FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

# Paso Robles Joint Unified School District

## Fiscal Health Risk Analysis

May 3, 2019


**Michael H. Fine**
Chief Executive Officer




# Contents

# About FCMAT

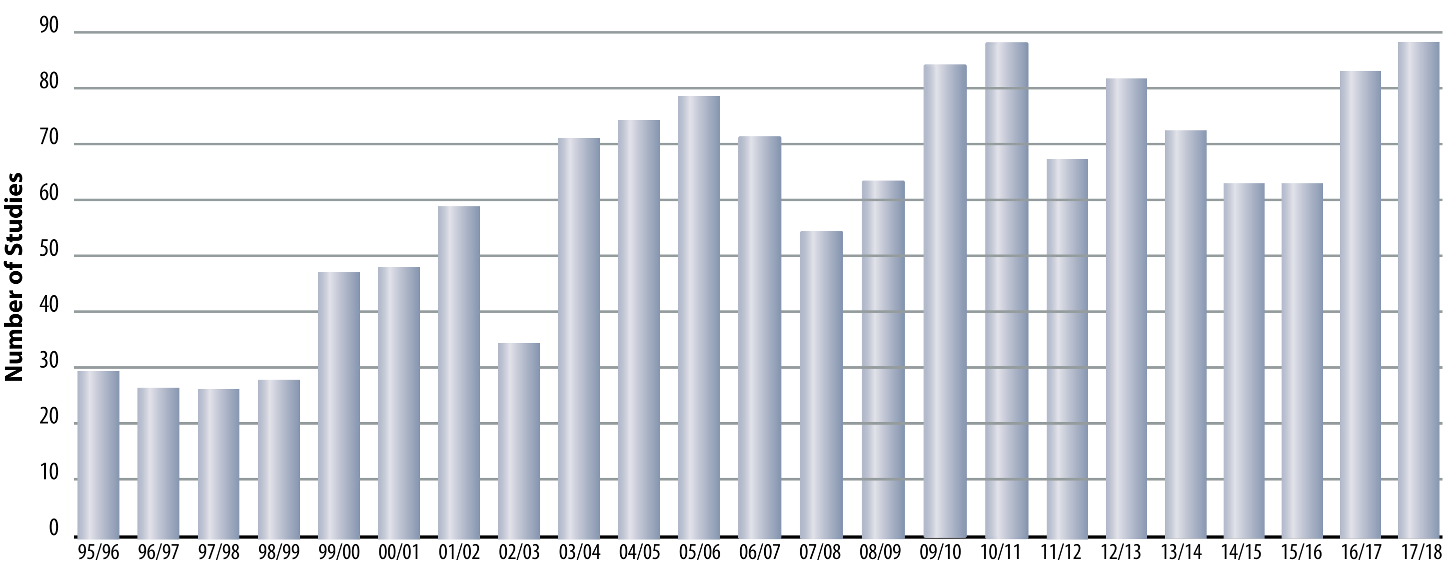
FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT's fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices, support the training and development of chief business officials and help to create efficient organizational operations. FCMAT's data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and inform instructional program decisions.

FCMAT may be requested to provide fiscal crisis or management assistance by a school district, charter school, community college, county office of education, the state Superintendent of Public Instruction, or the Legislature.

When a request or assignment is received, FCMAT assembles a study team that works closely with the LEA to define the scope of work, conduct on-site fieldwork and provide a written report with findings and recommendations to help resolve issues, overcome challenges and plan for the future.

FCMAT has continued to make adjustments in the types of support provided based on the changing dynamics of K-14 LEAs and the implementation of major educational reforms.

Studies by Fiscal Year




FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help LEAs operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) division of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS). CSIS also hosts and maintains the Ed-Data website (www.ed-data.org) and provides technical expertise to the Ed-Data partnership: the California Department of Education, EdSource and FCMAT.

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

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

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

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

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

# Introduction

## Background

The Paso Robles Joint Unified School District has an enrollment of 6,826 students and is located in the central coast area of California. Primary industries in the area include agriculture, manufacturing, retail trade and healthcare. The median household income in the district's boundaries is $61,682, and housing is more affordable in Paso Robles than the average for San Luis Obispo county.

The district has been deficit spending for the past three years and as of the 2018-19 first interim budget has a reserves of approximately 1.73% of its total annual budget, which is below the statutory minimum of 3% for a district of its size. The multiyear projection at first interim indicates that the district reserves will be negative in the 2020-21 fiscal year. The San Luis Obispo County Office of Education conditionally approved the District's budget and, as a condition of approval, required the district to engage FCMAT's services to perform a fiscal health risk analysis for the district.

In January 2019, FCMAT performed a fiscal health risk analysis at the request of the district to determine the level of risk for insolvency. This report is a result of that analysis.

## Study Guidelines

FCMAT entered into the study agreement with the Paso Robles Joint Unified School District on October 17, 2018 to perform a Fiscal Health Risk Analysis of the district. 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.

FCMAT visited the district on January 8-9, 2019 to conduct interviews, collect data and review documents. This report is the result of those activities.

FCMAT's reports focus on systems and processes that may need improvement. Those that may be functioning well are generally not commented on in FCMAT's reports. In writing its reports, FCMAT uses the Associated Press Stylebook, a comprehensive guide to usage and accepted style that emphasizes conciseness and clarity. In addition, this guide emphasizes plain language, discourages the use of jargon and capitalizes relatively few terms.

## Study Team

The team was composed of the following members:

Tami Ethier
FCMAT Intervention Specialist
Davis, CA

John Von Flue
FCMAT Chief Analyst
Bakersfield, CA

John Lotze
FCMAT Technical Writer
Bakersfield, CA

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

# Fiscal Health Risk Analysis

## For K-12 Local Educational Agencies

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CSIS California School Information Services

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 take into account 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 are deemed more important 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: Paso Robles Joint Unified School District

Dates of Fieldwork: January 8-9, 2019

## 1. Annual Independent Audit Report

| | | Yes | No | N/A |
|---|---|---|---|---|
| 1.1 | Can the district correct the audit findings without affecting its fiscal health (i.e., no material apportionment or internal control findings)? . . . . . . . . . . . . . | ☐ | ✓ | ☐ |

*The district filed an extension for its 2017-18 annual independent audit report. For this analysis, 2016-17 is the most recent audit available for review. The district's 2016-17 audit contained a material finding due to miscalculated average daily attendance (ADA) for fiscal year 2016-17. As a result, the district was subject to an adjustment in the amount of ($1,114,787).*

*This audit adjustment represented 25% of the district's unrestricted general fund balance.*

*Although it was not an audit finding, the district had an additional audit adjustment in the amount of $861,188 to reverse an overstated receivable from 2016-17. The combined effect of these two adjustments totaled a $1,975,975 decrease in fund balance (nearly 50% of the available fund balance in 2017-18).*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 1.2 | Has the independent audit report been completed and presented to the board within the statutory timeline? . . . . . . . . . . . . . . . . . . . . . . . . . . . . | ☐ | ✓ | ☐ |

*The district filed an extension for its 2017-18 fiscal year audit, and as a result did not follow the normal statutory deadline. The audit was completed within the time line established as part of the extension.*

| | | | | |
|---|---|---|---|---|
| 1.3 | Did the district receive an independent audit report without material findings? | ☐ | ✓ | ☐ |

*Per item 1.1 above, the district's 2016-17 audit had a material audit finding related to calculation of ADA and collection of attendance data. The audit report also contained a finding regarding improper expenditures of Education Protection Account funds.*

| | | | | |
|---|---|---|---|---|
| 1.4 | Has the district corrected all audit findings? | ✓ | ☐ | ☐ |
| 1.5 | Has the district had the same audit firm for at least three years? | ☐ | ✓ | ☐ |

*Beginning with its 2017-18 audit (currently on extension), the district changed auditors from Vavrinek, Trine, Day & Company to Christy White Associates.*

## 2. Budget Development and Adoption

| | | Yes | No | N/A |
|---|---|---|---|---|
| 2.1 | Does the district develop and use written budget assumptions and projections that are reasonable, are aligned with the Common Message or county office of education instructions, and have been clearly articulated? | ✓ | ☐ | ☐ |
| 2.2 | Does the district use a budget development method other than a 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? | ☐ | ✓ | ☐ |

*Most of the individuals who created the district's fiscal year 2018-19 budget were consultants and district staff outside of the business office, who prepared the budget when the district did not have a chief business official (CBO) or a director of fiscal services. It is unclear what method was used to create the budget or what type of analysis was done on prior year estimated actuals.*

*The district has now filled these two positions and its new CBO and director of fiscal services have the proper procedures in place for the fiscal year 2019-20 budget building cycle.*

| | | | | |
|---|---|---|---|---|
| 2.3 | Does the district use position control data for budget development? | ✓ | ☐ | ☐ |
| 2.4 | Is the Local Control Funding Formula (LCFF) calculated correctly? | ✓ | ☐ | ☐ |
| 2.5 | Has the district's budget been approved unconditionally by its county office of education in the current and two prior fiscal years? | ☐ | ✓ | ☐ |

*The district received conditional approval of its 2018-19 budget from the San Luis Obispo County Office of Education. For the two prior years, it had received unconditional approval.*

| | | | | |
|---|---|---|---|---|
| 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)? | ☐ | ✓ | ☐ |

*Staff indicated during interviews that in the past the district's budget development included little, if any, involvement or input from staff outside of the business department or from the governing board.*

*The new CBO and director of fiscal services have developed a plan to include staff and the board in budget development for fiscal year 2019-20 and beyond.*

| | | | | |
|---|---|---|---|---|
| 2.7 | Are clear processes and policies in place to ensure that the district's Local Control and Accountability Plan (LCAP) and budget are aligned with one another? | ✓ | ☐ | ☐ |
| 2.8 | When appropriate, does the district budget and expend restricted funds before unrestricted funds? | ✓ | ☐ | ☐ |

| | | Yes | No | N/A |
|---|---|---|---|---|
| 2.9 | Are the LCAP and the budget adopted within statutory timelines established by Education Code sections 42103 and 52062, and are the documents filed with the county superintendent of schools no later than five days after adoption, or by July 1, whichever occurs first? | ✓ | ☐ | ☐ |
| 2.10 | Has the district refrained from including carryover funds in its adopted budget? | ✓ | ☐ | ☐ |
| 2.11 | Has the district refrained from using negative or contra expenditure accounts (excluding objects in the 5700s and 7300s and appropriate abatements in accordance with CSAM) in its budget? | ☐ | ✓ | ☐ |

*The 2018-19 budget was built with negative account lines related to salaries and benefits in the amount of approximately $900,000, with over $600,000 of those lines representing certificated salaries.*

*Because the individuals who built the 2018-19 budget are not the current staff at the district, this practice is not anticipated to continue in future budget development.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 2.12 | Does the district adhere to a board-adopted budget calendar that includes statutory due dates and major budget development tasks and deadlines? | ☐ | ✓ | ☐ |

*The district has not used a budget calendar in the past but intends to prepare a calendar for board adoption as staff build the 2019-20 budget.*

## 3. Budget Monitoring and Updates

| | | Yes | No | N/A |
|---|---|---|---|---|
| 3.1 | Are actual revenues and expenses consistent with the most current budget? | ✓ | ☐ | ☐ |
| 3.2 | Are budget revisions completed in the financial system, at a minimum, at each interim report? | ✓ | ☐ | ☐ |
| 3.3 | Are clearly written and articulated budget assumptions that support budget revisions communicated to the board, at a minimum, at each interim report? | ✓ | ☐ | ☐ |
| 3.4 | Following board approval of collective bargaining agreements, does the district make necessary budget revisions in the financial system before the next financial reporting period? | ✓ | ☐ | ☐ |
| 3.5 | Does the district provide a complete response to the variances identified in the criteria and standards? | ✓ | ☐ | ☐ |
| 3.6 | Has the district addressed any deficiencies the county office of education has identified in its oversight letters? | ☐ | ✓ | ☐ |

*In January 2018, the San Luis Obispo County Office of Education issued a letter expressing concerns about the district's overstatement of ADA and the budget reductions that would be needed as a result of the district's collective bargaining agreements for all units. The district did not make the needed budget reductions by March 2018, which has greatly contributed to its deficit spending and its inability to maintain its statutory minimum reserve for economic uncertainty.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 3.7 | Does the district prohibit processing of requisitions or purchase orders when the budget is insufficient to support the expenditure? | ✓ | ☐ | ☐ |
| 3.8 | Does the district encumber salaries and benefits? | ✓ | ☐ | ☐ |

| | | Yes | No | N/A |
|---|---|---|---|---|
| 3.9 | Are all balance sheet accounts in the general ledger reconciled, at a minimum, at each interim report? | ☐ | ✓ | ☐ |

*The director of fiscal services has not reconciled the balance sheet accounts but intends to do so after the second interim report.*

## 4. Cash Management

| | | Yes | No | N/A |
|---|---|---|---|---|
| 4.1 | Are accounts held by the county treasurer reconciled with the district's and county office of education's reports monthly? | ✓ | ☐ | ☐ |
| 4.2 | Are all bank accounts reconciled with bank statements monthly? | ✓ | ☐ | ☐ |
| 4.3 | Does the district forecast its cash receipts and disbursements at least 18 months out, updating the actuals and reconciling the remaining months to the budget monthly to ensure cash flow needs are known? | ✓ | ☐ | ☐ |
| 4.4 | Does the district have a plan to address cash flow needs during the current fiscal year? | ✓ | ☐ | ☐ |
| 4.5 | Does the district have sufficient cash resources in its other funds to support its current and projected obligations? | ✓ | ☐ | ☐ |
| 4.6 | If interfund borrowing is occurring, does the district comply with Education Code Section 42603? | ☐ | ☐ | ✓ |
| 4.7 | If the district is managing cash in all funds through external borrowing, has the district set aside funds attributable to the same year the funds were borrowed for repayment? | ☐ | ☐ | ✓ |

## 5. Charter Schools

| | | Yes | No | N/A |
|---|---|---|---|---|
| 5.1 | Are all charters authorized by the district going concerns? | ☐ | ☐ | ✓ |
| 5.2 | Has the district fulfilled and does it have evidence of its oversight responsibilities in accordance with Education Code section 47604.32(d)? | ☐ | ☐ | ✓ |
| 5.3 | Does the district have a board policy or other written document(s) regarding charter oversight? | ☐ | ☐ | ✓ |
| 5.4 | Has the district identified specific employees in its various departments (e.g., human resources, business, instructional, and others) to be responsible for oversight of all approved charter schools? | ☐ | ☐ | ✓ |

## 6. Collective Bargaining Agreements

| | | Yes | No | N/A |
|---|---|---|---|---|
| 6.1 | Has the district quantified the effects of collective bargaining agreements and included them in its budget and multiyear projections? | ✓ | ☐ | ☐ |
| 6.2 | Did the district conduct a presettlement analysis and identify related costs or savings, if any (e.g., statutory benefits, and step and column salary increases), for the current and subsequent years, and did it identify ongoing revenue sources or expenditure reductions to support the agreement? | ☐ | ✓ | ☐ |

*No evidence of presettlement analysis of costs was provided.*

*The district entered into a multiyear agreement with the Paso Robles Public Educators certificated bargaining unit on September 20, 2017. The agreement included adding three professional development days to the annual calendar for both 2017-18 and 2018-19,* *which increased the workdays per year to 188; a 2% salary increase for 2017-18 and a 1.5% increase for 2018-19; calendar changes; stipend and longevity increases; and additional items that include safety, class size and work hours.*

*The district entered into a multiyear agreement with the California School Employees Association (CSEA) on September 28, 2017. The agreement included adding three mandatory professional development days; a 2% salary increase for 2017-18 and a 1.5% increase for 2018-19; longevity increases; and several other items that include stipends, work hours, and work requirements.*

*It is not known whether the cost of these settlements was calculated because no analysis was provided. However, based on the ratio of salary and benefits to total expenditures subsequently reported, compensation costs grew faster than other district expenditures, thus contributing more to the district's fiscal distress than other district expenditures.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 6.3 | Has the district settled the total cost of the bargaining agreements at or under the funded cost of living adjustment (COLA), and under gap funding if applicable? | ✓ | ☐ | ☐ |
| 6.4 | If settlements have not been reached, has the district identified resources to cover the estimated costs of settlements? | ☐ | ☐ | ✓ |
| 6.5 | Did the district comply with public disclosure requirements under Government Code sections 3540.2, 3543.2, 3547.5 and Education Code Section 42142? | ✓ | ☐ | ☐ |
| 6.6 | Did the superintendent and CBO certify the public disclosure of collective bargaining agreement prior to board approval? | ✓ | ☐ | ☐ |
| 6.7 | Is the governing board's action consistent with the superintendent's and CBO's certification? | ✓ | ☐ | ☐ |
| 6.8 | Has the district settled with all its bargaining units for at least the prior three year(s)? | ✓ | ☐ | ☐ |
| 6.9 | Has the district settled with all its bargaining units for the current year? | ✓ | ☐ | ☐ |

## 7. Contributions and Transfers to Other Funds

| | | Yes | No | N/A |
|---|---|---|---|---|
| 7.1 | Does the district have a plan to reduce and/or eliminate any increasing contributions from the general fund to other resources? | ✓ | ☐ | ☐ |
| 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 general fund to cover the deficit spending? | ✓ | ☐ | ☐ |
| 7.3 | If any transfers were required for other funds in the prior two fiscal years, and the need is recurring in the current year, did the district budget for them? | ✓ | ☐ | ☐ |

## 8. Deficit Spending

| | | Yes | No | N/A |
|---|---|---|---|---|
| 8.1 | Is the district avoiding a structural deficit in the current and two subsequent fiscal years? (A structural deficit is when ongoing unrestricted expenditures and contributions exceed ongoing unrestricted revenues.) | ☐ | ✓ | ☐ |

*Although the district is not deficit spending in the current year (2018-19), its 2018-19 first interim budget includes projections that indicate it is expected to deficit spend $620,335 in 2019-20 and $1,416,831 in 2020-21 from its combined unrestricted and restricted general fund. This study is being performed in January 2019; therefore, the district's first interim financial report is the most recent report used for this analysis.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 8.2 | Is the district avoiding deficit spending in the current fiscal year? | ✓ | ☐ | ☐ |
| 8.3 | Is the district projected to avoid deficit spending in the two subsequent fiscal years? | ☐ | ✓ | ☐ |

*See response to question 8.1.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 8.4. | If the district has deficit spending in the current or two subsequent fiscal years, has the board approved and implemented a plan to reduce and/or eliminate deficit spending? | ✓ | ☐ | ☐ |
| 8.5 | Has the district decreased deficit spending over the past two fiscal years? | ☐ | ✓ | ☐ |

*For its 2016-17 actuals, the district reported deficit spending of $351,351.*

## 9. Employee Benefits

| | | Yes | No | N/A |
|---|---|---|---|---|
| 9.1 | Has the district completed an actuarial valuation to determine its unfunded liability under Governmental Accounting Standards Board (GASB) other post-employment benefits (OPEB) requirements? | ✓ | ☐ | ☐ |

*The district last completed such a valuation in July 2016 and is currently conducting another valuation.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 9.2 | Does the district have a plan to fund its liabilities for retiree benefits? | ✓ | ☐ | ☐ |
| 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? | ✓ | ☐ | ☐ |
| 9.5 | Does the district track and reconcile employees' leave balances? | ✓ | ☐ | ☐ |

## 10. Enrollment and Attendance

| | | Yes | No | N/A |
|---|---|---|---|---|
| 10.1 | Has the district's enrollment been increasing or stable for the current and three prior years? | ✓ | ☐ | ☐ |
| 10.2 | Does the district monitor and analyze enrollment and average daily attendance (ADA) data at least monthly through the second interim 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? | ☐ | ✓ | ☐ |

*In the district's audit for fiscal year 2016-17, findings 2017-001 and 2017-002 stated that the district had incorrectly calculated ADA for its second principal apportionment period (P-2) and annual attendance reports. The audit identified the cause of the error as "an unnecessary calculation to year to date Average Daily Attendance (ADA) figures reported by the attendance system, Aries." This resulted in an incorrect statement of ADA. The 2016-17 ADA figures were adjusted, resulting in adjustments of funding in the amounts of ($1,014,024) and ($78,367), respectively, for the two findings. The audit also stated that corrections were made to the procedures used, staff were assigned to process attendance reports, and attendance reports were being run to regularly monitor this issue.*

*The district's 2017-18 P-2 and annual reports were revised and corrected after their original submission. FCMAT was not able to confirm the accuracy of the attendance reports because the annual audit, which includes the audit of attendance reporting, was not yet completed as of the time of this review.*

*Current year records indicate that regular staff training is being scheduled and that reports are generated by school sites and the district and are reviewed monthly.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 10.5 | Did the district certify its California Longitudinal Pupil Achievement Data System (CALPADS) Fall 1 data by the required deadline? | ✓ | ☐ | ☐ |
| 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 | Has the district developed measures to mitigate the effect of student transfers out of the district? | ✓ | ☐ | ☐ |
| 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 K-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 Repair and Maintenance Account requirement? | ☐ | ✓ | ☐ |

*The district's 2018-19 first Interim budget includes a contribution of $1,577,757.22 to the School Facilities Program, which is less than the 3% contribution requirement. The district indicated that it is working toward meeting the requirement as fiscal solvency allows.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 11.2 | Does the district have sufficient building 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? | ✓ | ☐ | ☐ |
| 11.5 | Does the district include facility needs when adopting a budget? | ☐ | ✓ | ☐ |

*Facilities budgets have historically not been sufficient to keep up with the district's maintenance, repair and replacement needs. The district has exercised flexibility provisions on routine repair and maintenance (RRM) budgets, reducing funding to a level that predominantly supports maintenance and minor repairs only. Facility projects have been largely limited to energy projects funded under Proposition 39 (the California Clean Energy Jobs Act) and bond-supported projects.*

*The district's current 2018-19 budget does not identify sufficient resources to address deficiencies in this area.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 11.6 | Has the district met the facilities inspection requirements of the Williams Act and resolved any outstanding issues? | ☐ | ✓ | ☐ |

*In 2018, Williams Act facility inspections were performed on all 11 of the district's schools. The inspections noted numerous deficiencies, many of which were in the structural and systems categories, with roofing and heating, ventilation, and air conditioning (HVAC) being the major issues. The deficiencies, though not identified as extreme, indicated the need for repair or replacement. Four of the schools were ranked as "poor" in the structural category because less than 75% of the areas examined were considered in good repair. Notes on the inspections and in the district's facilities master plan state that these issues will be addressed in future years as buildings are modernized or replaced. The district's current budget does not identify sufficient resources to address these issues in the 2018-19 fiscal year.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 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? | ✓ | ☐ | ☐ |

## 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? | ☐ | ✓ | ☐ |

*Per the district's 2018-19 first interim multiyear financial projection (MYP), the district does not meet the minimum reserve in the current or two subsequent fiscal years. For 2018-19, the reserve is estimated to be 1.73% of the district's annual expenditures. The district's minimum reserve, as established by criteria and standards for its size, is 3%.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 12.2 | Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years? | ☐ | ✓ | ☐ |

*According to the district's 2018-19 first interim MYP, the district does not meet the minimum reserve in the current or either of the two subsequent fiscal years. For fiscal year 2019-20 the reserve percentage is estimated to be 0.99% of annual expenditures, and for fiscal year 2020-21 it is estimated to be -0.78%.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 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's MYP at first interim does not include a board-approved plan to restore the reserve. However, the district's board has approved Resolution 19-11, which requires expenditure reductions for 2019-20 and 2020-21; these reductions will be reflected in the second interim report.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 12.4 | Is the district's projected unrestricted fund balance stable or increasing in the two subsequent fiscal years? | ☐ | ✓ | ☐ |

*Per the district's first interim MYP, the district's projected ending balance for its unrestricted general fund will decrease from $916,587 to $333,049 to ($1,083,780) at year end for 2018-19, 2019-20 and 2020-21, respectively.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 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? | ☐ | ☐ | ✓ |

## 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 under the statewide average for the current year? | ☐ | ✓ | ☐ |

*The district's budget allocates 87.8% of its unrestricted general fund to salaries and benefits in 2018-19, and this percentage is projected to remain relatively stable through fiscal years 2019-20 and 2020-21.*

*The statewide average for unified school districts as of 2016-17 (the latest data available) is 84.63%. The district exceeds the average percentage in all years of its MYP.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 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 three prior years? | ☐ | ✓ | ☐ |

*The percentage of the district's unrestricted budget allocated to salaries and benefits increased from 84.7% in 2015-16 to 87.3% in 2016-17 and to 89.1% in 2017-18.*

*The statewide average for unified school districts was 83.86% in 2015-16 and 84.63% in 2016-17 (the latest data available). The district has exceeded the statewide average percentage in each of the past three years.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 13.4 | If the district has received any uniform complaints or legal challenges regarding local use of supplemental and concentration grant funding, 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 allowable indirect costs, for each restricted resource? | ✓ | ☐ | ☐ |

## 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 | Does the district accurately identify students who are eligible for free or reduced-price meals, English learners, and foster youth, in accordance with the LCFF and its LCAP? | ☐ | ✓ | ☐ |

*The district uses the Aeries student information system and is capable of reporting this information if the data is current and is entered into the system correctly. However, the district acknowledges that its lack of internal procedures and policies has resulted in data that is neither current nor accurate.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 14.4 | Is the district using the same financial system as its county office of education? | ✓ | ☐ | ☐ |

| | | Yes | No | N/A |
|---|---|---|---|---|
| 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 and authorizations within its financial system? | ✓ | ☐ | ☐ |
| 15.2 | Are the district's financial system's access and authorization controls reviewed and updated upon employment actions (e.g., resignations, terminations, promotions or demotions) and at least annually? | ✓ | ☐ | ☐ |
| 15.3 | Does the district ensure that duties in the following areas are segregated, and that they are supervised and monitored? | | | |
| | • Accounts payable (AP) | ✓ | ☐ | ☐ |
| | • Accounts receivable (AR) | ✓ | ☐ | ☐ |
| | • Purchasing and contracts | ✓ | ☐ | ☐ |
| | • Payroll | ✓ | ☐ | ☐ |
| | • Human resources | ✓ | ☐ | ☐ |
| | • Associated student body (ASB) | ✓ | ☐ | ☐ |
| | • Warehouse and receiving | ✓ | ☐ | ☐ |
| 15.4 | Are beginning balances for the new fiscal year posted and reconciled with the ending balances for each fund from the prior fiscal year? | ✓ | ☐ | ☐ |
| 15.5 | Does the district review and clear prior year accruals by first interim? | ✓ | ☐ | ☐ |
| 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? | ✓ | ☐ | ☐ |
| 15.7 | Has the district reconciled and closed the general ledger (books) within the time prescribed by the county office of education? | ✓ | ☐ | ☐ |
| 15.8 | Does the district have processes and procedures to discourage and detect fraud? | ✓ | ☐ | ☐ |
| 15.9 | Does the district maintain an independent fraud reporting hotline or other reporting service(s)? | ✓ | ☐ | ☐ |
| 15.10 | Does the district have a process for collecting and following up on reports of possible fraud? | ☐ | ✓ | ☐ |

*The district has no formal process for collecting and following up on reports of fraud. However, its Board Policy 3400 and Administrative Regulation 3400 define fraud, financial improprieties and irregularities; include the expectation that employees are to immediately report suspicions to their supervisor and/or the superintendent or superintendent's designee; and state that the superintendent or designee shall investigate reports of fraudulent activity in a confidential manner.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 15.11 | Does the district have an internal audit process? | ☐ | ✓ | ☐ |

*The district does not have an internal audit process but acknowledges this and is addressing areas of weakness identified by its auditors.*

## 16. Leadership and Stability

| | | Yes | No | N/A |
|---|---|---|---|---|
| 16.1 | Does the district have a chief business official who has been with the district more than two years? | ☐ | ✓ | ☐ |

*The district's previous CBO retired in early 2018, and the position was filled temporarily with an interim CBO and a consultant. The current CBO's contract was approved in August 2018.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 16.2 | Does the district have a superintendent who has been with the district more than two years? | ☐ | ✓ | ☐ |

*The district's superintendent's resignation was accepted by the district's board of trustees at their December 6, 2018 meeting. The district currently has an interim superintendent.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 16.3 | Does the superintendent meet regularly with all members of their administrative cabinet? | ✓ | ☐ | ☐ |
| 16.4 | Is training on financial management and budget offered 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 communicated to staff and implemented? | ☐ | ✓ | ☐ |

*FCMAT was not able to identify any formal or structured district process for communicating changes in policies or administrative regulations to staff. Departments directly responsible for or affected by the changes learned of them and implemented them on their own initiative.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 16.7 | Is training on the budget and governance provided to board members at least every two years? | ✓ | ☐ | ☐ |
| 16.8 | Is the superintendent's evaluation performed according to the terms of the contract? | ✓ | ☐ | ☐ |

## 17. Multiyear Projections

| | | Yes | No | N/A |
|---|---|---|---|---|
| 17.1 | Has the district developed multiyear projections that include detailed assumptions aligned with industry standards? | ✓ | ☐ | ☐ |
| 17.2 | To help calculate its multiyear projections, did the district prepare an LCFF calculation with multiyear considerations? | ✓ | ☐ | ☐ |
| 17.3 | Does the district use its most current multiyear projection when making financial decisions? | ✓ | ☐ | ☐ |

## 18. Non-Voter-Approved Debt and Risk Management

| | | Yes | No | N/A |
|---|---|---|---|---|
| 18.1 | Are the sources of repayment for non-voter-approved debt stable {such as certificates of participation (COPs), bridge financing, bond anticipation notes (BANS), revenue anticipation notes (RANS) and others}, predictable, and other than unrestricted general fund? | ☐ | ✓ | ☐ |

*As of its June 30, 2017 audit, the district had $1,107,674 outstanding in capital leases. The outstanding long-term commitments identified in the district's 2018-19 first interim report totaled $953,599 for capital leases and $4,589,642 for Proposition 39 energy projects. The district's 2018-19 budget identifies debt service on capital leases to be $590,186 to be paid with developer fees out of Capital Facilities Fund 25 and $624,934 to be paid out of the general fund. If the developer fees collections are not sufficient, the shortfall would need to be paid from general fund monies. As of first Interim 2018-19, the district had collected $94,182.05 of the budgeted $604,892.90 or approximately 15.5% of the developer fees budgeted to be collected for the year.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 18.2 | If the district has issued non-voter-approved debt, has its credit rating remained stable or improved? | ☐ | ✓ | ☐ |

*On November 9, 2018, Moody's Investors Service lowered the district's long-term and underlying rating from Aa3 to A1 with an outlook of "Negative." This lower rating identifies an increase in risk related to repayment of debt. This may affect investors' interest in purchasing district bonds; may increase the cost of debt because investors and lenders may require a greater return to offset the increased risk; and may affect the district's ability to enter into debt arrangements such as borrowing and lease agreements.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 18.3 | If the district is self-insured, does the district have a recent (every 2 years) actuarial study and a plan to pay for any unfunded liabilities? | ☐ | ☐ | ✓ |
| 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? | ☐ | ✓ | ☐ |

*The district's non-voter-approved debt schedule includes a debt service payment of $4,589,642 annually, which exceeds 2% of the district's unrestricted general fund reserves.*

## 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, meaning 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 before positions are posted? | ☐ | ✓ | ☐ |

*The district provided personnel requisition forms and an undated chart of personnel requisition procedures to be followed when hiring staff. Procedures include position requisition, internal approvals, fiscal review, cabinet approval for existing or board approval* *for new positions, advertising and selection process, and offers and notification. However, interviews with employees indicated that the process is not always followed and that positions are not always approved by the board prior to hiring.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 19.6 | Does the district have board-adopted staffing ratios for certificated, classified and administrative positions? | ☐ | ✓ | ☐ |

*FCMAT could not identify any board-approved staffing ratios. Staffing ratios at all levels result from bargaining agreements and administrative decisions.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 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?. | ☐ | ✓ | ☐ |

*Staff indicated that meetings between human resources, payroll and budget staff were not held regularly. In addition, communication between the departments was strained due to unclear assignment of responsibilities, resulting in a lack of ownership and accountability.*

## 20. Special Education

| | | Yes | No | N/A |
|---|---|---|---|---|
| 20.1 | Are the district's staffing ratios, class sizes and caseload sizes in accordance with statutory requirements and industry standards? | ☐ | ✓ | ☐ |

*Caseload sizes for speech therapy for preschoolers exceed the statutory maximum of 40 (per E.C. 56441.7): the district is averaging 44.8 cases per speech therapist.*

*The industry standard caseload for psychologists, per CalEdFacts, is 1,050. At Paso Robles High and Georgia Brown Elementary schools, the caseloads are 1,318 and 1,653, respectively.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 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 account correctly for all costs related to special education (e.g., transportation, indirect costs, service providers)? | ☐ | ✓ | ☐ |

*The district is not calculating or transferring indirect costs from the special education programs. This understates the true cost of these programs.*

| | | Yes | No | N/A |
|---|---|---|---|---|
| 20.5 | Is the district's contribution rate to special education at or below the statewide average contribution rate? | ✓ | ☐ | ☐ |
| 20.6 | Is the district's rate of identification of students as eligible for special education comparable with countywide and statewide average rates? | ✓ | ☐ | ☐ |
| 20.7 | Does the district monitor, and reconcile the billing for, any services provided by nonpublic schools and/or nonpublic agencies? | ✓ | ☐ | ☐ |
| 20.8 | Does the district analyze and plan for the costs of due process hearings? | ✓ | ☐ | ☐ |
| 20.9 | Does the district analyze whether it will meet the maintenance of effort (MOE) requirement at each interim reporting period? | ✓ | ☐ | ☐ |

| **Total Risk Score, All Areas** | **27.5%** |
|---|---|

## Key to Risk Score

*High Risk: 40% or more*

*Moderate Risk: 25-39%*

*Low Risk: 24% and lower*

## Summary

*Monitoring the district's budget and making sound financial decisions is the responsibility of the school district's administration and its governing board. To perform these functions, the administration and the board rely on the business department expertise and ability to provide sound and accurate financial information that is supported by trend analysis, budget assumptions and multiyear projections. During the 2017-18 fiscal year, the district lost both its chief business official and its director of fiscal services, and in the time immediately after this loss the administration and the board were left without pertinent guidance, expertise, and access to information that, if responded to appropriately, could have prevented the district's general fund balance from dropping to a critical level.*

*The district's general fund balance was depleted to less than the statutorily-required reserve for economic uncertainty during the 2017-18 fiscal year as a result of adjustments and recalculations made to correct audit findings from the 2016-17 fiscal year, including reductions to the principal apportionment accrual for that fiscal year. In addition, the district experienced a decrease in its expected average daily attendance (ADA) because of the attendance accounting error made in 2016-17 which, because of the prior-year guarantee provision in the Local Control Funding Formula (LCFF), affected the district's fiscal year 2017-18 budgeted revenues.*

*Some of this could have been prevented if the district had experienced fiscal personnel in the two key vacant positions. For example, the California Department of Education (CDE) offers payment plans for districts that will be negatively impacted by audit adjustments. Regarding audit resolution payment plans, in* a letter to superintendents dated December 8, 2000 *the CDE stated the following: "Our overriding concern about the repayment of audit exceptions is that the repayment should not unduly affect the educational programs or financial health of the school districts and county offices of education." The district could have filed a "summary review" with the state's Education Audit Appeals Panel to request a payment plan for the audit adjustment, which if approved would have provided a two-year payment plan. Although it is best not to have this type of audit finding and subsequent request for CDE intervention, the process is in place for situations such as the district experienced and may have given the district time to react and plan accordingly.*

*The areas of concern found in this fiscal health risk analysis mainly relate to reserves less than statutorily-required amounts (because of audit findings and adjustments), and deficiencies in leadership and stability as a result of vacancies in the key fiscal positions mentioned above. Those positions have now been filled, and the board and administration have taken steps to strengthen the district's fiscal solvency. The district will need to continue to carefully monitor its projected ending fund balance, be proactive in its efforts to create a positive fund balance trend, and eliminate deficit spending to restore its reserves.*