

Fiscal Health Risk Analysis

January 7, 2021



Oroville City Elementary School District

Michael H. Fine
Chief Executive Officer

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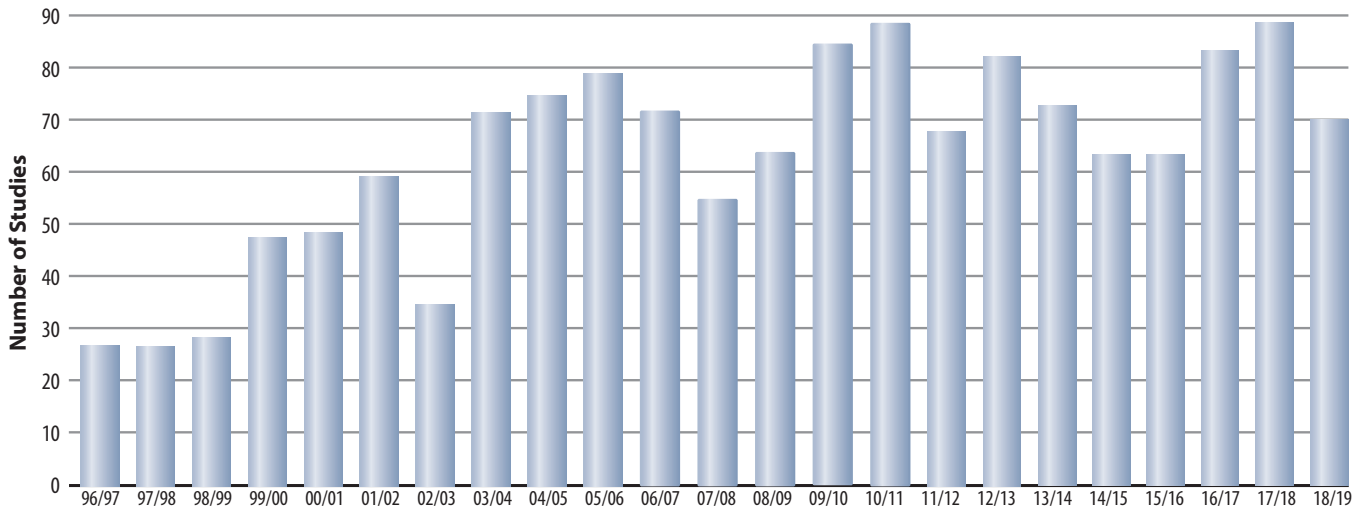
About FCMAT

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 the 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

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 from the Butte County Office of Education, under which an analysis is required by the 2018-19 State Budget Act. This designation indicates a concern by the county office that the district may be unable to meet its financial obligations in the current or two subsequent fiscal years.

Located in Butte County, the Oroville City Elementary School District has a five-member governing board and serves approximately 2,739 students at four elementary, two middle and two charter schools. The district's California Longitudinal Pupil Achievement Data System (CALPADS) records show that the unduplicated pupil percentage, which includes those students who qualify for free and reduced-price meals, English Learners, and foster youth, is 79.4%.

On July 1, 2019, the district was joined with Feather Falls Union School District through the state's lapsation process. The lapsation of an LEA occurs when all the territory of a school district is annexed to one or more adjacent districts; in this case, all of Feather Falls Union School District's territory was combined with Oroville City Elementary School District. The Feather Falls Union School District only had one elementary school district at the time of its closure with approximately 10 students, but it was also the authorizer of the Ipakanni Early College Charter School. Through the lapsation process the Oroville City ESD became the authorizer of this charter in addition to its previously approved charter school, STREAM Charter.

According to a letter from the Butte County Office of Education dated September 10, 2020, the district's 2020-21 revised budget did not meet the state mandated minimum reserve requirement in fiscal year 2022-23, at which point the Butte County Office of Education designated the district a "lack of going concern" in accordance with Education Code Section 42127. The county's determination was based on the district's failure to maintain the minimum reserve requirements; the unrestricted structural deficit in years two and three of the multiyear projection; and the projected negative cash flow projected in the general fund in both May and June 2021.

Following the district's lack of going concern designation, FCMAT performed a fiscal health risk analysis to determine the district's level of risk for insolvency.

Fiscal Health Risk Analysis Guidelines

FCMAT entered into a study agreement with the Oroville City Elementary School District on October 16, 2020. Because of the COVID-19 virus, FCMAT did not visit the district in person but conducted interviews with the district and school site staff via Zoom on November 9-12, 2020, collected data, and reviewed documents. Following fieldwork, the study team continued to receive, review and analyze 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
FCMAT Intervention Specialist

John Von Flue
FCMAT Chief Analyst

Laura Haywood
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



FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

Date(s) of fieldwork: November 9 - 12, 2020

District: Oroville City Elementary School District

Summary

The governing board is ultimately responsible for the district's budget and fiscal solvency. Management has the responsibility to present sound financial information based on current and accurate data so the board can make informed decisions. Any failure of the district to act decisively on accurate and timely information may result in fiscal insolvency and the loss of local control.

The Butte County Office of Education designated the district a "lack of going concern" based on the district's 2020-21 revised budget, which showed the district's inability to meet the state mandated minimum reserve requirement in 2022-23. FCMAT's analysis for this FHRA determined that the district has a high risk of insolvency. The risk score from the 20 numbered sections of the FHRA is 22.1%, which is rated as Low; however, the existence of any condition from the Budget and Fiscal Status section (shown below), and/or an answer of "no" in the Material Weakness Questions (also shown below) elevates the district's risk. Accordingly, the district's fiscal solvency risk level is designated as High.

The district shows several signs of fiscal distress. Of particular concern is the district's enrollment decline, which is forecasted to continue into the next two subsequent fiscal years and possibly beyond. Although 2019-20 showed a slight increase in enrollment, this was likely due to a wildfire in a neighboring district causing families to relocate. Since revenues correlate directly to enrollment, district revenues are projected to decrease, and the district's budget is further challenged by increases in costs that naturally occur. Unless expenses are curbed, they will grow as employee compensation increases due to step/column and statutory benefits. In response to declining enrollment, the district must make substantial operational reductions in staffing and possibly facilities to cut costs and compensate for the loss of revenue.

The district's financial outlook improved in its 45-day revised budget as compared to its original 2020-21 adopted budget; however, deficit spending still exists. While the district is projecting to meet its minimum reserve requirement in the current and first subsequent year, it falls short of meeting the 3% requirement in the second subsequent fiscal year by \$288,000.

The district projected deficit spending totaling \$3.9 million in the two subsequent fiscal years. Although the governing board passed a resolution in June 2020 stating the district will implement savings from revenue enhancements and/or budget reductions to meet the minimum reserve requirement, no specific reductions were defined. If the district does not implement a plan to address deficit spending, its ending fund balance will continue to decline and the district will be unable to meet its minimum reserve for economic uncertainties. It is therefore vital that the district develop, adopt and implement a comprehensive budget balancing plan with identified expenditure reductions and/or revenue increases to avoid any further erosion of the ending fund balance and to maintain its minimum reserve.

A most critical concern for the district's fiscal solvency is its cash position. Cash insolvency can invoke immediate intervention and loss of district local control. A review of the district's current cash position does not identify an immediate concern. However, the district does not complete a cash flow projection for the current and first subsequent fiscal year; therefore, the true cash position and ability to maintain cash solvency in the subsequent fiscal year is unknown.

Lastly, the district remains unsettled with the teacher's association for fiscal year 2019-20, and no settlements with either bargaining unit had been reached for the 2020-21 fiscal year at the time of our interviews. Additionally, although the governing board approved the AB 1200 disclosure outlining the details of the settled bargaining agreement, the certification was not consistently signed by both the superintendent and the assistant superintendent of business services.

Government Code 3547.5(b) requires the superintendent of the school district and the chief business official to certify in writing that the district can meet the costs it is incurring under the agreement during the term of the agreement. The certification must itemize any budget revision necessary to meet the costs of the agreement in each year of its term.

FCMAT's study was performed during the COVID-19 global pandemic and the severe economic downturn that resulted. Although the full multiyear impact to the state and federal funding for K-12 school districts remains uncertain at the time of this report, districts throughout California are reasonably planning for a sharp decline in funding in the coming years. Assuming these funding reductions occur as anticipated, the district may need to proactively identify significant expenditure reductions in anticipation of continued economic downturn to maintain its fiscal solvency and local control.

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 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"/>	✓

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	If the district has any charters in fiscal distress, has the district performed its statutory fiscal and operational oversight functions, including 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"/>
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?	<input type="checkbox"/>	<input type="checkbox"/>	✓
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?	<input type="checkbox"/>	✓	<input type="checkbox"/>
10.6	Are the district's enrollment projections and assumptions based on historical data, industry-standard methods, and other reasonable considerations?	✓	<input 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"/>
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"/>
19.1	Does the district account for all positions and costs?	✓	<input type="checkbox"/>	<input type="checkbox"/>

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	0.0%
2.	Budget Development and Adoption	2.0%
3.	Budget Monitoring and Updates	2.0%
4.	Cash Management	2.5%
5.	Charter Schools	0.2%
6.	Collective Bargaining Agreements	4.7%
7.	Contributions and Transfers	1.0%
8.	Deficit Spending (Unrestricted General Fund)	2.0%
9.	Employee Benefits	0.6%
10.	Enrollment and Attendance	1.2%
11.	Facilities	0.2%
12.	Fund Balance and Reserve for Economic Uncertainty	2.9%
13.	General Fund - Current Year	0.2%
14.	Information Systems and Data Management	0.0%
15.	Internal Controls and Fraud Prevention	0.2%
16.	Leadership and Stability	0.8%
17.	Multiyear Projections	1.0%
18.	Non-Voter-Approved Debt and Risk Management	0.0%
19.	Position Control	0.0%
20.	Special Education	0.7%
Score		22.1%

Fiscal Health Risk Analysis Questions

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

1. Annual Independent Audit Report	Yes	No	N/A
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- | | | | | |
|-----|--|-------------------------------------|-------------------------------------|--------------------------|
| 1.1 | Has the district corrected the most recent and prior two years’ audit findings without affecting its fiscal health? | <input checked="" type="checkbox"/> | <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 checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 1.3 | Were the district’s most recent and prior two audit reports free of findings of material weaknesses? | <input checked="" type="checkbox"/> | <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 checked="" type="checkbox"/> | <input type="checkbox"/> |

The past three audits identified insufficient controls over student body activities. These findings include lack of supporting documentation for cash receipts, failure to reconcile deposits, and the lack of two signatures. Additionally, the district did not report information on the safety, cleanliness and adequacy of the school facilities on the Schools Accountability Report Card (SARC).

2. Budget Development and Adoption	Yes	No	N/A
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- | | | | | |
|-----|--|-------------------------------------|--------------------------|--------------------------|
| 2.1 | Does the district develop and use written budget assumptions and multiyear projections that are reasonable, are aligned with the county office of education instructions, and have been clearly articulated? | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2.2 | Does the district use a budget development method other than a prior-year rollover budget, and, if so, does that method include tasks such as review of prior year estimated actuals by major object code and removal of one-time revenues and expenses? | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2.3 | Does the district use position control data for budget development? | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2.4 | Does the district calculate the Local Control Funding Formula (LCFF) revenue correctly? | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2.5 | Has the district’s budget been approved unconditionally by its county office of education in the current and two prior fiscal years? | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2.6 | Does the budget development process include input from staff, administrators, the governing board, the community, and the budget advisory committee (if there is one)? | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2.7 | Does the district budget and expend restricted funds before unrestricted funds? | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

- 2.8 Have the 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? ✓
- 2.9 Has the district refrained from including carryover funds in its adopted budget? ✓
The district includes an estimated amount of carryover on various funds and includes them in the 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? ✓
A district typically records the transfer of costs for services other than indirect costs between resources using object 5710, which is referred to as direct costs. Transfers of direct costs include services provided or products developed by the district, such as maintenance and repair of duplicating, audiovisual, or other equipment; photocopying expenses; field trips; district vehicle use; and information technology expenses. Certain direct costs may be pooled in an unrestricted resource and the undistributed goal, only to be transferred later to specific programs based on supporting documentation. FCMAT's review of documents provided indicates that the district utilizes the practice of 5710 direct cost transfers; however, detailed documentation was not provided.
It is best practice for a district to use actual expenditure account lines where feasible, and not lump-sum transfers using object 5710. The intent of the Standardized Account Code Structure (SACS) reporting guidance is transparency. Reporting actual expenditure items achieves this goal better than a lump-sum transfer does.
- 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? ✓
The district lacks a board policy or internal procedure for evaluating proposed grants.
- 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 lacks a budget calendar that includes all of the major budget development tasks, such as enrollment and staffing projections and the person responsible for completing each task by a certain deadline.

3. Budget Monitoring and Updates

	Yes	No	N/A
3.1 Are actual revenues and expenses consistent with the most current budget?	✓	<input type="checkbox"/>	<input type="checkbox"/>
3.2 Are budget revisions posted in the financial system at each interim report, at a minimum? . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
3.3 Are clearly written and articulated budget assumptions that support budget revisions communicated to the board at each interim report, at a minimum?	✓	<input 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"/>
3.5 Do the district's responses fully explain the variances identified in the criteria and standards? .	✓	<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"/>

- 3.7 Does the district prohibit processing of requisitions or purchase orders when the budget is insufficient to support the expenditure?
Staff indicated that the financial software sometimes shows insufficient funds when processing a requisition, but the assistant superintendent of business services is authorized to override the software. Financial activity reports for fiscal years 2018-19, 2019-20, and 2020-21 identify multiple account lines where expenditures exceed budget amounts.
- 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?
Documents provided indicated that some balance sheet accounts, such as due from, accounts payable, sales use tax, and various payroll liability accounts are not reconciled at interim reporting periods or annually with the year-end closing.
- 3.10 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?
Staff indicated they were unaware of the reconciliation process that takes place with regard to the county treasurer accounts. No documentation was provided to indicate that a reconciliation process is happening.
- 4.2 Does the district reconcile all bank (cash and investment) accounts with bank statements monthly?
- 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 completes a cash flow projection for the current year but not for the subsequent year. To ensure knowledge of its current and projected cash position and provide ample opportunity to make necessary adjustments, cash projections should be made for current and subsequent year.
- 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?
- 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?.
Evidence was not provided showing the timing of interfund borrowing and repayments; therefore, it is not known whether the district is in compliance with its interfund borrowing.
- 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?.

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 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"/>
	<i>Although the district provided a document outlining communication made with the charter schools with regard to various oversight related issues and concerns, it did not provide evidence of specific oversight responsibilities as outlined in Education Code Section 47604.32.</i>			
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 past two fiscal years?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The district has settled with all employee groups in the past two fiscal years with the exception of Oroville Elementary Teachers Association in fiscal year 2019-20.</i>			
6.2	Has the district settled with all its bargaining units for the current year?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>At the time of FCMAT's visit the district had not begun negotiations for the 2020-21 school year with any bargaining units.</i>			
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 costs of the district's proposal(s)?	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The district has not identified and/or reserved funds for settlements that have yet to be reached.</i>			
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 August 19, 2020 AB 1200 disclosure for the CSEA settlement was signed by the superintendent and the assistant superintendent of business services the day after the board meeting approving it. However, Government Code (GC) 3547.5(b) states that the superintendent and, in this case, the assistant superintendent of business services, shall certify in writing that the district can meet the costs it will incur under the agreement.</i>			

The certification page was not signed by either administrator prior to the August board meeting, yet the governing board still approved the terms of the AB 1200 disclosure, which is in direct violation of GC 3547.5(b).

Two prior AB 1200 disclosures brought to the governing board in fiscal year 2018-19, specifically on March 13, 2019 and May 15, 2019, also did not include any signatures from the superintendent or the assistant superintendent of business services certifying that the district could meet the costs it would incur under the terms as outlined in the disclosure.

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

As stated above, the AB 1200 disclosures provided FCMAT during its review did not include signatures from the superintendent or assistant superintendent of business services prior to the board's approval.

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

The governing board approved the bargaining agreements as submitted; however, the certifications were not consistently signed by both the superintendent and the assistant superintendent of business services.

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

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

The district's governing board approved resolution 19-20-11 on June 24, 2020, stating that the district will implement savings from revenue enhancements and/or budget reductions in 2020-21, 2021-22 and 2022-23 to meet the minimum reserve requirement in all three years. Although this resolution was approved, it does not identify specific details for how the district plans to eliminate, reduce or control any contributions/transfers from the unrestricted general fund to other restricted programs, including special education.

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

8. Deficit Spending (Unrestricted General Fund) **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? .

The district's 2020-21 budget (45-day revision) shows that the district projects deficit spending in its unrestricted general fund by over \$1.1 million in 2021-22 and \$2.8 million in 2022-23. This deficit spending is expected to erode its unrestricted reserves from \$4.6 million in 2020-21 to less than \$650,000 by year end 2022-23.

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?	□	✓	□
	<i>At the time of review, no plan has been developed, approved and implemented to address the deficit spending projection.</i>			
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 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?	✓	□	□
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?	□	✓	□
	<i>Interviews with staff indicated that the district has not conducted a verification and determination of eligibility for benefits for all active and retired employees and dependents.</i>			
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?	□	✓	□
	<i>The district's enrollment trends indicate a declining student population. The enrollment in 2016-17 was 2,435 and has declined annually with the exception of 2019-20. The projected enrollment for 2020-21 is 2,340.</i>			
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 establish 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 who meet the required qualifications are approved?

The district's interdistrict transfer policy (BP 5116.2 (d)) does not provide for restrictions or limitations to outgoing student transfers. The district keeps records of transfers out, reason for transfer and whether it was approved; however, the district does not keep a list of transfers and reasons to assist with identifying trends and frequencies. In interviews FCMAT learned that to understand and combat excessive transfers out of the district, the superintendent meets with the parent(s) of every outgoing student to learn the reason for transfer and encourage retention in the district.

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 **Yes** **No** **N/A**

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?

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

11.4 Does the district use its facilities fully in accordance with the Office of Public School Construction's loading standards?

The district has had declining enrollment with the exception of fiscal year 2019-20. According to OPSC loading standards, the district has two sites that are at or near capacity for facility usage, with four other sites showing less than 80% capacity. One of those sites is under 60% capacity; i.e., significantly underused.

Site	Classrooms	TK-6	7-12	SDC - Non-Severe	SDC - Severe	Classrooms Available	Classrooms Needed ¹	Excess Classrooms	Capacity
Central Middle*	25	89	288	24	12	25	17	8	68.0%
Ishi Hills Middle	16	112	210	14	0	16	15	1	93.8%
Oakdale Heights Elementary*	24	312	0	13	15	24	14	10	58.3%
Ophir Elementary	22	424	0	0	11	22	17		77.3%
Stanford Avenue Elementary*	21	475	0	20	0	21	21		100.0%
Wyandotte Academy*	22	335	0	27	0	22	17	5	77.3%

¹OPSC Loading Standards

* Deciles 1-3 schools

11.5 Does the district include facility needs (maintenance, repair and operating requirements) when adopting a budget?

11.6 Has the district met the facilities inspection requirements of the Williams Act and resolved any outstanding issues?

The district did not provide evidence of meeting the facilities inspection requirements for fiscal year 2020-21 for any of its school sites. In fiscal year 2019-20 the Butte COE inspected each of the district’s school sites that are classified as Deciles 1-3, but the district did not provide evidence that the sites not classified as Deciles 1-3 schools were inspected per the requirements of the Williams case.

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?

The district does not have a long-range facilities master plan.

12. Fund Balance and Reserve for Economic Uncertainty **Yes** **No** **N/A**

12.1 Is the district able to maintain the minimum reserve for economic uncertainty in the current year (including 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?

Based on the district’s 45-day revised budget, the district is unable to maintain its 3% minimum reserve for economic uncertainty in the second subsequent fiscal year of its multiyear financial projection. The district projects that its unrestricted reserves will be reduced from nearly \$4.6 million to less than \$650,000 over the current and two subsequent years. The district would be short of maintaining its minimum reserve for economic uncertainty by \$287,882.

	2020-21	2021-22	2022-23
Unrestricted reserve	\$4,595,722	\$3,478,090	\$649,323
Minimum reserve	\$916,892	\$917,170	\$937,205
Surplus / (Shortfall)	\$3,678,830	\$2,560,920	\$ (287,882)

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?

The district lacks a board-approved plan to sufficiently address the deficit spending trend that erodes its reserves to below the minimum for economic uncertainty in fiscal year 2022-23. Further, the district lacks an approved plan to restore the reserve subsequent to fiscal year 2022-23.

12.4 Is the district’s projected unrestricted fund balance stable or increasing in the two subsequent fiscal years?

The district projects to increase its unrestricted fund balance for the current year (2020-21) by \$106,805, then experiences significant and increasing deficit spending resulting in a decrease in the unrestricted fund balance by over \$1.1 million in 2021-22 and over \$2.8 million in 2022-23.

	2020-21	2021-22	2022-23
Beginning Fund Balance	\$4,488,917	\$4,595,722	\$3,478,090
Ending Fund Balance	\$4,595,722	\$3,478,090	\$649,323
Change	\$106,805	\$ (1,117,632)	\$ (2,828,767)

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?

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?
- 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? . . .
- 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? . .
- 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?
- 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 assign the full approved indirect cost rate to every restricted resource and does not charge indirect costs to other district funds as allowed.

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?
- 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?
- 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 and is not fiscally independent, is there an automated interface with the financial system used by the county office of education?
- 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?	✓	<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 (i.e., duties relative to position control and payroll processes)	✓	<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 work to clear prior year accruals throughout the year?	✓	<input type="checkbox"/>	<input type="checkbox"/>
15.6	Has the district reconciled and closed the general ledger (books) within the time prescribed by the county office of education?	✓	<input type="checkbox"/>	<input type="checkbox"/>
15.7	Does the district have processes and procedures to discourage and detect fraud?	✓	<input type="checkbox"/>	<input type="checkbox"/>
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?	✓	<input type="checkbox"/>	<input type="checkbox"/>
15.9	Does the district have an internal audit process?	<input type="checkbox"/>	✓	<input type="checkbox"/>

The district does not have an internal audit process. However, the district does have internal controls that provide checks and reviews embedded within the workflow.

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?	✓	<input type="checkbox"/>	<input type="checkbox"/>
16.2	Does the district have a superintendent who has been with the district as superintendent for more than two years?	✓	<input type="checkbox"/>	<input type="checkbox"/>
16.3	Does the superintendent meet on a scheduled and regular basis with all members of their administrative cabinet?	✓	<input type="checkbox"/>	<input type="checkbox"/>
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"/>
16.5	Does the governing board adopt and revise policies and administrative regulations annually?	✓	<input type="checkbox"/>	<input type="checkbox"/>
16.6	Are newly adopted or revised policies and administrative regulations implemented, communicated and available to staff?	✓	<input type="checkbox"/>	<input type="checkbox"/>

16.7 Do all board members attend training on the budget and governance at least every two years?

FCMAT was not provided information to verify that board member training on budget and governance has occurred. Board members interviewed stated that they understood the fiscal issues and district presentations were easy to follow.

Board Bylaw 9240 (a) Board Training provides that “board members shall be provided sufficient opportunities for professional development that help them understand their responsibilities, stay abreast of new developments in education, and develop boardsmanship skills.” The bylaw further states that new board members shall be provided an orientation that includes comprehensive information to include roles, policies and procedures and, further, “Throughout their first term, Board members shall continue to participate in additional educational opportunities designed to assist them in understanding the principles of effective governance, including, but not limited to, information on school finance and budgets, student achievement and assessment, labor relations, community relations, program evaluation, open meeting laws (the Brown Act), conflict of interest laws, and other topics necessary to govern effectively and in compliance with law.”

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

FCMAT was unable to locate board agendas or minutes and was not provided other evidence supporting that a superintendent’s evaluation was performed since his employment began on July 1, 2018.

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 accurate LCFF calculation with multiyear considerations?

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

The district’s multiyear projection included in the 45-day revised budget identifies the district as qualified due to the lack of sufficient reserves in year 3 of its multiyear projection. At the time of this review, the district lacked a board approved plan to rectify its deficit spending and maintain reserves, indicating the district does not use the projection as a basis to make its financial decisions.

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?

18. Non-Voter-Approved Debt and Risk Management

Yes No N/A

18.1 Are the sources of repayment for non-voter-approved debt (such as certificates of participation (COPs), bridge financing, bond anticipation notes (BANS), revenue anticipation notes (RANS) and others) stable, predictable, and other than unrestricted general fund?

18.2 If the district has issued non-voter-approved debt, has its credit rating remained stable or improved during the current and two prior fiscal years?

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?

- 18.4 If the district has non-voter-approved debt (such as COPs, bridge financing, BANS, RANS and others), is the total of annual debt service payments no greater than 2% of the district's unrestricted general fund revenues?

19. Position Control **Yes No N/A**

- 19.1 Does the district account for all positions and costs?
- 19.2 Does the district analyze and adjust staffing based on staffing ratios and enrollment?
- 19.3 Does the district reconcile budget, payroll and position control regularly, at least at budget adoption and interim reporting periods?
- 19.4 Does the district identify a budget source for each new position before the position is authorized by the governing board?
- 19.5 Does the governing board approve all new positions and extra assignments (e.g., stipends) before positions are posted?
- 19.6 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**

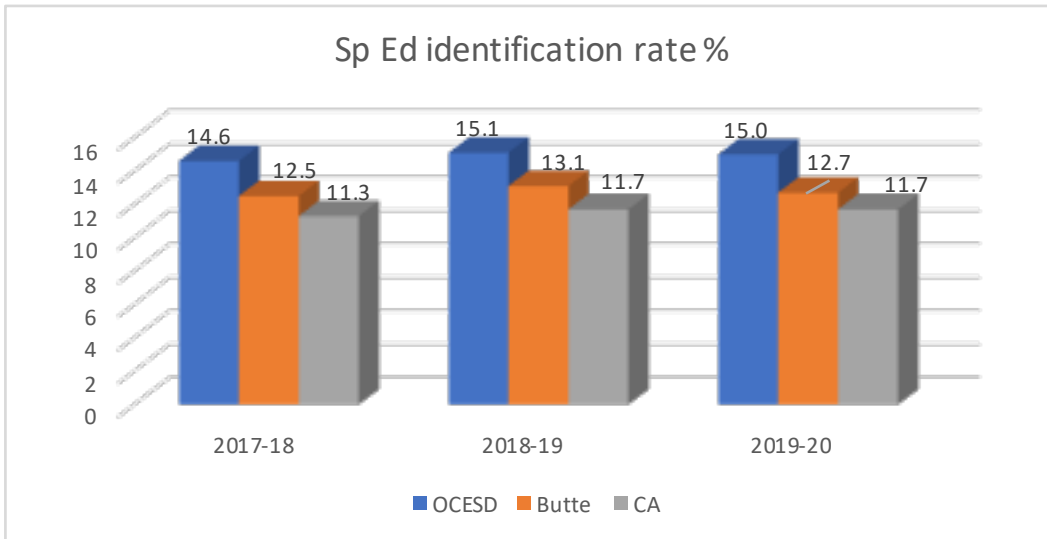
- 20.1 Does the district monitor, analyze and adjust staffing ratios, class sizes and caseload sizes to align with statutory requirements and industry standards?
- 20.2 Does the district access available funding sources for costs related to special education (e.g., excess cost pool, legal fees, mental 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 did not assign the full approved indirect cost rate to special education resource 6500 for the years reviewed, so the total costs of special education were not reflected.

	2017-18	2018-19	2019-20
Approved indirect cost	4.68%	4.93%	3.82%
Assigned indirect cost	1.53%	2.28%	1.08%

- 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 at or below the countywide and statewide average rates?

The district's identification rate exceeds that of both the state and Butte County. The district identification rate has been more than 2% greater than the county and more than 3% greater than the state.



*Inclusive of charter students

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

Risk Score, 20 numbered sections only: **22.1%**

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.)