



CSIS California School Information Services

Oceanside Unified School District

Fiscal Health Risk Analysis

May 17, 2019



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Chief Executive Officer



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About FCMAT

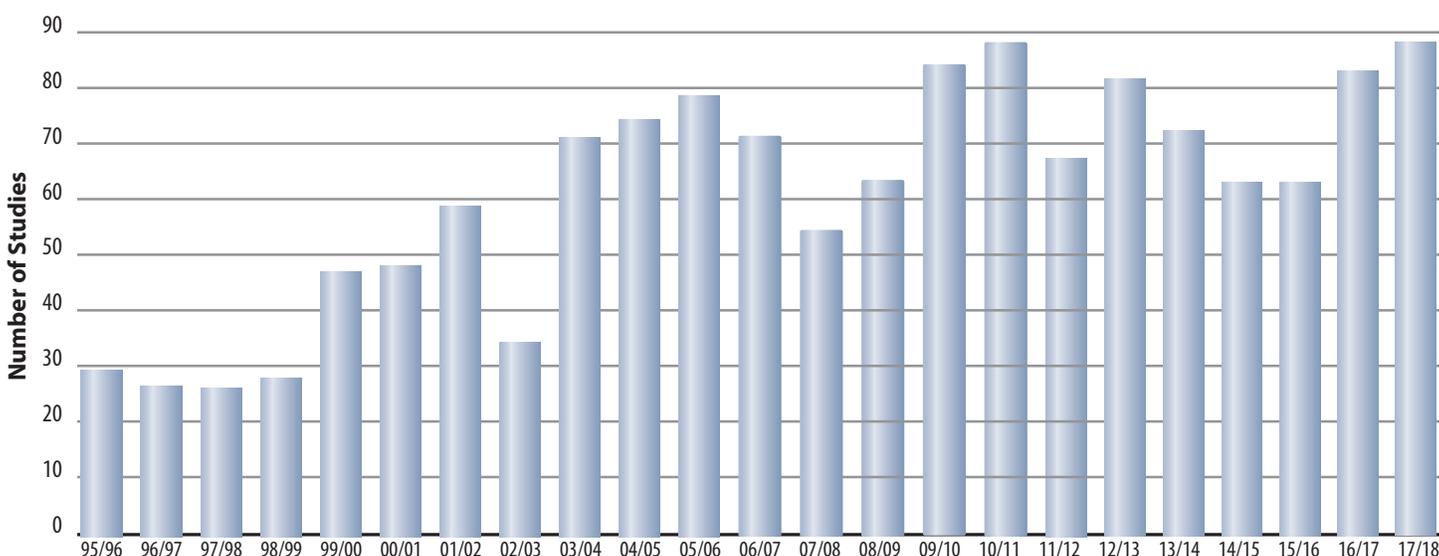
FCMAT’s primary mission is to assist California’s local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related 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 development opportunities to help LEAs operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) division of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS). CSIS also hosts and maintains the Ed-Data website (www.ed-data.org) and provides technical expertise to the Ed-Data partnership: the California Department of Education, EdSource and FCMAT.

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

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

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

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

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



Introduction

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

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

Under these conditions, FCMAT will perform a fiscal health risk analysis to determine the level of risk for insolvency. FCMAT has updated its Fiscal Health Risk Analysis (FHRA) tool 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 Oceanside Unified School District on November 6, 2018.

FCMAT visited the district on February 19-21, 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:

John F. Von Flue
Chief Analyst
Bakersfield, CA

Debbie Riedmiller, CFE
Intervention Specialist
Bakersfield, CA

Scott Sexsmith
Intervention Specialist
Auburn, CA

Laura Haywood
FCMAT Technical Writer
Bakersfield, CA

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

District Overview

The Oceanside Unified School District has an enrollment of approximately 17,650 for 2018-19 and is located in the city of Oceanside in northern San Diego County. Oceanside is a city of 177,362 (Department of Finance, Jan. 2018). The city is a significant beach destination and attracts more than 60,000 visitors annually. In addition, the city neighbors Marine Corps Base Camp Pendleton, a major West Coast base.

The district has been deficit spending for over two consecutive years and has current year reserves of approximately 5% on an expenditure budget of \$223,460,141. The district's multiyear projection identifies a deficit spending trend that will reduce its reserve funds to approximately 1% within two years.

Under the 2018-19 State Budget Act, because the school district had three consecutive qualified interim report certifications in 2017-18 and 2018-19, FCMAT performed a fiscal health risk analysis to determine the level of risk for insolvency. This report is a result of that analysis.

Fiscal Health Risk Analysis

For K-12 Local Educational Agencies

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: Oceanside Unified School District

Dates of Fieldwork: February 19-21, 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?	✓	<input type="checkbox"/>	<input type="checkbox"/>
2.3	Does the district use position control data for budget development?	<input type="checkbox"/>	✓	<input type="checkbox"/>

The district uses several unconnected systems to store, retrieve, and report personnel data. Reports are printed from each system and manually compared to budget spreadsheets annually. The lack of integration of systems used to maintain position control inhibits timely access to staffing data and decision making.

- 2.4 Does the district calculate the Local Control Funding Formula (LCFF) revenue correctly? . . . ✓
- 2.5 Has the district's budget been approved unconditionally by its county office of education in the current and two prior fiscal years? ✓

The district's 2016-17 budget was unconditionally approved by the county office of education.

The 2017-18 adopted budget was approved by the county office; however, the county office noted that the district will be unable to meet its financial commitments in subsequent fiscal years without additional budget adjustments. The county office requested the district to submit a list of approved budget reductions by the first interim report.

The 2018-19 adopted budget was approved by the county office; again, however, the county office noted that the budget submitted projected that "the district will be unable to meet its financial commitments in subsequent fiscal years without additional budget solutions" and further noted that the county office would re-evaluate the budget at first interim and could take action to determine that the district is not a going concern at any time should substantial progress not be made toward budget reductions.

- 2.6 Does the budget development process include input from staff, administrators, the governing board, the community, and the budget advisory committee (if there is one)? . . . ✓
- 2.7 Does the district budget and expend restricted funds before unrestricted funds? ✓

The district's restricted program carryover amounts and restricted ending fund balances have grown between 2015-16 and 2017-18 indicating that the district is not strategically spending restricted funds before unrestricted funds. A review of the district's unaudited actuals reports for 2015-16, 2016-17 and 2017-18 shows the following restricted carryover and ending balances:

	2015-16	2016-17	2017-18
Carryover (Unearned Revenues)	1,977,365	3,102,328	3,041,918
Ending Fund Balance	2,844,290	4,925,718	5,402,112
Total	4,821,655	8,028,046	8,444,030

- 2.8 Have the LCAP and the budget been adopted within statutory timelines established by Education Code sections 42103 and 52062 and filed with the county superintendent of schools no later than five days after adoption or by July 1, whichever occurs first, for the current and past two fiscal years? ✓
- 2.9 Has the district refrained from including carryover funds in its adopted budget? ✓
- 2.10 Other than objects in the 5700s and 7300s and appropriate abatements in accordance with the California School Accounting Manual, does the district avoid using negative or contra expenditure accounts? ✓

The 2016-17 budget contained negative or contra expenditure accounts in the following accounts and amounts: \$26,857,557 in certificated salaries; \$600,000 in classified salaries; \$488,159 in employee benefits; \$600,000 in books and supplies; \$400,205 in services and other operating expenses.

The 2017-18 budget contained negative or contra expenditure accounts in the following accounts and amounts: \$23,539,840 in certificated salaries; \$639,349 in classified salaries; \$1,073,840 in employee benefits; \$975 in books and supplies; \$3,761 in services and other operating expenses.

The 2018-19 budget contains negative or contra expenditure accounts in the following accounts and amounts: \$25,007,344 in certificated salaries; \$59 in classified salaries; \$5,854 in employee benefits; \$4,098 in books and supplies; \$22,444 in services and other operating expenses.

- 2.11 Does the district have a documented policy and/or procedure for evaluating the proposed acceptance of grants and other types of restricted funds and the potential multiyear impact on the district's unrestricted fund?
- 2.12 Does the district adhere to a budget calendar that includes statutory due dates, major budget development tasks and deadlines, and the staff member/department responsible for completing them?

3. Budget Monitoring and Updates **Yes** **No** **N/A**

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

A comparison of actual expenditures and encumbrances to budget as of February 14, 2019 indicates that several categories of expense may be underbudgeted as follows: employee benefits – actual expenditures plus encumbrances exceed the current budget by \$1,039,262; services and other operating expenses – actual expenditures plus encumbrances exceed current budget by \$437,073; capital outlay – actual expenditures plus encumbrances exceed current budget by \$78,041.

- 3.2 Are budget revisions posted in the financial system at each interim report, at a minimum?
- 3.3 Are clearly written and articulated budget assumptions that support budget revisions communicated to the board at each interim report, at a minimum?
- 3.4 Following board approval of collective bargaining agreements, does the district make necessary budget revisions in the financial system to reflect settlement costs before the next financial reporting period?
- 3.5 Does the district provide a complete response to the variances identified in the criteria and standards?
- 3.6 Has the district addressed any deficiencies the county office of education has identified in its oversight letters in the current and prior two fiscal years?

The county office has warned the district about its pattern of deficit spending since 2016-17 budget adoption, but the district continues to deficit spend. The 2016-17 budget adoption letter noted that the district was not projected to meet the minimum reserve requirement in 2018-19 and encouraged the district to make ongoing expenditure reductions to curtail deficit spending.

The 2016-17 first interim letter again warned the district about deficit spending and noted that expenditure reductions were needed in 2017-18 and 2018-19. The county office requested that the district provide a letter with the second interim report detailing the status of board discussions on budget reductions.

The 2016-17 second interim letter affirmed the district's qualified certification. The county office noted that the district would not meet reserve requirements in 2018-19 and needed to reduce expenditures to eliminate deficit spending.

The 2017-18 budget adoption letter noted continued deficit spending and the need for ongoing expenditure reductions. The county office warned that the district would not meet its financial commitments in the subsequent fiscal years without additional budget adjustments. The county office requested that the district submit a list of approved budget reductions by the first interim report.

The 2017-18 first interim letter affirmed the district's qualified certification. The letter noted that the district would not meet reserve requirements in 2018-19 or 2019-20 without budget adjustments. The county office requested that the district provide a letter detailing the status of board discussions on budget reductions and submit a written proposal clearly identifying ongoing budget adjustments.

The 2017-18 second interim letter affirmed the district's qualified certification. The letter noted continuing deficit spending and that the district would not meet reserve requirements in 2018-19 and 2019-20. The district was directed to submit a written proposal addressing the fiscal conditions.

The 2018-19 adopted budget approval letter acknowledges that "the budget submitted projects the district will be unable to meet its financial commitments in the subsequent fiscal years without additional budget solutions." The letter states that the budget status will be re-evaluated at first interim and that the county office also may determine the district to be not a going concern should substantial progress toward budget reductions not be made.

The 2018-19 first interim letter affirmed the district's qualified certification. The letter noted that the district will be unable to meet the reserve requirement in 2020-21. The district was directed to provide a detailed board-adopted plan identifying budget reductions.

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

A review of budget reports indicates 348 account lines between object codes 4000-6999 with negative balances totaling \$3,048,640, indicating that purchase orders may be processed even when the budget is insufficient.

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

FCMAT reviewed budget reports including actuals and encumbrances through February 14, 2019, and it appears that salaries and benefits for most regularly scheduled permanent positions are encumbered and adjusted. It does not appear that salaries and benefits for substitute, overtime, extra time, stipends, and other types of supplemental pay are encumbered.

3.9 Are all balance sheet accounts in the general ledger reconciled at each interim report, at a minimum?

A review of the district's 2017-18 and 2018-19 general ledger reports confirmed that balance sheet accounts were reconciled at year end, but FCMAT could not conclude that balance sheet accounts were reconciled at each interim reporting period.

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

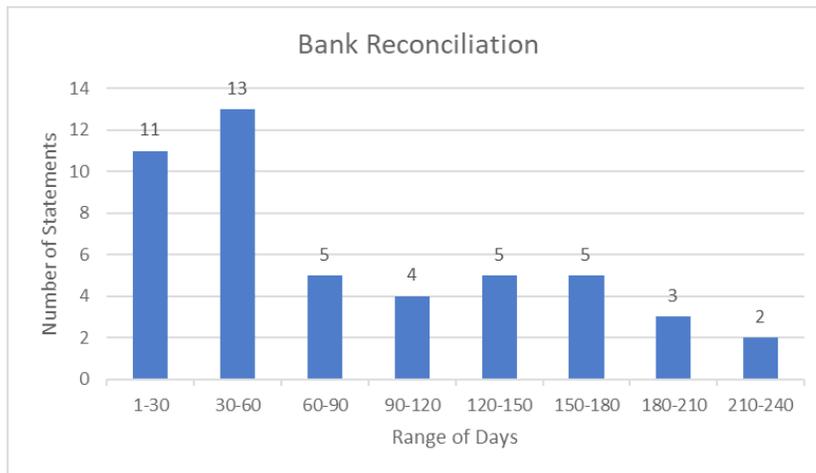
Yes No N/A

- 4.1 Are accounts held by the county treasurer reconciled with the district’s and county office of education’s reports monthly?

The district was unable to provide FCMAT with evidence of reconciliation. The general fund cash balance was \$29,499,523.70 on the December 31, 2018 county treasurer report while the cash balance was \$29,493,121.66 on the district’s general ledger.

- 4.2 Does the district reconcile all bank (cash and investment) accounts with bank statements monthly?

FCMAT reviewed 48 bank statements for the 2017-18 fiscal year and found that only 11 statements were reconciled within 30 days of the bank statement date. Thirteen statements were reconciled between 30 and 60 days of the bank statement date, and 24 statements were reconciled more than 60 days after the bank statement date.



- 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?

Cash flow projections are prepared at budget adoption and interim reporting periods covering 12 months. Actuals are updated and remaining projection months are reconciled to the budget at reporting periods.

- 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?	✓	<input type="checkbox"/>	<input type="checkbox"/>
5.4	Does the district have a board policy or other written document(s) regarding charter oversight?	✓	<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?	✓	<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"/>
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)?	✓	<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?	✓	<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?	✓	<input type="checkbox"/>	<input type="checkbox"/>
6.9	Is the governing board’s action consistent with the superintendent’s and CBO’s certification?	✓	<input type="checkbox"/>	<input type="checkbox"/>

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 type="checkbox"/>
<p><i>The district’s 2018-19 first interim report projects a transfer of \$26,243,437 to special education resources and \$6,703,805 to the routine restricted maintenance account (RRMA). In the 2017-18 year, the district transferred \$23,995,975 to special education and \$4,254,514 to RRMA. The RRMA transfers were budgeted to meet but not materially exceed the required</i></p>				

contribution. 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 and funds.

- 7.2 If the district has deficit spending in funds other than the general fund, has it included in its multiyear projection any transfers from the unrestricted general fund to cover any projected negative fund balance?
- 7.3 If any contributions/transfers were required for restricted programs and/or other funds in either of the 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?

As of 2018-19 first interim projections, the district will have a surplus of \$472,526 in the current year, a deficit of \$8,803,624 in 2019-20 and a deficit of \$14,054,847 in 2020-21 in the unrestricted general fund. The district maintains the required reserve for economic uncertainties in 2018-19 and 2019-20, but not in 2020-21.

- 8.3 If the district has deficit spending in the current or two subsequent fiscal years, has the board approved and implemented a plan to reduce and/or eliminate deficit spending? . . .

The district did not provide a board-approved plan to reduce and/or eliminate deficit spending. The board passed a resolution on December 11, 2018 identifying the amount of budget reductions needed in 2019-20 and 2020-21, but the resolution was not specific to particular reductions to be made.

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

The district's trend expenditure to revenue growth is of concern. District expenditures are increasing dramatically faster than revenues. The district recorded surplus revenues of \$5,677,843 in 2015-16, \$4,631,462 in 2016-17, and \$447,974 in 2017-18. The 2018-19 first interim report projects a surplus of \$472,526 in 2018-19, a deficit of \$8,803,624 in 2019-20, and a deficit of \$14,054,847 in 2020-21.

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?.

Classified contract (CSEA chapter #370) section 12.9.10 limits vacation leave carryover to the following 12 months or to be paid in cash as determined by the district. With that limitation, no employee can have a vacation leave balance greater than that earned in two years – the prior and current years. At the highest earning rate of 1.75 days per month, the accumulation of vacation days for full-time 12 month staff should be limited to the maximum balance of 42 days or 336 hours. The leave balances report (095 Employee Leave Balances) identified 21

staff with vacation leave balances greater than 336 hours including three staff members with more than double the maximum amount. The "leave balances" report did not distinguish whether staffs were full-time and/or 12 month employees and FCMAT could not determine which staffs are employed less than full-time and 12 months. Therefore, it is possible that others who are employed less than full-time and 12 months may also exceed their contractual leave carryover limit.

- 9.4 Within the last five years, has the district conducted a verification and determination of eligibility for benefits for all active and retired employees and dependents?
- 9.5 Does the district track, reconcile and report employees' compensated leave balances?

10. Enrollment and Attendance

Yes No N/A

- 10.1 Has the district's enrollment been increasing or remained stable for the current and two prior years?

Enrollment has been in steady decline, with the expectation that the decline will continue. District enrollment (CBEDS data) in 2012-13 was 19,847, and the district has experienced decline annually to the current year estimate of 17,648. The district has projected that enrollment will continue to drop 425 students per year for 2019-20 and 2020-21.

During interviews, district administration attributed the loss of enrollment to several factors including the lack of affordable housing. District leadership stated an intent to mitigate the decline by improving student outcomes and district image.

- 10.2 Does the district monitor and analyze enrollment and average daily attendance (ADA) data at least monthly through the second attendance reporting period (P2)?
- 10.3 Does the district track historical enrollment and ADA data to predict future trends?
- 10.4 Do school sites maintain an accurate record of daily enrollment and attendance that is reconciled monthly at the site and district levels?
- 10.5 Has the district certified its California Longitudinal Pupil Achievement Data System (CALPADS) data by the required deadlines (Fall 1, Fall 2, EOY) for the current and two prior years?
- 10.6 Are the district's enrollment projections and assumptions based on historical data, industry-standard methods, and other reasonable considerations?
- 10.7 Do all applicable sites and departments review and verify their respective CALPADS data and correct it as needed before the report submission deadlines?
- 10.8 Has the district planned for enrollment losses to charter schools?
- 10.9 Does the district follow established board policy to limit outgoing interdistrict transfers and ensure that only students meeting the required qualifications are approved?
- 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?	✓	<input type="checkbox"/>	<input type="checkbox"/>
11.3	Does the district properly track and account for facility-related projects?	✓	<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?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>District school sites are not at capacity loads. According to the site enrollment report for February 2019 provided by the district, student enrollment to facility capacity is at 76.5% overall. Sites ranged from a high of 99% load to a low of 33.2%. Overall, only nine of 24 school sites had enrollment exceeding 80% capacity and three sites reported enrollment below 50% facility capacity.</i>			
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?	✓	<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?	✓	<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?	✓	<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"/>
	<i>As of the 2018-19 first interim report, the district will meet the reserve requirement in 2018-19 and 2019-20. However, the district’s unappropriated unrestricted general fund balance in 2020-21 is projected to be -\$57,805.</i>			
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"/>
	<i>The district has identified possible areas of reduction; however, as of the date of FCMAT’s review in February 2019, specific reductions have not been identified and approved.</i>			
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 unrestricted general fund balance is projected to decline from \$23,675,899 in 2018-19 to \$14,872,275 in 2019-20, and to \$817,428 in 2020-21.</i>			
12.5	If the district has unfunded or contingent liabilities or one-time costs, does the unrestricted fund balance include any assigned or committed reserves above the recommended reserve level?	✓	<input type="checkbox"/>	<input type="checkbox"/>

13. General Fund - Current Year

Yes No N/A

13.1 Does the district ensure that one-time revenues do not pay for ongoing expenditures? . . .

The district received one-time mandate revenues in 2016-17, 2017-18, and 2018-19 that appear to have been used to pay for ongoing expenditures. The district tracks one-time revenues and one-time expenditures, but expenditures do not appear to be reduced proportionally to the reduction in one-time revenues.

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? . . .

As of the district’s 2018-19 first interim report, the percent of the unrestricted general fund expenditure budget that is allocated to salaries and benefits is 90.7%. The statewide average for 2017-18 (the latest year available) for a unified district is 87.06%.

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? . . .

The percent of the district’s unrestricted general fund expenditure budget allocated to salaries and benefits was 90.9% in 2016-17 and 90.7% in 2017-18, higher than the statewide average of 87.06% (in 2017-18) for a unified district.

13.4 If the district has received any uniform complaints or legal challenges regarding local use of supplemental and concentration grant funding in the current or two prior years, is the district addressing the complaint(s)? . . .

13.5 Does the district either ensure that restricted dollars are sufficient to pay for staff assigned to restricted programs or have a plan to fund these positions with unrestricted funds? . . .

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

Restricted carryover balances and restricted ending fund balances have increased each year from 2015-16 through 2017-18 as shown in the table below:

	2015-16	2016-17	2017-18
Carryover (Unearned Revenues)	1,977,365	3,102,328	3,041,918
Ending Fund Balance	2,844,290	4,925,718	5,402,112
Total	4,821,655	8,028,046	8,444,030

13.7 Does the district consistently account for all program costs, including the maximum allowable indirect costs, for each restricted resource? . . .

In 2016-17 the maximum allowable rate on most programs was 3.86%. Many programs were not charged any indirect costs including special education, Title II, California Clean Energy Jobs Act, educator effectiveness, college readiness, and routine restricted maintenance. Several programs, including Title III, and CTEI Partnership Academies were not charged the full maximum allowable rate.

In 2017-18, the maximum allowable rate on most programs was 4.13%. Many programs, including special education, Title II, Title III, California Clean Energy Jobs Act, and routine restricted maintenance were not charged any indirect costs. Several programs, including child nutrition, were not charged the maximum allowable rate.

In 2018-19, the maximum allowable rate on most programs is 5.73%. Indirect cost charges are not budgeted on many programs, including some special education programs, California Clean Energy Jobs Act, and routine restricted maintenance. Indirect costs are budgeted below the maximum allowable rate on several programs, including Carl Perkins, CTEIG, learning communities, and child nutrition.

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

15. Internal Controls and Fraud Prevention		Yes	No	N/A
15.1	Does the district have controls that limit access to its financial system and include multiple levels of authorizations?	✓	<input type="checkbox"/>	<input type="checkbox"/>
15.2	Are the district’s financial system’s access and authorization controls reviewed and updated upon employment actions (e.g., resignations, terminations, promotions or demotions) and at least annually?	✓	<input type="checkbox"/>	<input type="checkbox"/>
15.3	Does the district ensure that duties in the following areas are segregated, and that they are supervised and monitored?			
	• Accounts payable (AP)	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Accounts receivable (AR)	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Purchasing and contracts	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Payroll	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Human resources	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Associated student body (ASB)	✓	<input type="checkbox"/>	<input type="checkbox"/>
	• Warehouse and receiving	✓	<input type="checkbox"/>	<input type="checkbox"/>
15.4	Are beginning balances for the new fiscal year posted and reconciled with the ending balances for each fund from the prior fiscal year?	✓	<input type="checkbox"/>	<input type="checkbox"/>
15.5	Does the district review and clear prior year accruals by first interim?	✓	<input type="checkbox"/>	<input type="checkbox"/>

- 15.6 Does the district reconcile all suspense accounts, including salaries and benefits, at least at each interim reporting period and at the close of the fiscal year?
- District staff reported that payroll, position control, and budget data are reconciled annually.*
- The district's 2017-18 and 2018-19 general ledger reports confirmed that accounts were reconciled at year end; FCMAT could not conclude that accounts were reconciled at each interim reporting period.*
- 15.7 Has the district reconciled and closed the general ledger (books) within the time prescribed by the county office of education?
- 15.8 Does the district have processes and procedures to discourage and detect fraud?
- 15.9 Does the district maintain an independent fraud reporting hotline or other reporting service(s)?
- No evidence of a fraud reporting hotline or service was provided. However, the district's Board Policy 3400 and Administrative Regulation 3400 define fraud, financial improprieties, or irregularities and address the expectation of employees to immediately report suspicions to his/her supervisor and/or the superintendent or designee. Further, the policy states that the superintendent or designee shall investigate reports of fraudulent activity in a confidential manner.*
- 15.10 Does the district have a process for collecting and following up on reports of possible fraud?
- No formal process for collecting and following up on reports of fraud exists. However, the district's Board Policy 3400 and Administrative Regulation 3400 define fraud, financial improprieties, or irregularities and address the expectation of employees to immediately report suspicions to his/her supervisor and/or the superintendent or designee. Further, the policy states that the superintendent or designee shall investigate reports of fraudulent activity in a confidential manner.*
- Staff interviewed consistently responded that they would notify their supervisor and/or the CBO should any suspicious activity be detected.*
- 15.11 Does the district have an internal audit process?
- The district does not have an internal audit process but the deputy superintendent of administrative services acknowledged this deficiency and is in process of addressing areas of weakness identified by its auditors. The district administration also stated that the segregation of duties serves as an accountability measure and ongoing internal audit.*

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?
- As of the date of fieldwork (February 2019), the CBO had been with the district and serving as CBO for 19 months, which included 16 months at the position of associate superintendent and three months as deputy superintendent. Prior to working at Oceanside USD, this person held the position of director of fiscal service, a position that reported to the CBO, in another district.*
- The director of fiscal services position was vacant at the time of fieldwork. The position was staffed with an interim employee and interviews were being conducted.*

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

The superintendent started with the district July 1, 2018.

The district has experienced extensive change in district administration in the past year. In addition to a new superintendent for 2018-19, the following district leadership positions are new to the district and/or their position within the last year.

- Associate superintendent of human resources – three months in current role and prior six months as director of human resources
- Associate superintendent of education services – three months with district
- Director of human resources (certificated) – seven months with district
- Director of human resources (classified) – seven months with district
- Director of communications – three months with district
- Director of maintenance and operations – six months with district
- Chief technology officer – three months with district
- Payroll manager – seven months with district
- Benefits manager – five months in management position
- Purchasing manager – vacant with interim in position at time of fieldwork

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

16.4 Is training on financial management and budget provided to site and department administrators who are responsible for budget management?

16.5 Does the governing board adopt and revise policies and administrative regulations annually?

16.6 Are newly adopted or revised policies and administrative regulations implemented, communicated and available to staff?

16.7 Is training on the budget and governance provided to board members at least every two years?

16.8 Is the superintendent’s evaluation performed according to the terms of the contract? . . .

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

17.1 Has the district developed multiyear projections that include detailed assumptions aligned with industry standards?

17.2 To help calculate its multiyear projections, did the district prepare an LCFF calculation with multiyear considerations?

17.3 Does the district use its most current multiyear projection in making financial decisions? . .

17.4 If the district utilizes a broad adjustment category in its multiyear projection such as line B10, Other Adjustments, in the SACS form MYP/MYPI, is there a detailed list of what is included in the adjustment amount?

18. Non-Voter-Approved Debt and Risk Management		Yes	No	N/A
18.1	Are the sources of repayment for non-voter-approved debt {such as certificates of participation (COPs), bridge financing, bond anticipation notes (BANS), revenue anticipation notes (RANS) and others}, stable, predictable, and other than unrestricted general fund?	<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 in the current or prior two fiscal years?	<input type="checkbox"/>	<input type="checkbox"/>	✓
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?	✓	<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
19.1	Does the district account for all positions and costs?	✓	<input type="checkbox"/>	<input type="checkbox"/>
19.2	Does the district analyze and adjust staffing based on staffing ratios and enrollment?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>District staff reported that staffing has not been reduced corresponding to the reduction in enrollment. Maximum allowable class sizes by grade span are not formalized but are based on past practice and the intent to avoid state class size penalties. Staff reported various targets, including 24:1 in grades K-3, 34:1 in grades 4-8, and 38:1 in grades 9-12. Class sizes as reported on the 2017-18 school accountability report card (SARC) for each school averaged 21.8 in grades K-3, 25.9 in grades 4-6, 26.4 in core classes at the middle schools, and 25 in core classes at the high schools.</i>			
19.3	Does the district reconcile budget, payroll and position control regularly, meaning at least at budget adoption and interim reporting periods?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>District staff reported that payroll, position control, and budget data are reconciled annually.</i>			
19.4	Does the district identify a budget source for each new position before the position is authorized by the governing board?.	✓	<input type="checkbox"/>	<input type="checkbox"/>
19.5	Does the governing board approve all new positions and extra assignments (e.g., stipends) before positions are posted?	✓	<input type="checkbox"/>	<input type="checkbox"/>
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?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>Unofficial staffing ratios for certificated staff are based on past practice and the intent to avoid state class size penalties but are not adhered to. No ratios are established for classified and administrative positions.</i>			
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?.	✓	<input type="checkbox"/>	<input type="checkbox"/>

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?	✓	<input type="checkbox"/>	<input type="checkbox"/>

- 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)? ✓
Indirect costs have not been applied at the full allowable rate for special education programs.
- 20.5 Is the district’s contribution rate to special education at or below the statewide average contribution rate? ✓
- 20.6 Is the district’s rate of identification of students as eligible for special education comparable with countywide and statewide average rates? ✓
Oceanside identified 2,763 students as special education out of 18,084 total enrollment for 2017-18. This equates to approximately 15.3% identification rate, which is higher than the San Diego County identification rate of 12.6% and the state identification rate of 12.5% for the same period.
- 20.7 Does the district analyze whether it will meet the maintenance of effort requirement at each interim reporting period? ✓

Total Risk Score, All Areas **31.4%**

Key to Risk Score

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

Summary

The Oceanside Unified School District has consistently identified as a fiscal concern for the last two years as identified by its 2016-17 budget adoption letter from the San Diego COE and its subsequent certifications as qualified since the second interim reporting period of 2016-17. While budget adjustments and reductions may have occurred, they have not been enough to fully relieve the district's fiscal ailments, and the risk of insolvency continues.

The governing board is ultimately responsible for the district budget. Management is responsible for presenting sound financial information supported by trend analysis, budget assumptions and multiyear projections based on accurate data so the board can make informed decisions.

This report scores the district to be at Moderate Risk of insolvency as it identifies several signs that indicate fiscal weakness and leave the district at risk of insolvency.

Of significant concern is the year-over-year loss of revenue due to the district's significant decline in enrollment, which is forecasted to continue into the next two projection years and possibly beyond. In response to declining enrollment, districts must make operational reductions in staffing and facilities to cut costs and compensate for the loss of revenue.

The district projects that its enrollment will decline at the rate of 425 students per year, resulting in significant deficits in 2019-20 and 2020-21 should further cost reductions not be enacted. The governing board passed a resolution in December 2018 identifying budget reductions, but no specific reductions were defined.

This report finds that the district's staffing costs have exceeded 90% of its budget for the current and prior two years. The district has not reduced staffing in alignment with its declining enrollment. The review identifies that the information systems used to track and control staffing lack integration with the budget development system and have inhibited access to staffing data to make timely and informed decisions. A review of budgets over several reporting periods also identifies several occurrences where the district's staffing budgets were inaccurate and under-budgeted for staffing commitments. Further, the district has not formalized any staffing ratios. Staff spoke of the use of informal class size targets to determine how many certificated staff are needed. Due to the lack of available reports, FCMAT was unable to determine the adherence to these targets.

Concerns regarding budget monitoring were identified whereas several expenditure categories were found to exceed budgeted amounts or where budget lines were exhausted with remaining expenditures expected. It appears that account reconciliations for general ledger, payroll, position control and budget did not occur at recommended intervals, leading to a further lapse in timely decision-making information.

Due to the declining enrollment, the district has a surplus of facilities. Student enrollment to capacity sits at 76.5% for the district overall, with only nine of 24 sites exceeding 80% capacity and three sites used at less than 50% capacity. This means the district is incurring costs to maintain more facilities and sites than necessary to adequately serve its enrolled population.

Further challenging the district is the lack of access to historical and trend information due to a recent large turnover of district administration. This is the superintendent's first year with the district and the CBO's second. In addition, several other key position incumbents are either new to the district or new to the position within the last year. These include positions in human resources, educational services, communications, maintenance and operations, technology and business services.

This district should take measures to gain control of staffing and fiscal information necessary to make informed decisions and make prudent recommendations to the governing board. The district's governing board should act immediately to balance the budget, respond to declining enrollment trends and reduce the forecasted deficit spending. Failure to act quickly and decisively may result in fiscal insolvency and loss of local control.