

# FCMAT

FISCAL CRISIS & MANAGEMENT  
ASSISTANCE TEAM

## Palo Verde Unified School District

### Fiscal Health Risk Analysis

April 3, 2020

Michael H. Fine  
Chief Executive Officer



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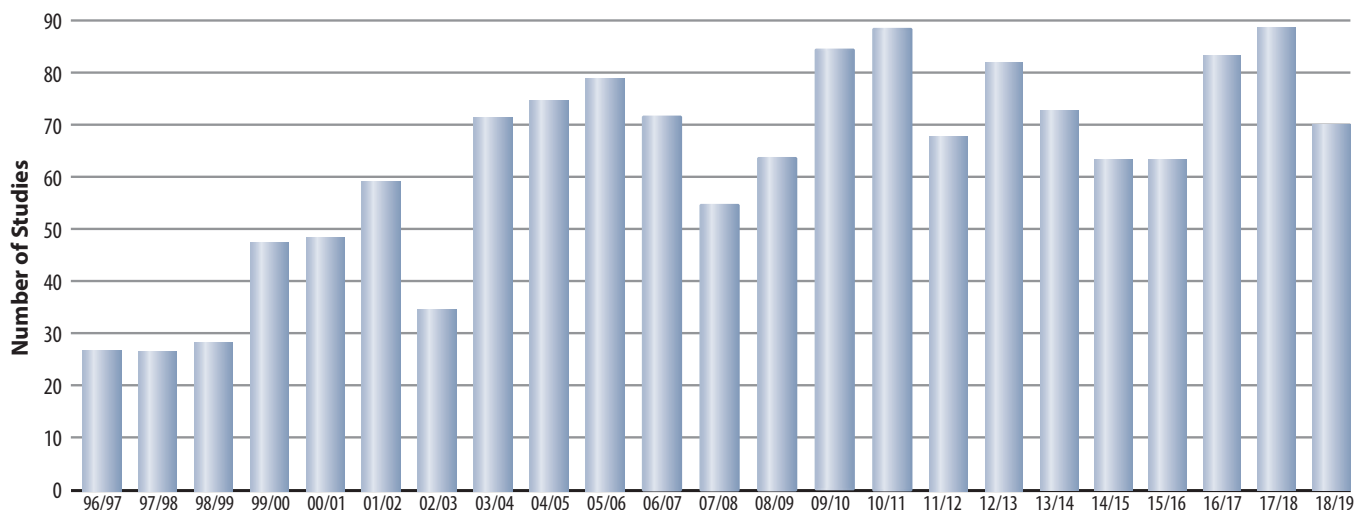
## About FCMAT

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](http://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

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 a study agreement with the Palo Verde Unified School District on November 4, 2019, and a study team visited the district on November 18 and 19, 2019 to conduct interviews, collect data and review documents. Following fieldwork, the study team continued to 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:

John Von Flue

FCMAT Chief Analyst

Jennifer Noga

FCMAT Intervention Specialist

Scott Sexsmith

FCMAT Intervention Specialist

Laura Haywood

FCMAT Technical Writer

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



# District Overview

The Palo Verde Unified School District has an enrollment of approximately 2,900 students in grades TK through 12 and is located in southeastern Riverside County. The district operates three elementary schools, one comprehensive high school and one continuation high school that serve the city of Blythe and surrounding areas totaling approximately 1,027 square miles. Most district students live in the city of Blythe. The district is governed by a board of five trustees elected by the community at large.

Nearly 70% of the district's students are low income and 9.5% are identified as English learners. District demographics for 2019-20 reflect a population of 70% Hispanic, 18% white and 8% African-American, with the remainder of ethnicities under 1% each. The district reports an unduplicated pupil count of 75.74% of its student population.

The district's 2019-20 budget was conditionally approved by the Riverside County Office of Education, and a revised budget was approved in September 2019. The revised budget projected that reserves would not be sufficient to meet the state's 3% minimum reserve for 2021-22 and, after additional analysis of the district's budget and related information by the Riverside COE, the district was classified as a lack of going concern in a letter to the district dated October 8, 2019.

Under the lack of going concern condition, FCMAT was engaged to perform a fiscal health risk analysis to determine the district's level of risk for insolvency.

# 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: Palo Verde Unified School District

Dates of Fieldwork: November 18-19, 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 checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>The district had recurring findings related to misclassified students in its unduplicated pupil count, resulting in the following decreases:</i>  2018-19 audit – 49 students – decrease of approximately \$113,015 2017-18 audit – 12 students – decrease of approximately \$9,007			
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 checked="" type="checkbox"/>	<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 checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>The district's 2018-19 audit report identified a material weakness finding in internal control, in that the district did not properly record and account for accrued liabilities. The district requested that the auditors assist in the preparation of accrual closing entries, government-wide conversion entries and footnotes.</i>			
1.4	Has the district corrected all reported audit findings from the current and past two audits? . . . . .	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>The district corrected most findings identified in the audits; however, audit finding 2018-001 for the 2017-18 audit was again found in 2018-19 and reported as finding 2019-002. This finding identifies inaccurate reporting of Free and Reduced-Price Meal eligibility resulting in the district claiming excess unduplicated pupils for funding.</i>  <i>In addition, for the fiscal year 2016-17 the auditor made observations concerning prohibited disbursements of the associated student body funds and noted them in the 2017 audit. This observation was again made in 2017-18 and noted in the 2018 audit.</i>			



1.5 Has the district had the same audit firm for at least three years? . . . . . ☒ ☐ ☐

## 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? . . . . . ☐ ☒ ☐

*The district did not provide written budget assumptions to FCMAT, and detailed assumptions were not included in the 2019-20 adopted budget board presentations. Additionally, the COE response letter to the district found that the retiree employer rates did not reflect the correct increases in 2020-21 and included one-time funds from 2018-19 for the current year and subsequent two fiscal years.*

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? . . . . . ☐ ☒ ☐

*Per interviews, the district's current practice is to roll over the prior year budget and adjustments are made by the director of business services as information is communicated. Additionally, the COE has pointed out numerous errors found in the most recent adopted budget, such as one-time funds being carried over into current year and the subsequent two fiscal years.*

2.3 Does the district use position control data for budget development? . . . . . ☐ ☒ ☐

*The district's system does not automatically link position control with the financial software. According to interviews, staffing is handled by the superintendent and director of curriculum and instruction. The director of business services receives information regarding staffing from them and enters that data into the budget accordingly.*

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

*Based on audit findings, the student information from which the 2017-18 and 2018-19 LCFF was calculated was found to be incorrect. The current year LCFF appears to be correctly calculated should the input data hold true.*

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 2019-20 adopted budget was conditionally approved by the county office and the district was required to finalize the prior fiscal year, certify the 2018-19 unaudited actuals and submit a revised budget and multiyear projections. The revised budget was to include data from an updated LCFF calculation with the changes from the unaudited actuals, the latest enacted 2019-20 Budget Act, and updated ADA and enrollment estimates. The district's revised budget, approved by its board on September 19, 2019 and submitted to the county office projected reserves of 2.88% for 2019-20, 1.76% for 2020-21 and .85% for 2021-22, which do not meet the 3% state required minimum reserve. Therefore, based on the district's inability to meet the required 3% reserves and additional analysis done by the county office, the district was classified as a lack of going concern. At the same time that the county office identified the district as a lack of going concern, it assigned and paid for a fiscal expert to advise the district on its financial problems.*

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)? . . . ☐ ☒ ☐

*The district does not have a budget advisory committee. Interviews revealed that the*

2019-20 adopted budget had limited input from site and department administrators and was prepared by the director of business services. Past practice included a process that printed all site/department budgets by resource with current year budget and actuals to date, then a blank column for the administrators to update for the next fiscal year. The current director of business services shared that those budget sheets were given out; however, he did not receive any back, so the budget was basically rolled over from prior year. Staffing is handled by the superintendent and director of curriculum and instruction due to the vacant director of human resources position. Any revisions to staff are given to the director of business services who then adds or reduces the staffing accordingly.

- |      |   |                          |                          |                          |
|------|---|--------------------------|--------------------------|--------------------------|
| 2.7  | Does the district budget and expend restricted funds before unrestricted funds? . . . . .   | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 2.8  | Have the LCAP and the budget been adopted within statutory timelines established by Education Code sections 42103 and 52062 and filed with the county superintendent of schools no later than five days after adoption or by July 1, whichever occurs first, for the current and past two fiscal years? . . . . . | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 2.9  | Has the district refrained from including carryover funds in its adopted budget? . . . . .  | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 2.10 | Other than objects in the 5700s and 7300s and appropriate abatements in accordance with the California School Accounting Manual, does the district avoid using negative or contra expenditure accounts? . . . . .   | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 2.11 | Does the district have a documented policy and/or procedure for evaluating the proposed acceptance of grants and other types of restricted funds and the potential multiyear impact on the district's unrestricted fund? . . . . .  | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 2.12 | Does the district adhere to a budget calendar that includes statutory due dates, major budget development tasks and deadlines, and the staff member/department responsible for completing them? . . . . .   | <input type="checkbox"/> | ✓                        | <input type="checkbox"/> |

*Budget calendaring is not a districtwide endeavor. The district does not develop and communicate 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? . . . . .   | <input type="checkbox"/> | ✓                        | <input type="checkbox"/> |
|     | <p><i>A review of district audits for 2016-17, 2017-18, and 2018-19 identifies significant volatility in budgeting from budget adoption through estimated actuals. In addition, variances between final budget (estimated actuals) and final actual revenues and expenditures indicate either volatility in district expenditures or inaccuracy in budgeting. For the current year, the adopted budget appeared to reflect sufficient budget to account for actual expenditures as compared to prior year estimated actuals. However, significant variances were again recorded on closing of fiscal year 2018-19.</i></p> <p><i>Based on the final closing, adjustments appear to have been made for first interim reporting and the district has committed to more active budget monitoring. Greater confidence in budget accuracy should come as the fiscal year progresses.</i></p> |                          |                          |                          |
| 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"/> |

*Board minutes reflect that spreadsheets are provided to identify revisions and that the director of business services explained revisions to the board. Per the minutes, the revisions included requests from the COE and changes due to bargained agreements.*

- |      |  |                          |                          |                          |
|------|--|--------------------------|--------------------------|--------------------------|
| 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? . . . . .  | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 3.5  | Does the district provide a complete response to the variances identified in the criteria and standards? . . . . .   | <input type="checkbox"/> | ✓                        | <input type="checkbox"/> |
|      | <i>FCMAT found that the criteria and standards are not consistently fully completed, leaving some variances unidentified. When variances are identified, they are not always given a response that fully explains the variance with specifics and, if applicable, how the district will respond.</i> |                          |                          |                          |
| 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? . . . . .  | ✓                        | <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? . . . . .   | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 3.8  | Does the district encumber and adjust encumbrances for salaries and benefits? . . . . .  | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 3.9  | Are all balance sheet accounts in the general ledger reconciled at each interim report, at a minimum? . . . . .  | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 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? . . . . .  | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |

<b>4. Cash Management</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
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- |     |   |                          |                          |                          |
|-----|---|--------------------------|--------------------------|--------------------------|
| 4.1 | Are accounts held by the county treasurer reconciled with the district's and county office of education's reports monthly? . . . . .  | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 4.2 | Does the district reconcile all bank (cash and investment) accounts with bank statements monthly? . . . . .   | ✓                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 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? . . . . . | <input type="checkbox"/> | ✓                        | <input type="checkbox"/> |

*The cash flow projections provided were part of the budget and interim reporting submission; however, FCMAT was unable to match the projected cash flow to the projected budget. In addition, the cash flow projection did not reconcile with the beginning balance; therefore, FCMAT was unable to verify with the current cash balance.*

- |     |   |                          |   |                          |
|-----|---|--------------------------|---|--------------------------|
| 4.4 | Does the district have a reasonable plan to address cash flow needs during the current fiscal year? . . . . . | <input type="checkbox"/> | ✓ | <input type="checkbox"/> |
|-----|---|--------------------------|---|--------------------------|

*The district's cash flow projections did not reflect all expected cash inflows and outflows and the impact on cash balance. They lacked beginning, monthly and ending balances. An incomplete cash flow forecast makes it impossible for the district to accurately know its cash needs and develop a reasonable plan to address those needs.*

4.5	Does the district have sufficient cash resources in its other funds to support its current and projected obligations in those funds? . . . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>While the cash flow projections and ending fund balances provided indicate that the district has ample cash to meet its obligations, it is impossible to be confident without certainty of the beginning cash balance along with careful scrutiny of cash inflow and outflow expectations. District records and county office review identify a lack of beginning balance reconciliation and revenue alignment.</i>			
4.6	If interfund borrowing is occurring, does the district comply with Education Code section 42603? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
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? . . . .	<input type="checkbox"/>	<input type="checkbox"/>	✓

## 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"/>
	<i>The board of trustees has adopted board policy recognizing its responsibility to provide oversight of any charter school it authorizes. The district provided support of its inquiry into the charter's budget development and, specifically, its ADA/enrollment projections, but acknowledged that it is still learning and developing oversight procedures.</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 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"/>
	<i>As of November 2019, the district had agreements with the certificated and classified bargaining groups but had not settled with the Teamsters Union Local 542.</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"/>
	<i>At the time of the 2019 agreements, the district stated no budget revisions were necessary and that it would work within the existing budget to identify areas to make cuts and actions to take as necessary to pay for the agreement.</i>			

- 6.4 Did the district conduct a presettlement analysis and identify related costs or savings, if any (e.g., statutory benefits, and step and column salary increase), for the current and subsequent years, and did it identify ongoing revenue sources or expenditure reductions to support the agreement? . . . . . ☐ ☒ ☐
- For 2019-20, the district conducted a presettlement analysis and disclosure and stated that the district would hold future discussions with the intent of identifying and making cuts to pay for the agreement.*
- Prior disclosures stated that funding agreements would come from reductions in materials, supplies, more efficiencies and reserves if necessary.*
- 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)? . . . . . ☒ ☐ ☐
- 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? . . . . . ☐ ☒ ☐
- At the time of FCMAT's visit, the district was entering into negotiations with the Teamsters Union Local 542 and no proposal had been made. Therefore, no estimate for settlement was available.*
- 6.7 Did the district comply with public disclosure requirements under Government Code sections 3540.2 and 3547.5 and Education Code section 42142? . . . . . ☒ ☐ ☐
- 6.8 Did the superintendent and CBO certify the public disclosure of collective bargaining agreement prior to board approval? . . . . . ☐ ☒ ☐
- The CSEA tentative agreement disclosure taken to the board in April 2019 was signed only by the director of business services.*
- The PVTA tentative agreement disclosure taken to the board in October 2019 meeting was signed only by the director of business services.*
- 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 director 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 does not have a board-approved plan to eliminate, reduce, or control contributions/transfers from the unrestricted general fund to other restricted programs and other locally restricted resources. Contributions from the unrestricted general fund are made to special education programs, transportation, routine restricted maintenance account, and the JROTC.*
- Contributions have increased in special education by over 20% in the past two years, and the 2019-20 adopted budget shows an increase of 16%. The two subsequent fiscal years are projected to have an 8.21% decrease and an 8.95% increase respectively. These projections are inconsistent with the district's historical trend for which no explanation was provided in the district's assumptions.*

*It is significant to note that the district's 2018-19 actual contribution to restricted programs was over 13% greater than the contribution amount approved at budget adoption and the 2019-20 budgeted contribution is another 13% over the prior year contribution.*

*In addition, the district's 2019-20 adopted budget form MYP has an inaccuracy as it reports an imbalanced contribution from unrestricted to restricted 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? . . . . . ☐ ☒ ☐

*Although the district's multiyear projection includes contributions to restricted programs, FCMAT believes that the projected amounts are inadequate based on historical trends from prior years. As stated above, the district's contribution amounts have increased by more than 16% each year for the past two years. The district's contribution for special education was \$2,346,678 in fiscal year 2017-18; this was 21.14% higher than it was in fiscal year 2016-17. The district's contribution for special education was \$2,915,575 in fiscal year 2018-19; this was 24.24% higher than fiscal year 2017-18. The district's 2019-20 adopted budget for special education is \$3,155,452; this is only 8.23% higher than fiscal year 2018-19. Although the district hopes to address the significant increases in special education, it should budget according to the historical trends until there is sufficient evidence of actual savings.*

8.	Deficit Spending	Yes	No	N/A
8.1	Is the district avoiding deficit spending in the current fiscal year? . . . . . <i>The district expects to decrease its unrestricted ending fund balance by \$2,535,679 in the current fiscal year.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
8.2	Is the district projected to avoid deficit spending in both of the two subsequent fiscal years? . . . . . <i>The forecast identifies total deficit spending of \$2.788 million in the current year, \$2.755 million for 2020-21 and more than \$3 million for 2021-22.</i> <i>The unrestricted fund balance forecast reflects deficit spending of approximately \$2.54 million for 2019-20, \$2.55 million for 2020-21, and \$2.63 million for 2021-22.</i>	<input type="checkbox"/>	<input checked="" 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? . . . . . <i>The district made personnel reductions for the 2019-20 fiscal year but more reductions are needed. As of FCMAT's fieldwork, the district had not identified opportunities to further reduce or eliminate deficit spending.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
8.4	Has the district decreased deficit spending over the past two fiscal years? . . . . . <i>Following a \$1.3 million deficit in 2016-17, audited actuals for 2017-18 and 2018-19 identified a surplus added to the general fund balance. The district forecasts that it will deficit spend in the current year and increase the deficit spending in the subsequent two years.</i>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>



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)? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
9.2	Does the district have a plan to fund its liabilities for retiree health and welfare benefits? . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
9.3	Has the district followed a policy or collectively bargained agreement to limit accrued vacation balances? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
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? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
9.5	Does the district track, reconcile and report employees' compensated leave balances? . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
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? . . . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The district's enrollment has been steadily decreasing. The district reported an enrollment of 3,096 in 2016-17, 3,006 in 2017-18, 2,953 in 2018-19 and 2,878 in 2019-20.</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)? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.3	Does the district track historical enrollment and ADA data to predict future trends? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.4	Do school sites maintain an accurate record of daily enrollment and attendance that is reconciled monthly at the site and district levels? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.5	Has the district certified its California Longitudinal Pupil Achievement Data System (CALPADS) data by the required deadlines (Fall 1, Fall 2, EOY) for the current and two prior years? . . . . .	✓	<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"/>
	<i>The district's historical ADA reflects a decline of about 30 ADA per year since 2016-17. ADA reported on the 2019-20 adopted budget multiyear projection identified an increase in ADA for the current year and then a static ADA for years 2020-21 and 2021-22 at the 2018-19 P-2 ADA level. No explanation is provided to justify the variance from recent historical data and communicated expectations of a 2.7%-2.8% projected decline in enrollment.</i>			
10.7	Do all applicable sites and departments review and verify their respective CALPADS data and correct it as needed before the report submission deadlines? . . . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The district inaccurately reported Free and Reduced-Price Meal (FRPM) eligibility resulting in the district claiming excess unduplicated pupils for funding in 2017-18 and again in 2018-19. Specifically, the district overclaimed the total eligible students by 12 in 2017-18 and 49 in 2018-19. The identified primary cause of these errors was the early upload of data prior to verification of FRPM eligibility.</i>			
10.8	Has the district planned for enrollment losses to charter schools? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
10.9	Does the district follow established board policy to limit outgoing interdistrict transfers and ensure that only students meeting the required qualifications are approved? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>

- 10.10 Does the district meet the average class enrollment for each school site of no more than 24-to-1 class size ratio in TK-3 classes or does it have an alternative collectively bargained agreement? . . . . . ✓ ☐ ☐

## 11. Facilities Yes No N/A

- 11.1 If the district participates in the state's School Facilities Program, has it met the 3% Routine Restricted Maintenance Account requirement? . . . . . ✓ ☐ ☐

- 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 experienced declining enrollment and currently its middle school site is completely vacant. Two of the elementary sites are over 96% of capacity for facility usage and one elementary is at only 73.5% of capacity. The high school is only using 68.8% of its capacity. The continuation school is housed on an old high school campus and is only using approximately 19% of capacity.*

- 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? . . . . . ✓ ☐ ☐

- 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 an up-to-date long-range facilities master plan? . . . . . ☐ ✓ ☐

*The district does not have a long-range facilities master plan. In 2014, the district prepared a five-year plan to outline major facility maintenance projects and funding needs for paving, lighting, HVAC, painting, plumbing, flooring, roofing, etc. The now-expired plan did not cover a facilities need assessment or address projected changes in facilities needs and use.*

## 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? . . . . . ✓ ☐ ☐

- 12.2 Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years? . . . . . ☐ ✓ ☐

*The district's latest interim report forecasts a negative ending fund balance for 2021-22. The forecast identifies deficit spending of \$2.788 million in the current year, \$2.755 million for 2020-21 and more than \$3 million for 2021-22.*

- 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? . . . . . ☐ ✓ ☐

*At the time of FCMAT's review, the board had not approved a plan identifying specific actions that would restore the reserve.*

- 12.4 Is the district's projected unrestricted fund balance stable or increasing in the two subsequent fiscal years? . . . . . ☐ ☒ ☐

*The district's multiyear projection for 2019-20 first interim identifies decreases in the unrestricted fund balance of approximately \$2.5 million for the current year, \$2.6 million for 2020-21 and more than \$2.6 million for 2021-22.*

- 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? . . . . . ☐ ☒ ☐

*The district has several lawsuits pending from current and former employees. The potential amounts of the liability and legal costs are unknown at the time of FCMAT's visit and no set aside has been made in consideration of these.*

### 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 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 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 consistently account for all program costs, including the maximum allowable indirect costs, for each restricted resource? . . . . . ☐ ☒ ☐

*Very few resources were charged indirect costs in 2018-19. At closing for the 2018-19 fiscal year, only four programs were charged indirect cost – three of which were charged below the allowable rate for the district.*

*In 2017-18, 18 programs were charged indirect costs, six of which were not charged the full indirect cost rate approved for the district.*

### 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 Can the system(s) 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? . . . . . ☐ ☒ ☐

*The 2017-18 and 2018-19 audits identified inaccurate reporting of Free and Reduced-Price Meal eligibility resulting in the district claiming excess unduplicated pupils for funding.*

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"/>

*For the fiscal year 2016-17 the auditor made observations concerning prohibited disbursements of the associated student body funds and noted them in the 2017 audit. This observation was again made in 2017-18 and noted in the 2018 audit. The district provided documentation of follow-up and training on these issues.*

*Other observations of concern identified in the audits included the handling of on-site cash, ticket sales documentation and reporting, prohibited purchasing of gift cards, untimely deposits, and errors in ASB bookkeeping.*

*FCMAT was informed by the director of business services and confirmed with site administration that a process has been subsequently implemented to review ASB records every two weeks.*

	• 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"/>
	<i>Financial records indicate accruals are not all cleared by first interim. For the current year, much clearing activity occurred in December, subsequent to the first interim reporting period.</i>			
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? . . . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>

*The district does not regularly reconcile accrual and suspense accounts. An audit finding for fiscal year 2018-19 found that accrued liabilities were not recorded and*

accounted for as of year-end. A review of district records indicated that reconciliation of accounts was not completed at first interim 2019-20.

- 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? . . . . . ☐ ☒ ☐  
*No processes or procedures are formalized. However, Board Policy 3400 states that the "superintendent shall develop internal controls which aid in the prevention and detection of fraud ..."*
- 15.9 Does the district maintain an independent fraud reporting hotline or other reporting service(s)? . . . . . ☐ ☒ ☐  
*The district lacks a fraud reporting hotline or other method to report fraud. Board Policy 3400 states that "the Superintendent shall establish a method for employees or outside persons to anonymously report any suspected instances of fraud, impropriety, or irregularity."*
- 15.10 Does the district have a process for collecting and following up on reports of possible fraud? . . . . . ☐ ☒ ☐  
*The district lacks a formal or documented process for collecting reports of possible fraud, or for ensuring those reports are appropriately addressed.*
- 15.11 Does the district have an internal audit process? . . . . . ☐ ☒ ☐  
*The district lacks an internal audit department or identified process. Interviews with district and site staff indicated that the director of business services and fiscal services coordinator review all purchase orders, credit card purchases and ASB transactions.*

## 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? . . . . . ☒ ☐ ☐
- 16.2 Does the district have a superintendent who has been with the district more than two years? . . . . . ☒ ☐ ☐
- 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? . . . . . ☐ ☒ ☐  
*Board members new within the last four years were sent to California School Boards Association's new board member training, which includes training in governance, finance, student learning and human resources. All but two of the current board members have completed masters in governance training.*
- 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? . . . . .	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>Detailed assumptions are not provided as part of the MYP. However, assumptions are provided throughout the criteria and standards reports as explanations to exceptions and in the report presentations to the board.</i>			
17.2	To help calculate its multiyear projections, did the district prepare an LCFF calculation with multiyear considerations? . . . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17.3	Does the district use its most current multiyear projection in making financial decisions? . . .	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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? . . . . .	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>In the first interim 2019-20, the district reduces unrestricted certificated salaries for 2020-21 by \$228,952.98 and for 2021-22 by \$159,291.55 (B1d) and classified salaries for 2020-21 by \$143,332.95 (B2d), with the broad explanation that the adjustment is to offset personnel decreases. Similar, yet smaller, entries are also made to reduce restricted salaries for the same years.</i>			
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 checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>The district is using the special reserve for capital outlay funds as the primary source of repayment for the capital lease payments. However, these funds will be depleted at the end of fiscal year 2019-20. With no other repayment source identified, the unrestricted general fund will be required to meet all future debt obligations.</i>			
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 checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18.3	If the district is self-insured, does the district have a recent (every two years) actuarial study and a plan to pay for any unfunded liabilities? . . . . .	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" 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 checked="" type="checkbox"/>	<input type="checkbox"/>
	<i>The district's non-voter-approved debt schedule includes a debt service payment in the general fund of \$700,094, which exceeds 2% of the district 2019-20 adopted budget unrestricted general fund revenues.</i>			
	<i>Beginning in fiscal year 2020-21, the district's capital lease obligation payments will become a significant burden on the general fund as the annual debt service payment will be over 3.5% of the district's unrestricted general fund revenues and continue to be a similar payment burden through maturity in 2031.</i>			
19. Position Control		Yes	No	N/A
19.1	Does the district account for all positions and costs? . . . . .	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>



No evidence was provided that the district has a process to verify all positions are accounted for in the budget.

According to the district staff, personnel status forms are completed for each new employee. The forms identify employee, effective date, position, pay rate, budget code(s), and required approvals. The forms reviewed had receipt stamps for both fiscal and personnel departments and initials to indicate that the forms were keyed into position control and payroll.

- 19.2 Does the district analyze and adjust staffing based on staffing ratios and enrollment? . . . . ☐ ☒ ☐

The district lacks a formal tool to analyze and adjust staffing. For certificated and classified teaching and student support, staffing is determined by monitoring enrollment, working with principals and then adjusting teacher allocations. Other positions are based on justified need.

- 19.3 Does the district reconcile budget, payroll and position control regularly, meaning at least at budget adoption and interim reporting periods? . . . . . ☐ ☒ ☐

No evidence was provided to verify that a process exists to reconcile budget, payroll and position control at intervals throughout the year.

Interviews with staff indicated that communications among business, payroll and human resources staff support timely exchange of employment and payroll information. However, historical benefit budget reporting reflected a significant variance from final budget to actuals of 3%-5% for the 2017-18 (\$366,770) and 2018-19 (-\$623,971) fiscal years. Such variances indicate a deficiency in reconciliation of budget, position control and payroll and can greatly impact confidence in the district's budget forecast.

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

Personnel status forms used to document the status approval of positions were found to have budget and other approval signatures dated subsequent to the position start date.

- 19.5 Does the governing board approve all new positions and extra assignments (e.g., stipends) before positions are posted? . . . . . ☐ ☒ ☐

Personnel reports taken to the board for approval regularly reflect employment effective dates that are prior to the date of the board meeting.

- 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? . . . . . ☐ ☒ ☐

District interviews indicated that no formal staffing ratios are in use for certificated staff. To determine staffing needs, the district monitors enrollment and works with principals to adjust class sizes and grade level teacher needs by school site.

- 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? . . . . . ☐ ☒ ☐

No regular meetings are held to discuss issues and improve processes. According to staff interviews, the district practices open door access wherein issues are resolved as they arise via mostly informal conversations.

## 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)? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
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)? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
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)? . . . . .	<input type="checkbox"/>	✓	<input type="checkbox"/>
	<i>The district does not charge indirect costs to special education and FCMAT could not verify that all other direct charges are made. Interviews with staff indicate that efforts are made to capture all direct costs to the program.</i>			
20.5	Is the district's contribution rate to special education at or below the statewide average contribution rate? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
20.6	Is the district's rate of identification of students as eligible for special education comparable with countywide and statewide average rates? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>
20.7	Does the district analyze whether it will meet the maintenance of effort requirement at each interim reporting period? . . . . .	✓	<input type="checkbox"/>	<input type="checkbox"/>

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**Total Risk Score, All Areas**
**45.1%**


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

# Summary

*The Palo Verde Unified School District's budget for 2019-20 was conditionally approved by the Riverside County Office of Education, and to gain approval the district was required to certify its 2018-19 fiscal year records and adjust its budget accordingly. Upon submission of the revised budget, the Riverside County Office of Education declared the district a lack of going concern.*

*The district has experienced declining enrollment in recent years. Based on that history and local indicators, the enrollment is expected to continue its decline. As revenues are highly correlated to enrollment, they are expected to not keep pace with the increases in costs that will naturally occur in the district. Unless district expenses are curbed, they will grow as employee compensation, which makes up the largest majority of the district's budget, increases due to step/column and statutory benefits. The district's final adopted budget identified deficit spending into the foreseeable future and forecasts that the district reserve will be 2.88% this year, 1.76% in 2020-21, and 0.85% in 2021-22, well below the 3% required for positive certification. At the time of FCMAT's fieldwork, no district plan had been approved by the board to address this.*

*Other than the deficit spending and loss of reserves, the most significant issue found in the district is a lack of information on which to make decisions.*

*The district's auditor noted in the 2018-19 audit that the district did not properly account for accruals. This leads to the district not having good information as it transitioned into the 2019-20 fiscal year. The district's budget was conditionally approved by the Riverside COE as it requested that the district finalize fiscal year 2018-19 and revise the budget accordingly. The district audits in the past two years also identify issues with student data reporting that led to revenue adjustments.*

*As employee compensation composes most of the district's budget, it is important to track, control and budget for every position employed. Strong controls need to exist to ensure employment is deliberate, planned, appropriately approved and budgeted. FCMAT found the district lacked processes to determine employment needs, verify budget availability, and ensure appropriate approval prior to hiring.*

*In review of the district's official budget and interim reports and board presentations, FCMAT did not find detailed written budget assumptions. Comparing reports from period to period, significant adjustments were found without clear explanation as to why they occurred. Even with significant adjustments, the end of year actual revenues and expenditures had significant variances from the final board approved budget. In addition, the criteria and standards sections of the reports were found to be incomplete. These sections were established to standardize district analysis of variances outside of what is considered normal and to help the district to document its assumptions. Without their completion, the benefits of the criteria and standards are lost.*

*The district's reports identify a significant contribution to restricted programs from the unrestricted funds. The contribution is identified in several programs and is projected to increase in most. District reports indicate that in past years budgeted contributions increased as the fiscal year progressed. This indicates an overly optimistic outlook and a failure to control costs throughout the year. No board approved plan has been identified to limit or reduce the contributions going forward.*

*A most crucial concern for districts' fiscal solvency is their cash position. Cash insolvency can invoke immediate intervention and loss of a district's local control. A review of the district's current cash position does not identify an immediate concern. However, the district's cash flow projection is not completed accurately and the true position throughout the next 18 months is unknown.*

*The district has outstanding capital lease payments that will become a burden on the general fund beginning in fiscal year 2020-21 as the special reserve from which they have been paid will be depleted. The annual debt on this is expected to be over 3.5% of the district's unrestricted revenues and to continue through maturity in 2031.*

*Of further concern is the district settling collective bargaining agreements that include increased compensation and cost to the district. While the costs of settlement are calculated, the ability to afford the settlement is unknown because of the unknown fiscal status of the district. In the district's response as to how the settlement will be*

*afforded, the district states it will use reserves or make necessary cost reductions. These cost reductions were not fully identified and/or action taken prior to the approval of the agreement or at the time of FCMAT's fieldwork.*

*Lastly, the district has not developed its oversight procedures for the charter school it has authorized. If the district does not fulfill its oversight responsibilities of the charter, it may be held responsible for the charter's fiscal liabilities.*

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