintendent's and CBO's certification?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>While the board minutes reflect that the board approves the tentative agreements, no certifications have been involved in the district's process for fiscal years 2019-20, 2020-21, and 2021-22.</i>			

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?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>The district does not have a board-approved plan to eliminate, reduce or control any contributions/transfers from the unrestricted general fund to other restricted programs or funds, such as the special education program or the cafeteria fund.</i>			
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?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7.3	If any contributions/transfers were required for restricted programs and/or other funds in either of the two prior fiscal years, and there is a need in the current year, did the district budget for them at reasonable levels?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>The district's contribution to restricted programs from 2018-19, 2019-20 and 2020-21 averaged around 40% at unaudited actuals. The 2021-22 adopted budget projected a contribution of \$281,185, which only represented slightly more than 21% of a contribution to general fund restricted programs. This does not align with the district's historical trend. Additionally, while the district's multiyear projection includes contributions to general fund restricted programs, FCMAT believes the projected amounts are inadequate based on historical trends. Without a specific plan to reduce and/or eliminate costs, the budgeted amounts are likely inadequate to cover the increasing costs.</i>			
	<i>The cafeteria fund is struggling to be self-sufficient and is projected to receive a transfer from the general fund in the current and two subsequent fiscal years. The district should monitor this fund to avoid future strain on the general fund.</i>			

8. Deficit Spending (Unrestricted General Fund)		Yes	No	N/A
8.1	Is the district avoiding deficit spending in the current fiscal year?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>In the 2021-22 adopted budget, the district is projected to deficit spend in the current year by \$112,970 in the combined unrestricted/restricted general fund.</i>			
8.2	Is the district projected to avoid deficit spending in both of the two subsequent fiscal years?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>According to the 2021-22 adopted budget multiyear projection, the district is projected to deficit spend \$124,139 in 2022-23. Fiscal year 2023-24 shows a surplus of \$86,646; however, this is after a \$130,751 transfer from the district's special reserve fund (fund 17). In essence that transfer in is masking a deficit of approximately \$44,000. Additionally, the multiyear projection for the general fund restricted programs in 2023-24 reflects the exact same revenues and expenditures as the district shows for fiscal year 2022-23. The district should update all revenues and expenditures in both subsequent fiscal years to ensure all one-time dollars are removed and that any expenditures with these resources have been eliminated, as well as any known new and/or additional revenues. Additionally, salary and benefits should be adjusted to include increases due to step and column adjustments as well as benefits increases and decreases that are directly tied to employee salaries.</i>			

- 8.3 If the district has deficit spending in the current or two subsequent fiscal years, has the board approved and implemented a plan to reduce and/or eliminate deficit spending to ensure fiscal solvency?
At the time of FCMAT's interviews, this district did not have a board approved 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 with the total of annual required service payments (legal, contractual or locally defined such as pay-as-you-go premiums, trust agreement obligations, or a board adopted commitment) no greater than 2% of the district's unrestricted general fund revenues?
- 9.3 Has the district followed a policy or collectively bargained agreement to limit accrued vacation balances?
Interviewees reported that vacation balances are cashed out annually, and the district provided a spreadsheet that tracked those balances along with sick and compensatory time balances. Except for the After School Education and Safety director, all other employee vacation balances were less than one year's accrual. While there is no issue with the accrual, neither the classified California School Employees Association (collective bargaining agreement nor board policy allow for the cash out of vacation leaves, and this payment could be considered a gift of public funds.
- 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?
Interviews indicated the district does not periodically verify and determine eligibility for benefits. The district expressed that it would contact its joint powers authority to investigate this process after FCMAT's visit.
- 9.5 Does the district track, reconcile and report employees' compensated leave balances?
Interviews indicated that the district tracks employees' compensated leave balances, but has not reported this information to employees through their payroll stubs, letters, memos or other forms of communication.

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 the California Department of Education's DataQuest reporting system, district enrollment had declined in the two prior years; however, the district has increased its 2021-22 enrollment by seven students. The district has no charters, either dependent or independent.

Year	2017-18	2018-19	2019-20	2020-21	2021-22
Census Day Enrollment	101	123	100	97	104
Change from Prior Year	-204	22	-23	-3	7
Percentage Change	-66.89%	21.78%	-18.70%	-3.00%	7.22%

- 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)? ✓
Based on interviews and a lack of evidence, FCMAT determined that the district does not analyze its enrollment and average daily attendance at least monthly.
- 10.3 Does the district track historical enrollment and ADA data to establish future trends? ✓
FCMAT’s interviews found that the district does not track historical enrollment and ADA data.
The district recently worked with the county office to update its enrollment and ADA. Based on the district’s 2021-22 P-1 attendance information, its projected 2021-22 ADA was reduced from 93.00% to 88.53%.
- 10.4 Do school sites maintain an accurate record of daily enrollment and attendance that is reconciled monthly at the site and district levels? ✓
The district reported that it did not begin monthly reconciliations of attendance until the 2021-22 fiscal year. FCMAT’s review of the weekly and monthly attendance records for all grades from November 29, 2021 to December 31, 2021 identified three instances in which an absence was recorded in the weekly records, but missing on the monthly attendance reports. This could mean a misstatement of ADA.
- 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? ✓
The district uses a technique that eliminates those in the eighth grade as they leave the district and advance to ninth grade in another district. Those between kindergarten and seventh grade are advanced to the next grade without consideration of any attrition. The district then adds five to 10 students for the new kindergarteners, but stays below a total of 106. The district does not use birthrates, historical data or industry-standard methods to determine future enrollment.
- 10.7 Do all applicable sites and departments review and verify their respective CALPADS data and correct it as needed before the report submission deadlines? ✓
- 10.8 Has the district planned for enrollment losses to charter schools? ✓
- 10.9 Does the district follow established board policy to limit outgoing interdistrict transfers and ensure that only students who meet the required qualifications are approved? ✓
The district’s BP 5117(a) requires that “approval of each student’s request for interdistrict attendance must formally be granted by the governing board of the district of residence...” and “the Loleta Governing Board shall meet with each requesting family prior to granting the transfer for the purpose of gaining an understanding of the factors contributing to the request.” However, the board reportedly is not involved in this process and has delegated it to the superintendent/principal.

10.10	Does the district meet the student-to-teacher ratio requirement of no more than 24-to-1 for each school in grades TK-3 classes, or, if not, does it have and adhere to an alternative collectively bargained agreement?	✓	□	□
11. Facilities				
11.1	If the district participates in the state’s School Facilities Program, has it met the required contribution for the Routine Restricted Maintenance Account?	✓	□	□
11.2	Does the district have sufficient and available capital outlay and/or bond funds to cover all contracted obligations for capital facilities projects?	□	✓	□
	<i>The district’s Facilities Inspection Tool (FIT) reports reflect that the district has awarded its roofing repair/replacement project to a vendor, but cannot move forward due to having to wait on grant funding for the project.</i>			
11.3	Does the district properly track and account for facility-related projects?	□	✓	□
	<i>The district has few capital projects; however, interviews indicated the district awarded a quote for roofing repairs/replacement. The district could not provide any documents to reflect tracking and accounting for this project.</i>			
	<i>The district also entered into a flooring replacement project during the summer of 2021. The total paid to the vendor was \$98,614, and the county office reported that the district used improper account coding to pay some of the invoices for with these payments.</i>			
11.4	Does the district use its facilities fully in accordance with the Office of Public School Construction’s loading standards?	□	✓	□
	<i>The district does not use its facilities fully in accordance with the Office of Public School Construction loading standards. The district is composed of a single site reporting its facility capacity as 308 students and its 2021-22 CALPADS enrollment count as 104 students. The district uses 33.8% of its capacity.</i>			
11.5	Does the district include facility needs (maintenance, repair and operating requirements) when adopting a budget?	□	✓	□
	<i>Interviews indicated that the adopted budget is based on prior year activity. The district does not use any planning tools, such as a facilities master plan or documented maintenance schedule, to project facilities needs in advance.</i>			
11.6	Has the district met the facilities inspection requirements of the Williams Act and resolved any outstanding issues?	□	✓	□
	<i>While the district’s FIT inspection reports have rated its facilities as “Good” in both 2020-21 and 2021-22 at 90%, the reports have consistently noted roofing repairs/ replacement that has yet to be resolved. Please also see the related purchasing issue in question 15.3 below.</i>			
11.7	If the district passed a Proposition 39 general obligation bond, has it met the requirements for audit, reporting, and a citizens’ bond oversight committee?	✓	□	□
11.8	Does the district have a long-range facilities master plan that reflects its current and projected facility needs?	□	✓	□
	<i>The district does not have a long-range facilities master plan.</i>			

12. Fund Balance and Reserve for Economic Uncertainty		Yes	No	N/A
12.1	Is the district able to maintain the minimum reserve for economic uncertainty in the current year (including Fund 01 and Fund 17) as defined by criteria and standards?	✓	<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>The district’s 2021-22 adopted budget multiyear projections for the general fund unrestricted fund balance project a deficit of \$124,139 for the 2022-23 fiscal year and an increasing fund balance of \$88,646 for 2023-24, due to an interfund transfer of \$130,715. However, the district’s 2023-24 projected budget reflects the exact same revenues and expenditures in the restricted programs as in 2022-23. Projecting actual adjustments to revenues and expenditures makes it impossible to determine if the unrestricted general fund is truly affected in any way.</i>			
12.5	If the district has unfunded or contingent liabilities or one-time costs other than post-employment benefits, does the unrestricted general fund balance include sufficient assigned or committed reserves above the recommended reserve level?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>Interviews indicated that the district is required to reimburse the state for Prop 39 revenues received in prior years for a project that the district did not proceed with in the required timeline. This liability is not accounted for in the 2021-22 year budget. If the district must return these revenues in this fiscal year, its ability to repay the bridge loan with the county office by the end of this fiscal year could be affected.</i>			

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"/>
	<i>The district’s prior and projected years of deficit spending indicate that it uses one-time revenue (including fund balance) to pay for ongoing expenditures. Additionally, interviews indicated that the district used one-time dollars for ongoing staff compensation that exceeded the amount the district received.</i>			
13.2	Is the percentage of the district’s general fund unrestricted expenditure budget that is allocated to salaries and benefits at or below the statewide average for the current year?	✓	<input type="checkbox"/>	<input type="checkbox"/>
13.3	Is the percentage of the district’s general fund unrestricted expenditure budget that is allocated to salaries and benefits at or below the statewide average for the two prior years?	✓	<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"/>
	<i>The district does not ensure that restricted dollars are sufficient to pay for staff assigned to restricted programs. As stated in question 13.1 the district used restricted one-time dollars to pay for ongoing salary and benefits that exceeded the amount that the</i>			

district received because of the additional staff, the district's cash flow was negative, and the county office identified the district as a "lack of going concern" on October 28, 2021.

13.6 Is the district using its restricted dollars fully by expending allocations for restricted programs within the required time?

13.7 Does the district account for program costs, including the maximum allowable indirect costs, for each restricted resource and other funds?

The district does not charge the full allowable indirect cost to all its restricted resources and other funds. The district should charge the maximum allowable indirect costs to all restricted programs and funds, including special education programs, routine restricted maintenance, and the cafeteria fund, to reflect the true costs of these programs.

14. Information Systems and Data Management **Yes No N/A**

14.1 Does the district use an integrated financial and human resources system?

14.2 Does the district use the system(s) to provide key financial and related data, including personnel information, to help the district make informed decisions?

Board members reported that they relied on recommendations and assurances that the superintendent/principal could write a grant to provide them with additional funding to guide them in financial decisions.

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?

While the district reported procedures to certify 100% of its students as eligible for free or reduced-price meals, the county office recently worked with the district to ensure that its unduplicated pupil percentage (UPP) information was correct. Through that process, the district's UPP percentage increased from 72% to 90%.

14.4 Is the district using the same financial system as its county office of education?

14.5 If the district is using a separate financial system from its county office of education, is there an automated interface that allows data to be sent and received by both the district and county financial systems?

14.6 If the district is using a separate financial system from its county office of education, has the district provided the county office with direct access so the county office can provide oversight, review and assistance?

15. Internal Controls and Fraud Prevention **Yes No N/A**

15.1 Does the district have controls that limit access to its financial system and include multiple levels of authorization?

15.2 Are the district's financial system's access and authorization controls reviewed and updated upon employment actions (e.g., resignations, terminations, promotions or demotions) and at least annually?

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

- **Accounts payable (AP)** ✓

One person can add vendors and change vendor information in the accounts payable system. That individual is also responsible for processing invoices for payment, receiving the accounts payable warrants from the county office for processing and mailing and reconciling the cash with county treasurer and revolving accounts. As noted above, bank reconciliations are not being performed and there is no process for another individual to review them. With this lack of control, the employee has the ability to create a false vendor, generate and potentially pay a fraudulent invoice.

To provide better segregation of duties, other district employees should be assigned the duties of adding vendors and changing vendor information in the accounts payable system, receiving the accounts payable warrants from the county office, processing them for mailing and reconciling cash with the county treasurer and revolving accounts.
- **Accounts receivable (AR)** ✓

One person opens the mail, scans the paper checks into the district's Escape financial system, processes them for deposit, enters the amounts into the Escape accounting software system and is responsible to reconcile the clearing account. This provides the employee with the ability to remove a check without district knowledge and use it for his or her own purposes.

To provide better segregation of duties, other district employees should be assigned the duties associated with opening the mail containing the checks, scanning them into the Escape system and reconciling the clearing account.
- **Purchasing and contracts.** ✓

Neither the person conducting the purchasing function nor the superintendent/principal who is supervising that function have purchasing/bidding/contracts training. The district recently replaced some flooring in its facilities at a cost of \$98,614. This is a public project and may have violated the \$15,000 bid limit for public projects under Public Contract Code Sections 20111, 20651, 22002.

The district is also considering roof replacement over the hallways and offices and has received three quotes ranging from \$51,690 to \$60,000. Notes on the \$60,000 bid show it was "accepted by Board 5-18-21." This is a public project and should have gone through a formal bidding process under Public Contract Code Sections 20111, 20651, 22002, requiring the lowest, responsible bidder to be chosen. FCMAT's research of board meeting agendas indicated that this was brought to the board as an informational item at its May 13, 2021 board meeting.
- **Payroll.** ✓

The Escape position control module drives the payroll system. For the district to issue a payroll warrant, the employee must first be entered into the Escape position control module. Like accounts payable and accounts receivable, one employee has the ability and responsibility to assign employees to positions in position control and also process payroll. This same person also receives the payroll warrants from the county office, is responsible for their distribution, has access to the Escape system and reconciles the cash with the county treasurer and revolving accounts. As noted above, the cash with

county treasurer is reconciled; however, not the revolving accounts. This provides the employee with the ability to create a ghost employee and to generate and provide a monthly payroll warrant to that nonexistent employee.

To provide better segregation of duties, the duties associated with assigning employees to positions in position control and receiving the payroll warrants from the county office should be distributed to other district employees.

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

Like accounts payable and accounts receivable, one employee has the ability and responsibility to assign employees to positions in position control and also process payroll. This same person also receives the payroll warrants from the county office, is responsible for their distribution, has access to the Escape system and reconciles the cash with county treasurer and revolving accounts. As noted above, the cash with county treasurer is reconciled; however, not the revolving accounts. This provides the employee with the ability to create a ghost employee and to generate and provide a monthly payroll warrant to that nonexistent employee.

To provide better segregation of duties, the duties associated with assigning employees to positions in position control and receiving the payroll warrants from the county office should be distributed to other district employees at the district.

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

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

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

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

Interviews indicate there are no formal, written processes or procedures to discourage or detect fraud.

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

The district lacks a formal process for collecting and following up on reports of possible fraud.

- 15.9 Does the district have an internal audit process? ✓

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

16. Leadership and Stability **Yes** **No** **N/A**

- 16.1 Does the district have a chief business official who has been with the district as chief business official for more than two years? ✓

The district previously used an arrangement with a neighboring district to provide CBO services. That arrangement ended on June 30, 2020. Since then, the district has struggled to hire and retain a CBO and currently relies on the superintendent/principal along with various staff members for those services.

- 16.2 Does the district have a superintendent who has been with the district as superintendent for more than two years? ✓

- 16.3 Does the superintendent meet on a scheduled and regular basis with all members of their administrative cabinet? ✓

16.4	Is training on financial management and budget provided to site and department administrators who are responsible for budget management? <input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The district has only one site; however, interviews with staff indicated department administrators do not receive training on financial management or the budget. The superintendent/principal develops the budget and performs all budget and financial management.</i>		
16.5	Does the governing board adopt and revise policies and administrative regulations annually? . <input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>While interviews indicated a need to implement a process to revise board policies and administrative regulations annually, no coordinated effort is being made to execute a consistent process.</i>		
16.6	Are newly adopted or revised policies and administrative regulations implemented, communicated and available to staff? <input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>While some interviewees indicated that they view board policy and administrative regulation changes via the board packet sent to staff, others thought they were contained in the board's meeting minutes. The district does not have a consistent, districtwide method to communicate changes to staff.</i>		
16.7	Do all board members attend training on the budget and governance at least every two years? <input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>Interviews indicated that governance training has been provided to board members in the last two years; however, budgetary training was not provided.</i>		
16.8	Is the superintendent's evaluation performed according to the terms of the contract? ✓	<input type="checkbox"/>	<input type="checkbox"/>

17. Multiyear Projections **Yes** **No** **N/A**

17.1	Has the district developed multiyear projections that include detailed assumptions aligned with industry standards? <input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The district does not provide assumptions for either the budget or multiyear projections prepared at each reporting period. Additionally, the multiyear projections format does not include sections to account for step and column, cost-of-living, and other adjustments for the certificated or classified salaries. This format makes it difficult to determine which adjustments are made from one fiscal year to the next. In addition, the condensed format used also does not divide the components of ending fund balance, which makes it difficult to identify the differences between the ending fund balance and the amount designated for economic reserves.</i>		
17.2	To help calculate its multiyear projections, did the district prepare an accurate LCFF calculation with multiyear considerations? <input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The district does not complete the LCFF calculator. Instead, the county office requests enrollment, attendance rates and unduplicated pupil count information from the district for the current and two subsequent fiscal years. FCMAT did not receive LCFF documents to ensure that they are completed correctly.</i>		
17.3	Does the district use its most current multiyear projection in making financial decisions? . . . ✓	<input type="checkbox"/>	<input type="checkbox"/>
17.4	If the district uses a broad adjustment category in its multiyear projection (such as line B10, B1d, B2d Other Adjustments, in the SACS Form MYP/MYPI), is there a detailed list of what is included in the adjustment amount and are the adjustments reasonable? <input type="checkbox"/>	<input type="checkbox"/>	✓

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?	<input type="checkbox"/>	<input type="checkbox"/>	✓
18.2	If the district has issued non-voter-approved debt, has its credit rating remained stable or improved during the current and two prior fiscal years?	<input type="checkbox"/>	<input type="checkbox"/>	✓
18.3	If the district is self-insured, has the district completed an actuarial valuation as required and have a plan to pay for any unfunded liabilities?	<input type="checkbox"/>	<input type="checkbox"/>	✓
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?	<input type="checkbox"/>	<input type="checkbox"/>	✓

19. Position Control		Yes	No	N/A
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19.1 Does the district account for all positions and costs?

FCMAT's review of the position control report provided by the district showed an increase in staff as compared to the adopted budget. Besides the district's cash flow issues, the county office's lack of going concern letter stated the district's salary and benefits estimates were projected to exceed the adopted budget amounts. Further analysis found that the adopted budget did not include positions that had been hired, but because of turnover in the business services office, the position control staffing report was not updated before the adoption of the budget.

Additionally, FCMAT's review of the financial reports found significant budget revisions and journal entries to salary and benefits. The position control system's purpose is to manage the costs of salaries and benefits and to accurately reflect the expenditures in the district's budget. Maintaining the system is equally important since it will reduce manual adjustments that can create errors in budgeting.

19.2 Does the district analyze and adjust staffing based on staffing ratios and enrollment?

The district does not use ratios to determine staffing. The district has chosen to prioritize smaller class sizes as part of its educational objectives and to address the behavioral issues the district has experienced.

19.3 Does the district reconcile budget, payroll and position control regularly, at least at budget adoption and interim reporting periods?

Documentation shows that the district uses the position control module available in its financial system. However, no evidence was provided to show that the district has an established process to reconcile its position control report with budget and the position control report was found to be inaccurate and not current. Had it been reconciled against payroll, the district would have discovered the discrepancy before the county office did.

19.4 Does the district identify a budget source for each new position before the position is authorized by the governing board?

The district did not provide evidence or documentation to support that it identifies 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?

The district did not provide evidence or documentation to support that the governing board approves all new positions and extra assignments before positions are posted.

19.6 Do managers and staff responsible for the district’s human resources, payroll and budget functions meet regularly to discuss issues and improve processes?

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

20.1 Does the district monitor, analyze and adjust staffing ratios, class sizes and caseload sizes to align with statutory requirements and industry standards?

20.2 Does the district access available funding sources for costs related to special education (e.g., excess cost pool, legal fees, mental health)?

20.3 Does the district use appropriate tools to help it make informed decisions about whether to add services (e.g., special circumstance instructional assistance process and form, transportation decision tree)?

20.4 Does the district budget and account correctly for all costs related to special education (e.g., transportation, due process hearings, indirect costs, nonpublic schools and/or nonpublic agencies)?

The district does not charge indirect costs to special education, so the total costs of special education are not reflected.

20.5 Is the district’s contribution rate to special education at or below the statewide average contribution rate?

The district’s 2019-20 unaudited actuals special education maintenance-of-effort report (Form SEMA) shows total district expenditures for special education to be \$489,341, with \$365,465 or 74.69% as the district’s contribution.

According to the district’s 2020-21 unaudited actuals Form SEMA, the total district expenditures for special education were projected to be \$304,493, with \$192,924 or 63.36% as the district’s projected contribution.

The last published statewide average contribution rate was 67.17% in 2019-20.

20.6 Is the district’s rate of identification of students as eligible for special education at or below the countywide and statewide average rates?

The district’s 2018-19 identification rate is 30.89%, which is above both the countywide rate of 17.56% and statewide rate of 12.85% for the same period.

20.7 Does the district analyze whether it will meet the maintenance of effort requirement at each interim reporting period?

The special education local plan area performs this analysis, but the district does not perform this analysis.

Risk Score, 20 numbered sections only:

62.0%

Key to Risk Score from 20 numbered sections only:

High Risk: 40% or more

Moderate Risk: 25-39.9%

Low Risk: 24.9% and lower

District Fiscal Solvency Risk Level, all FHRA factors:

High

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