FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Fiscal Health Risk Analysis

March 3, 2022

San Francisco County Office of Education

Michael H. Fine
Chief Executive Officer

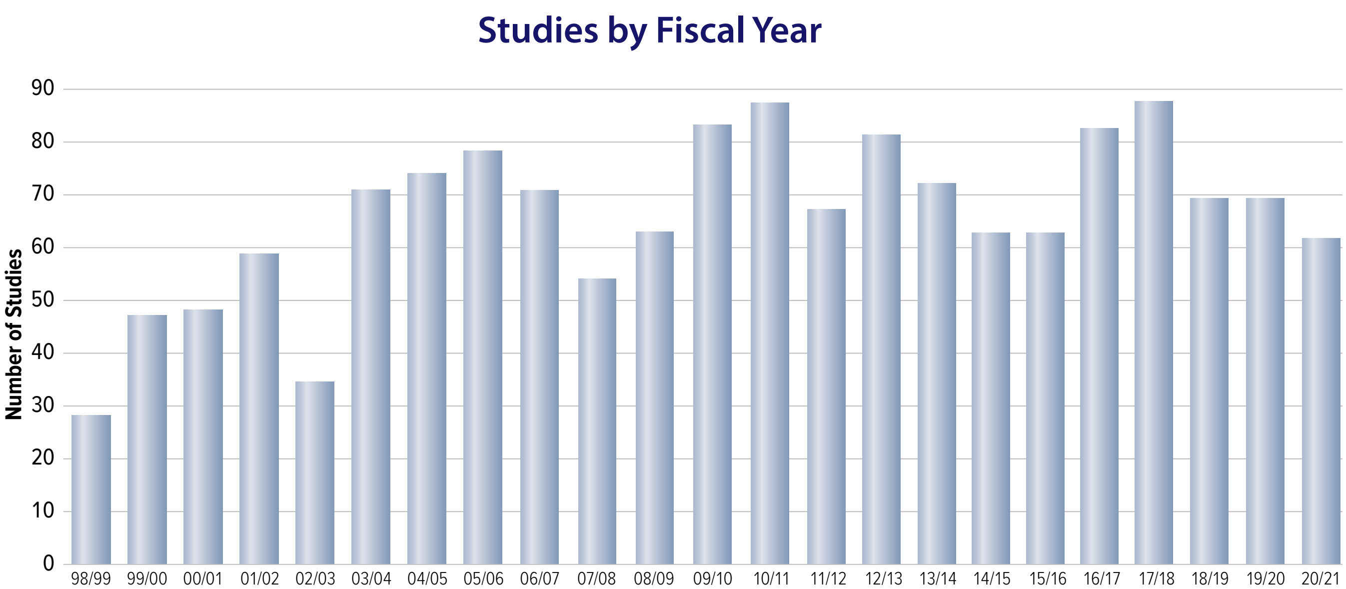
Contents

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

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

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

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

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

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

Introduction

Background

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

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

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

This fiscal health risk analysis is reviewing the San Francisco County Office of Education, a single-district county in which both the county office and the San Francisco Unified School district are administered by the same board of trustees. As a result, both the county office and the district are overseen by the state superintendent of public instruction (SPI).

This fiscal health risk analysis is being conducted because the San Francisco County Office of Education has the following condition, under which an analysis is required by the 2018-19 State Budget Act.

- "Lack of going concern" designation

The California Department of Education (CDE), on behalf of the SPI, examined the county office's and the district's 2021-22 budgets and approved them, but identified concerns about the district's deficit spending and about its fiscal projections, which indicate insufficient reserves beginning in 2022-23. As a result, the SPI determined the county office is no longer a going concern and FCMAT's engagement was triggered.

FCMAT performed a fiscal health risk analysis to determine the county office's level of risk for insolvency.

Fiscal Health Risk Analysis Guidelines

FCMAT entered into a study agreement with the San Francisco County Office of Education on September 29, 2021, and a study team conducted virtual interviews at various times from October 27 through December 15, 2021. Following fieldwork, the study team continued to collect, review and analyze documents. Document collection continued through January 14, 2022. 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
Chief Analyst

Erin Lillibridge, CFE
Intervention Specialist

Carolynne Beno, Ed.D.
Intervention Specialist

John Lotze
FCMAT Technical Writer

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

Fiscal Health Risk Analysis
For K-12 School Districts

FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Date(s) of fieldwork: October 27-29, November 10, December 15, 2021

District: San Francisco County Office of Education

Summary

In concurrence with the concerns cited by the state superintendent of public instruction (SPI) leading to the lack of going concern designation, FCMAT's Fiscal Health Risk Analysis identifies issues including deficit spending; issues with budget development, monitoring and updating; and concerns about the district's ability to maintain sufficient reserves.

The SPI's oversight letters since 2019-20 have cautioned the district and the county office about deficit spending and their need to identify and implement expenditure reductions to balance their budgets, eliminate deficit spending, and maintain fiscal solvency into the future.

Although the San Francisco County Office of Education and the San Francisco Unified School District are separate local education agencies (LEAs), they are governed by the same board of trustees, managed by the same administration, and essentially operate as a single organization. Therefore, many issues found in FCMAT's analyses of both the district and the county office are shared by the two entities.

As in its analysis of the district, FCMAT's analysis of the county office identifies budget monitoring as the area of most concern. FCMAT found that the county office's actual revenues and expenses did not align with its interim financial reports. The county office should update its budget at least every reporting period and communicate any revisions or variances. FCMAT found no details regarding revisions and variances in the first interim report for 2021-22 or any of the interim reports for 2020-21. Failure to update the budget and clearly explain any known variances can give an inaccurate picture of a local educational agency's fiscal standing.

As it did with the district, FCMAT found risk in the budget development processes in the county office. A review of budget presentation materials revealed little detail to explain budget assumptions and multiyear projections. Without this detail, it is difficult to determine the county office's fiscal status and compare and explain future adjustments. Calculations were not provided to support the county office's LCFF revenue. This is of concern because the actuals for the past years reviewed (2018-2021) showed that the budgeted LCFF was consistently overstated. Also, as was the case with the district, although the county office maintains position control, it does not use it for budget development. Because employee compensation accounts for most of the county office's expenditures, a failure to use accurate employee costs in planning can quickly lead to budget imbalances. Also of concern was the lack of planned expenditures of restricted funds before unrestricted funds; the county office's restricted fund balance showed significant increases in the last three years.

In addition, at the time of FCMAT's review, the county office had not yet settled with all employee collective bargaining units, leaving uncertainty about how they may further affect the district's fiscal status.

At budget adoption, the county office had budgeted to deficit spend in the current and two subsequent years, decreasing the unrestricted fund balance by $929,873 in the current year, $251,335 in 2022-23 and $545,539 in 2023-24. In addition, the county office lacked a board-approved plan to eliminate this deficit spending and curb its structural deficit.

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

County Office Fiscal Solvency Risk Level: High

About the Analysis

The Fiscal Crisis and Management Assistance Team (FCMAT) has developed the Fiscal Health Risk Analysis (FHRA) as a tool to help evaluate a school district's fiscal health and risk of insolvency in the current and two subsequent fiscal years. The FHRA tool was developed for review of a district, with oversight provided by the COE. In this study, the reviewed entity is the county office of education (COE), and the oversight agency is the state SPI/California Department of Education (CDE). Most of the review remains applicable and relevant; however, when a question refers to "district," this report will mean the COE and when the question refers to "COE," this report will mean the CDE.

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

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

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

Areas of High Risk

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

Budget and Fiscal Status: Is district currently *without* the following?:	**Yes**	**No**
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	☐	✓

	Material Weakness Questions	**Yes**	**No**	**N/A**
2.5	Has the district's budget been approved unconditionally by its county office of education in the current and two prior fiscal years?	✓	☐	☐
3.4	Following board approval of collective bargaining agreements, does the district make necessary budget revisions in the financial system to reflect settlement costs in accordance with Education Code Section 42142?	✓	☐	☐
3.6	Has the district addressed any deficiencies the county office of education has identified in its oversight letters in the most recent and two prior fiscal years?	☐	✓	☐
4.3	Does the district forecast its general fund cash flow for the current and subsequent year and update it as needed to ensure cash flow needs are known?	☐	✓	☐
4.4	If the district's cash flow forecast shows insufficient cash in its general fund to support its current and projected obligations, does the district have a reasonable plan to address its cash flow needs for the current and subsequent year?	✓	☐	☐
5.2	Has the district fulfilled and does it have evidence showing fulfillment of its oversight responsibilities in accordance with Education Code Section 47604.32?	☐	☐	✓
5.3	Are all charters authorized by the district going concerns and not in fiscal distress?	☐	☐	✓
6.3	Does the district accurately quantify the effects of collective bargaining agreements and include them in its budget and multiyear projections?	✓	☐	☐

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

Score Breakdown by Section

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

1.	Annual Independent Audit Report	0.0%
2.	Budget Development and Adoption	3.5%
3.	Budget Monitoring and Updates	6.9%
4.	Cash Management	1.6%
5.	Charter Schools	0.0%
6.	Collective Bargaining Agreements	3.7%
7.	Contributions and Transfers	1.0%
8.	Deficit Spending (Unrestricted General Fund)	3.5%
9.	Employee Benefits	2.5%
10.	Enrollment and Attendance	1.0%
11.	Facilities	0.0%
12.	Fund Balance and Reserve for Economic Uncertainty	1.0%
13.	General Fund - Current Year	2.2%
14.	Information Systems and Data Management	1.0%
15.	Internal Controls and Fraud Prevention	1.4%
16.	Leadership and Stability	0.8%
17.	Multiyear Projections	2.0%
18.	Non-Voter-Approved Debt and Risk Management	0.0%
19.	Position Control	0.0%
20.	Special Education	1.3%
Score		**33.2%**

Fiscal Health Risk Analysis Questions

Budget and Fiscal Status: Is the district currently *without* the following?:

	Yes	No
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	☐	✓

1. Annual Independent Audit Report

		Yes	No	N/A
1.1	Has the district corrected the most recent and prior two years' audit findings without affecting its fiscal health?	✓	☐	☐
1.2	Has the audit report for the most recent fiscal year been completed and presented to the board within the statutory timeline? (Extensions of the timeline granted by the State Controller's Office should be explained.)	✓	☐	☐
1.3	Were the district's most recent and prior two audit reports free of findings of material weaknesses?	✓	☐	☐
1.4	Has the district corrected all reported audit findings from the most recent and prior two audits?	☐	✓	☐

In the most recent audit report available (June 30, 2020), the auditor stated that comprehensive school safety plans (CSSPs) were not reviewed and approved annually in accordance with the applicable compliance requirements in 2018-19 or 2019-20. For the 2020 21 school year, the district reported creating a tracker to capture receipt of CSSPs and other related documents to ensure compliance with the CSSP requirements. At the time of this report, the 2021 audit report was not available to assess compliance. All other prior year findings have been corrected.

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?	☐	✓	☐

In interviews, staff indicate that although the San Francisco Unified School District and the San Francisco County Office of Education are separate local educational agencies (LEAs) operating in San Francisco county, the two organizations operate very much as a single organization.

However, the county office generates its own funding from federal, state, and local sources, which for financial reporting purposes is tracked and monitored separately from that of the district. Consequently, the county office's budget should be aligned with its statutory and programmatic functions. The 2021-22 budget board materials provided minimal information about the county office's responsibilities, how the budget was developed, or what assumptions were used to develop the budget and multiyear projections.

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? . . . . ✓ ☐ ☐

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

The county office maintains a detailed position control report; however, staff indicated that it uses an average cost by position rather than the actual cost by position when developing school site budgets.

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

The county office did not provide supporting calculations for its LCFF revenue projections.

Budget and unaudited actual reports for the 2018-19, 2019-20 and 2020-21 fiscal years show that the county office consistently overestimated LCFF revenue.

The 2021-22 budget and multiyear financial projections continued this practice.

Fiscal Year	Adopted Budget	Unaudited Actuals	Difference
2018-19	10,520,071	10,331,864	(188,207)
2019-20	10,702,252	10,351,265	(350,987)
2020-21	10,702,252	10,356,841	(345,411)
2021-22*	10,702,252	n/a	-
2022-23*	10,700,000	n/a	-
2023-24*	10,700,000	n/a	-

** Projection as of 2021-22 budget approved by the governing board on June 22, 2021.*

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

2.6 Does the budget development process include input from staff, administrators, the governing board, the community, and the budget advisory committee (if there is one)? . . . . ✓ ☐ ☐

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

The county office did not consistently expend restricted funds before unrestricted funds. A review of unaudited actuals reports for 2018-19, 2019-20 and 2020-21 showed the following restricted ending fund balances:

	2018-19	2019-20	2020-21
Ending Fund Balances*	745,041.90	780,817.62	1,190,175.33

** Does not include carryover amounts for unspent grants (e.g., title I and other state and federal program funds that are not recognized as revenue until expended).*

The county office's 2021-22 first interim financial report indicates that it projects to increase its restricted ending fund balance to $7,535,021 (up significantly from the $839,035 projected in the 2021-22 budget).

FCMAT could not accurately determine the county office's historical restricted carryover grant amounts: consequently, the restricted unspent amounts at year end are likely much higher than indicated in the balance above.

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

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

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

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

2.12 Does the district adhere to a budget calendar that includes statutory due dates, major budget development tasks and deadlines, and the staff members/departments responsible for completing them? . . . ✓ ☐ ☐

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

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

The county office's 2021-22 first interim report, as well as its 2020-21 first and second interim reports, included multiple instances in which actual revenues and expenses for the reporting period were inconsistent with projected totals.

For example, the 2021-22 first interim report showed a projected classified salaries total of $127,591 in the restricted general fund, which was less than the actual amount of $205,583 reported through October 31, 2021.

The first interim report should include budget revisions by object account code to show changes since the budget's adoption in June 2021, such as prior year carryover funds, revised funding allocations, updated enrollment/ADA estimates, and salaries and full-time equivalent (FTE) staffing adjustments.

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

The county office did not provide FCMAT with any evidence that budget revisions are posted in the financial system at each interim report.

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

FCMAT reviewed the 2021-22 first interim report and the 2020-21 first and second interim reports. The interim report board presentations did not address the budget assumptions or revisions specific to the county office financials.

In addition, because the board-approved operating budget (column b) matched the projected totals (column d) rather than the last board-approved budget, the standardized account code structure (SACS) forms did not show any differences (column e) for the budget revisions associated with the reporting period.

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

3.5 Do the district's responses fully explain the variances identified in the criteria and standards? . ☐ ✓ ☐

FCMAT reviewed the criteria and standards included in the county office's budget and interim reports for the 2020-21 and 2021-22 fiscal years and found the forms to be generally incomplete and therefore insufficient to explain variances in the county office's financials.

In addition, the 2021-22 first interim report's board materials did not include the county office's criteria and standards review forms.

3.6 Has the district addressed any deficiencies the county office of education has identified in its oversight letters in the most recent and two prior fiscal years? ☐ ✓ ☐

The San Francisco Unified School District and the San Francisco County Office of Education are served by the same governing board and superintendent. Because of this, the state superintendent of public instruction (SPI) is legally responsible to oversee the fiscal solvency of both organizations. Because the two organizations operate as one, the SPI's oversight letters make no distinction between the solvency of the two organizations. For financial reporting purposes, the San Francisco County Office of Education budget is tracked separately from the school district's in the county school service fund.

The SPI's oversight letters since 2019-20 have cautioned the district and county office about deficit spending and requested that they identify and implement timely budget solutions to maintain fiscal solvency.

Most recently, on September 15, 2021, the SPI approved the 2021-22 budgets but determined that the county office may be unable to meet its financial obligations for the current or two subsequent fiscal years, and thereby also determined that it is no longer a going concern. The reason for the SPI's lack of going concern determination was the district's continued projected deficit spending in its unrestricted general fund, which totals $116.2 million in 2022-23, resulting in a projected negative unrestricted fund balance of $76.0 million. After a year of discussion, the district and county office had not identified budget balancing solutions and did not submit a fiscal solvency plan as the CDE had requested for its 2020-21 budget and interim reports.

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 and adjust encumbrances for salaries and benefits? ☐ ✓ ☐

The county office's financial system does not encumber salaries and benefits.

3.9 Are all balance sheet accounts in the general ledger reconciled at least at each interim report and at year end close? ☐ ✓ ☐

The county office did not provide FCMAT with any evidence that balance sheet accounts in the general ledger are reconciled at least at each interim report and at year-end close.

3.10 For the most recent and two prior fiscal years, have the interim reports and the unaudited actuals been adopted and filed with the county superintendent of schools within the timelines established in Education Code? ✓ ☐ ☐

4. Cash Management — Yes / No / N/A

4.1 Are accounts held by the county treasurer reconciled with the district's and county office of education's reports monthly? ✓ ☐ ☐

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

4.3 Does the district forecast its general fund cash flow for the current and subsequent year and update it as needed to ensure cash flow needs are known? ☐ ✓ ☐

The county office does not forecast its general fund cash flow into the subsequent year but reports it plans to use FCMAT's Projection-Pro software to help develop its multiyear and cash flow projections.

		Yes	No	N/A
4.4	If the district's cash flow forecast shows insufficient cash in its general fund to support its current and projected obligations, does the district have a reasonable plan to address its cash flow needs for the current and subsequent year?	✓	☐	☐
4.5	Does the district have sufficient cash resources in its other funds to support its current and projected obligations in those funds?	✓	☐	☐
4.6	If interfund borrowing is occurring, does the district comply with Education Code Section 42603?.	☐	✓	☐

Based on the cash flow projections provided, the county office has carried out interfund borrowing between the county school service fund and the general fund.

The county office did not provide FCMAT with evidence to confirm that interfund borrowing occurs in compliance with Education Code Section 42603.

FCMAT acknowledges that the district and county office operate as a single organization. However, for financial reporting purposes, the two organizations are tracked separately. Therefore, the transfer of cash for temporary borrowing purposes may be more appropriately recorded as an interorganizational loan rather than as temporary interfund borrowing.

		Yes	No	N/A
4.7	If the district is managing cash in any fund(s) through external borrowing, does the district's cash flow projection include repayment based on the terms of the loan agreement?.	☐	☐	✓

5. Charter Schools

		Yes	No	N/A
5.1	Does the district have a board policy or other written document(s) regarding charter oversight?.	☐	☐	✓
5.2	Has the district fulfilled and does it have evidence showing fulfillment of its oversight responsibilities in accordance with Education Code Section 47604.32?	☐	☐	✓
5.3	Are all charters authorized by the district going concerns and not in fiscal distress?	☐	☐	✓
5.4	Has the district identified specific employees in its various departments (e.g., human resources, business, instructional, and others) to be responsible for oversight of all approved charter schools?	☐	☐	✓

6. Collective Bargaining Agreements

		Yes	No	N/A
6.1	Has the district settled with all its bargaining units for the past two fiscal years?	☐	✓	☐

The district is in various stages of negotiations with its employee collective bargaining units regarding compensation and working terms affected by COVID-19.

		Yes	No	N/A
6.2	Has the district settled with all its bargaining units for the current year?	☐	✓	☐

At the time of FCMAT's fieldwork, the district was discussing compensation with several bargaining groups including working conditions affected by COVID-19 and compensation increases funded by Proposition J revenues.

		Yes	No	N/A
6.3	Does the district accurately quantify the effects of collective bargaining agreements and include them in its budget and multiyear projections?	✓	☐	☐
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?	✓	☐	☐

		Yes	No	N/A
6.5	In the current and prior two fiscal years, has the district settled the total cost of the bargaining agreements including step and column increases at or under the funded cost of living adjustment (COLA)?	☐	✓	☐

The district's voters approved Proposition G and Proposition J, which are both parcel taxes to support compensation adjustments in excess of state funding increases.

According to agreements settled in 2017 for both the classified and certificated bargaining units, the district gave salary increases of 3% for 2017-18, 4% for 2018-19 and 4% for 2019-20. With the passage of Proposition G, the salary schedules were to be further increased by 2% for 2017-18 and 1% for 2018-19. In addition, increased contributions to benefits, additional hours for professional development, and other compensation enhancements were included. The corresponding COLAs were 1.56% for 2017-18, 3.7% for 2018-19 and 3.26% for 2019-20.

		Yes	No	N/A
6.6	If settlements have not been reached in the past two years, has the district identified resources to cover the costs of the district's proposal(s)?	✓	☐	☐
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?.	☐	✓	☐

FCMAT did not find documents showing certification by the superintendent and chief business official (CBO); however, board agenda items regarding tentative agreements for compensation show approval by the district's chief of labor relations and state that these agreements are pending approval by the CDE before they can be implemented.

		Yes	No	N/A
6.9	Is the governing board's action consistent with the superintendent's and CBO's certification?	☐	✓	☐

The governing board approved several memoranda of understanding (MOUs) with bargaining units subsequent to the 2017 settlement. These MOUs are signed by the district's chief of labor relations with no indication of superintendent and CBO recommendation.

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 board does not have a plan to eliminate, reduce or control any contributions from the unrestricted general fund to other restricted programs and funds.

		Yes	No	N/A
7.2	If the district has deficit spending in funds other than the general fund, has it included in its multiyear projection any transfers from the unrestricted general fund to cover any projected negative fund balance?	✓	☐	☐
7.3	If any contributions/transfers were required for restricted programs and/or other funds in either of the two prior fiscal years, and there is a need in the current year, did the district budget for them at reasonable levels?	✓	☐	☐

8. Deficit Spending (Unrestricted General Fund)

		Yes	No	N/A
8.1	Is the district avoiding deficit spending in the current fiscal year?	☐	✓	☐

The 2021-22 budget shows a projected net decrease of $929,873 in the current fiscal year's unrestricted general fund.

		Yes	No	N/A
8.2	Is the district projected to avoid deficit spending in both of the two subsequent fiscal years?	☐	✓	☐

The 2021-22 budget's multiyear financial projection shows the county office is projected to deficit spend in the unrestricted general fund by $251,335 in 2022-23 and by $545,539 in 2023-24.

		Yes	No	N/A
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?	☐	✓	☐

As of the 2021-22 budget adoption, the county office did not have a board-approved plan to reduce and/or eliminate deficit spending to ensure fiscal solvency.

The SPI's budget approval letter dated September 15, 2021 required that a board-approved fiscal stabilization plan be submitted to the CDE by December 15, 2021, with board-adopted budget adjustments to restore and maintain a positive fund balance and required reserve levels in 2022-23 and 2023-24.

The governing board approved a budget balancing plan on December 14, 2021 that includes $125 million in expenditure reductions to decrease the projected deficits and restore required reserve levels.

		Yes	No	N/A
8.4	Has the district decreased deficit spending over the past two fiscal years?	☐	✓	☐

In 2019-20, the unrestricted general fund had a surplus of $442,978.

However, at the close of the 2018-19 and 2020-21 fiscal years, the unrestricted general fund was deficit spent by $2.6 million and $5.2 million, respectively.

9. Employee Benefits

		Yes	No	N/A
9.1	Has the district completed an actuarial valuation in accordance with Governmental Accounting Standards Board (GASB) requirements to determine its unfunded liability for other post-employment benefits (OPEB)?	☐	☐	✓
9.2	Does the district have a plan to fund its liabilities for retiree health and welfare benefits with the total of annual required service payments (legal, contractual or locally defined such as pay-as-you-go premiums, trust agreement obligations, or a board adopted commitment) no greater than 2% of the district's unrestricted general fund revenues?	☐	☐	✓
9.3	Has the district followed a policy or collectively bargained agreement to limit accrued vacation balances?	✓	☐	☐
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?	☐	✓	☐

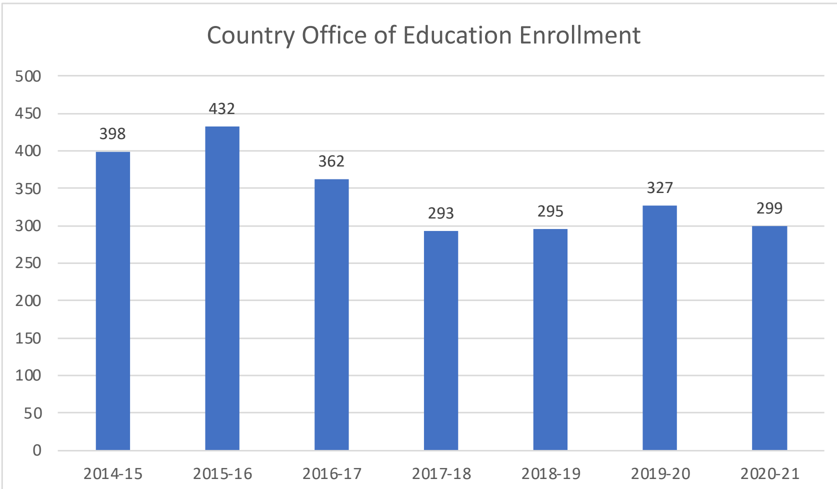
No evidence was provided to show that the county office performed an audit of eligibility for benefits within the last five years.

		Yes	No	N/A
9.5	Does the district track, reconcile and report employees' compensated leave balances?	✓	☐	☐

10. Enrollment and Attendance

		Yes	No	N/A
10.1	Has the district's enrollment been increasing or remained stable for the current and two prior years?.	☐	✓	☐

Total county office program enrollment has been mostly decreasing overall for the past seven years. Most recently, increases in enrollment occurred in 2018-19 and 2019-20, followed by a significant decrease in 2020-21.



		Yes	No	N/A
10.2	Does the district monitor and analyze enrollment and average daily attendance (ADA) data at least monthly through the second attendance reporting period (P2)?	✓	☐	☐
10.3	Does the district track historical enrollment and ADA data to establish future trends?	✓	☐	☐
10.4	Do school sites maintain an accurate record of daily enrollment and attendance that is reconciled monthly at the site and district levels?	✓	☐	☐
10.5	Has the district certified its California Longitudinal Pupil Achievement Data System (CALPADS) data by the required deadlines (Fall 1, Fall 2, EOY) for the current and two prior years?.	✓	☐	☐
10.6	Are the district's enrollment projections and assumptions based on historical data, industry-standard methods, and other reasonable considerations?	✓	☐	☐
10.7	Do all applicable sites and departments review and verify their respective CALPADS data and correct it as needed before the report submission deadlines?	✓	☐	☐
10.8	Has the district planned for enrollment losses to charter schools?	☐	☐	✓
10.9	Does the district follow established board policy to limit outgoing interdistrict transfers and ensure that only students who meet the required qualifications are approved?.	☐	☐	✓
10.10	Does the district meet the student-to-teacher ratio requirement of no more than 24-to-1 for each school in grades TK-3 classes, or, if not, does it have and adhere to an alternative collectively bargained agreement?	☐	☐	✓

11. Facilities

		Yes	No	N/A
11.1	If the district participates in the state's School Facilities Program, has it met the required contribution for the Routine Restricted Maintenance Account?	☐	☐	✓

		Yes	No	N/A
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?	☐	☐	✓
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 a long-range facilities master plan that reflects its current and projected facility needs?.	☐	☐	✓

12. Fund Balance and Reserve for Economic Uncertainty

		Yes	No	N/A
12.1	Is the district able to maintain the minimum reserve for economic uncertainty in the current year (including Fund 01 and Fund 17) as defined by criteria and standards?	✓	☐	☐
12.2	Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years?	✓	☐	☐
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?	☐	☐	✓
12.4	Is the district's projected unrestricted fund balance stable or increasing in the two subsequent fiscal years?	☐	✓	☐

According to the 2021-22 budget multiyear financial projection, the county office's unrestricted general fund balance is projected to decline by $251,335 in 2022-23 and by $545,539 in 2023-24, decreasing the projected balance from the current year's total of $1.9 million to $1.1 million in 2023-24.

		Yes	No	N/A
12.5	If the district has unfunded or contingent liabilities or one-time costs other than post-employment benefits, does the unrestricted general fund balance include sufficient assigned or committed reserves above the recommended reserve level?	☐	☐	✓

13. General Fund – Current Year

		Yes	No	N/A
13.1	Does the district ensure that one-time revenues do not pay for ongoing expenditures?	☐	✓	☐

The 2021-22 budget's criteria and standards review indicates that the county office is using one-time federal stimulus funds to pay for continuity of services and prevent layoffs in 2021-22. These expenses will need to be reduced or shifted to available ongoing revenue sources in 2022-23.

		Yes	No	N/A
13.2	Is the percentage of the district's general fund unrestricted expenditure budget that is allocated to salaries and benefits at or below the statewide average for the current year?	✓	☐	☐

		Yes	No	N/A
13.3	Is the percentage of the district's general fund unrestricted expenditure budget that is allocated to salaries and benefits at or below the statewide average for the two prior years?	☐	✓	☐

In 2020-21, the county office allocated 93.0% of its general fund unrestricted expenditure budget to salaries and benefits. The statewide average for county offices as of 2019-20 (the latest data available) was 73%.

		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 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?	☐	✓	☐

The 2021-22 budget included ending fund balances of $90,942 and $15,984 for state learning loss mitigation funds and the Low-Performing Students Block Grant, respectively. These funds were available for expenditure or encumbrance only through June 30, 2021. The county office's 2020-21 estimated actuals should have shown the funds fully expended during the 2020-21 fiscal year.

Similarly, the 2021-22 budget included an ending fund balance for the California Clean Energy Jobs Act (Proposition 39) and for the College Readiness Block Grant. These funds were available for encumbrance only through June 30, 2019. The unspent funds, totaling $6,447 and $1,234, respectively, may need to be returned to the state.

The 2021-22 budget also included a balance of more than $1.5 million in state funds appropriated for special education and mental health services. Consequently, the district's contribution from the unrestricted general fund to the special education program was likely overstated by an equal amount, assuming program revenues and expenses were budgeted appropriately and expensed as presented.

		Yes	No	N/A
13.7	Does the district account for program costs, including the maximum allowable indirect costs, for each restricted resource and other funds?	✓	☐	☐

14. Information Systems and Data Management

		Yes	No	N/A
14.1	Does the district use an integrated financial and human resources system?	✓	☐	☐
14.2	Does the district use the system(s) to provide key financial and related data, including personnel information, to help the district make informed decisions?	✓	☐	☐
14.3	Has the district accurately identified students who are eligible for free or reduced-price meals, English learners, and foster youth, in accordance with the LCFF and its LCAP?	☐	✓	☐

The 2019 audit report stated that the district/county office incorrectly identified 325 students as English learners. This finding was corrected by the time of the 2020 audit report.

		Yes	No	N/A
14.4	Is the district using the same financial system as its county office of education?	☐	☐	✓
14.5	If the district is using a separate financial system from its county office of education, is there an automated interface that allows data to be sent and received by both the district and county financial systems?	☐	☐	✓
14.6	If the district is using a separate financial system from its county office of education, has the district provided the county office with direct access so the county office can provide oversight, review and assistance?	☐	☐	✓

15. Internal Controls and Fraud Prevention

		Yes	No	N/A
15.1	Does the district have controls that limit access to its financial system and include multiple levels of authorization?	✓	☐	☐
15.2	Are the district's financial system's access and authorization controls reviewed and updated upon employment actions (e.g., resignations, terminations, promotions or demotions) and at least annually?	✓	☐	☐
15.3	Does the district ensure that duties in the following areas are segregated, and that they are supervised and monitored?:			
	• Accounts payable (AP)	✓	☐	☐
	• Accounts receivable (AR)	✓	☐	☐
	• Purchasing and contracts	✓	☐	☐
	• Payroll	✓	☐	☐
	• Human resources (i.e., duties relative to position control and payroll processes)	✓	☐	☐
15.4	Are beginning balances for the new fiscal year posted and reconciled with the ending balances for each fund from the prior fiscal year?	✓	☐	☐
15.5	Does the district review and work to clear prior year accruals throughout the year?	✓	☐	☐
15.6	Has the district reconciled and closed the general ledger (books) within the time prescribed by the county office of education?	☐	☐	✓
15.7	Does the district have processes and procedures to discourage and detect fraud?	☐	✓	☐
	Interviews with staff and documents received by FCMAT did not provide evidence that the county office has fraud detection controls.			
15.8	Does the district have a process for collecting reports of possible fraud (such as an anonymous fraud reporting hotline) and for following up on such reports?	☐	✓	☐
	The county office does not have a process for collecting reports of possible fraud.			
15.9	Does the district have an internal audit process?	☐	✓	☐
	The county office does not have a formal internal audit department or a documented auditing process.			

16. Leadership and Stability

		Yes	No	N/A
16.1	Does the district have a chief business official who has been with the district as chief business official for more than two years?.	✓	☐	☐
16.2	Does the district have a superintendent who has been with the district as superintendent for more than two years?	✓	☐	☐
16.3	Does the superintendent meet on a scheduled and regular basis with all members of their administrative cabinet?	✓	☐	☐
16.4	Is training on financial management and budget provided to site and department administrators who are responsible for budget management?	✓	☐	☐
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?	✓	☐	☐

		Yes	No	N/A
16.7	Do all board members attend training on the budget and governance at least every two years?	☐	✓	☐
	Information from interviews indicates that some budget training is provided at board study sessions; however, no documents were provided to show that all board members attend training on governance at least every two years.			
16.8	Is the superintendent's evaluation performed according to the terms of the contract?	☐	✓	☐
	FCMAT was unable to locate board meeting minutes and was not provided other evidence to show that a superintendent's evaluation was 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 accurate LCFF calculation with multiyear considerations?	☐	✓	☐
	The county office prepared local control funding formula (LCFF) calculations for its multiyear projections; however, history indicates that its LCFF calculations have been overestimated. For the current year, the county office based its funding on its 2019-20 LCFF calculation, which was found to be overestimated by approximately $350,000. As a result, the projection made in the current year is for unchanged funding through the two subsequent years.			
17.3	Does the district use its most current multiyear projection in making financial decisions?	☐	✓	☐
	The county office's and the district's multiyear projections have indicated deficit spending; however, neither organization has made adjustments to correct its budget imbalance.			
17.4	If the district uses a broad adjustment category in its multiyear projection (such as line B10, B1d, B2d Other Adjustments, in the SACS Form MYP/MYPI), is there a detailed list of what is included in the adjustment amount and are the adjustments reasonable?	✓	☐	☐

18. Non-Voter-Approved Debt and Risk Management

		Yes	No	N/A
18.1	Are the sources of repayment for non-voter-approved debt {such as certificates of participation (COPs), bridge financing, bond anticipation notes (BANS), revenue anticipation notes (RANS) and others} stable, predictable, and other than unrestricted general fund?	☐	☐	✓
18.2	If the district has issued non-voter-approved debt, has its credit rating remained stable or improved during the current and two prior fiscal years?	☐	☐	✓
18.3	If the district is self-insured, has the district completed an actuarial valuation as required and have a plan to pay for any unfunded liabilities?	☐	☐	✓
18.4	If the district has non-voter-approved debt (such as COPs, bridge financing, BANS, RANS and others), is the total of annual debt service payments no greater than 2% of the district's unrestricted general fund revenues?	☐	☐	✓

19. Position Control

		Yes	No	N/A
19.1	Does the district account for all positions and costs?	✓	☐	☐
19.2	Does the district analyze and adjust staffing based on staffing ratios and enrollment?	☐	☐	✓
19.3	Does the district reconcile budget, payroll and position control regularly, at least at budget adoption and interim reporting periods?	✓	☐	☐
19.4	Does the district identify a budget source for each new position before the position is authorized by the governing board?	✓	☐	☐
19.5	Does the governing board approve all new positions and extra assignments (e.g., stipends) before positions are posted?	✓	☐	☐
19.6	Do managers and staff responsible for the district's human resources, payroll and budget functions meet regularly to discuss issues and improve processes?.	✓	☐	☐

20. Special Education

		Yes	No	N/A
20.1	Does the district monitor, analyze and adjust staffing ratios, class sizes and caseload sizes to align with statutory requirements and industry standards?	☐	✓	☐

Although the district/county office has developed a special education school staffing guide that includes a consolidation process that is aligned with statutory requirements and industry standards, and a site staffing allocation process, staff reported adjustments are not always made in accordance with these this guide.

		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)?	☐	✓	☐

Although the county office has tools (e.g., transportation eligibility form, intensive individual services protocol), staff reported they are not used consistently to make informed decisions about whether to add services.

		Yes	No	N/A
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)?	✓	☐	☐
20.5	Is the district's contribution rate to special education at or below the statewide average contribution rate?	✓	☐	☐
20.6	Is the district's rate of identification of students as eligible for special education at or below the countywide and statewide average rates?	☐	☐	✓
20.7	Does the district analyze whether it will meet the maintenance of effort requirement at each interim reporting period?	☐	✓	☐

Staff indicated that this analysis is performed only at year end.

Risk Score, 20 numbered sections only: **33.2%**

Key to Risk Score from 20 numbered sections only

High Risk: 40% or more

Moderate Risk: 25-39.9%

Low Risk: 24.9% and lower

District Fiscal Solvency Risk Level, all FHRA factors: High

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