

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

Fiscal Health Risk Analysis

November 10, 2022



San Lorenzo Unified School District

Michael H. Fine
Chief Executive Officer

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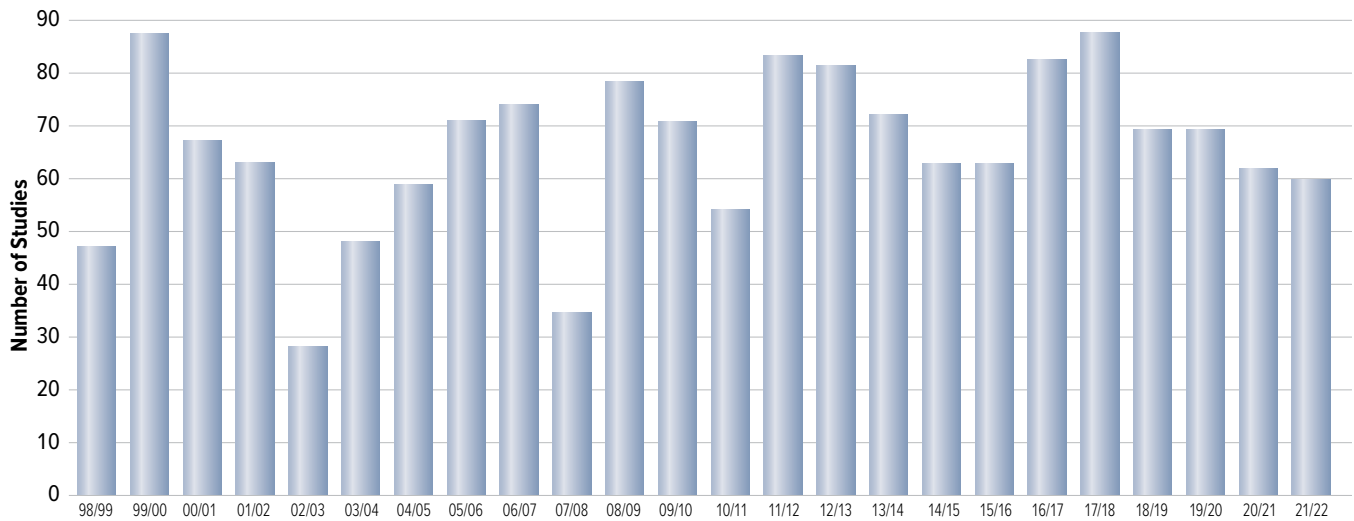
About FCMAT

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

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

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

Studies by Fiscal Year



FCMAT has continued to make adjustments in the types of support provided based on the changing dynamics of TK-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 being conducted because the district had the following condition, under which an analysis is required by the 2018-19 State Budget Act.

- Three consecutive qualified interim report certifications

The San Lorenzo Unified School District is in Alameda County and serves the city of San Lorenzo and parts of the cities of San Leandro and Hayward. Under the governance of a five-member board, the district serves preschool through adult students at nine elementary schools, three middle schools, four high schools and one adult school. Since 2014-15, the district's enrollment has declined by more than 21.3%, or an average of 339 students per year, to a total enrollment of 8,759. In 2021-22 (the latest data available), the unduplicated count of English learner, socioeconomically disadvantaged, and foster youth students equaled 81.4% of total enrollment.

Beginning with the 2020-21 second interim report, the district certified three consecutive interim financial reports as "qualified," meaning it may not meet its financial obligations in the current or two subsequent fiscal years. The 2021-22 second interim report projected deficit spending in the unrestricted general fund in the two subsequent years, totaling \$10.4 million in 2022-23 and \$12.9 million in 2023-24. This trend continued in the 2022-23 adopted budget, resulting in a projected unrestricted fund balance decline from \$21.9 million in 2021-22 to a negative \$6.3 million in 2024-25. The district's unrestricted fund balance equaled \$30.3 million with the close of 2021-22.

The district is fiscally accountable and is on the same financial accounting system as the Alameda County Office of Education. FCMAT performed a FHRA to determine the district's level of risk for insolvency.

Fiscal Health Risk Analysis Guidelines

FCMAT entered into a study agreement with the San Lorenzo Unified School District on July 22, 2022, and a study team conducted virtual interviews from September 19 through 21, 2022. Following fieldwork, the FCMAT study team continued to collect, review and analyze documents. This report is the result of those activities.

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

Study Team

The team was composed of the following members:

Erin Lillibridge, CFE
Intervention Specialist

Debbie Riedmiller, CFE
Intervention Specialist

Leonel Martínez
FCMAT Technical Writer

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

Fiscal Health Risk Analysis

For K-12 School Districts



FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

Date(s) of fieldwork: September 19-21, 2022

District: San Lorenzo Unified School District

Summary

The district self-certified as qualified for the 2020-21 second interim reporting period and the 2021-22 first and second interim reporting periods. A qualified certification means that the district may not be able to meet its financial obligations for the current or two subsequent fiscal years. The three consecutive qualified certifications indicates that the district has not addressed its potential insolvency issues. This Fiscal Health Risk Analysis reflects the district at the time of the 2021-22 second interim reporting period and shows the district is at substantial risk of insolvency and identifies its areas of fiscal weaknesses.

Although school districts were spared the financial consequences of enrollment and attendance declines during the pandemic, the district's enrollment has decreased annually since 2014-15, resulting in a total cumulative decline of 21.3% in the last seven years. The resulting loss in funding has contributed to a structural deficit in the district's unrestricted general fund. One-time COVID relief funds have provided temporary relief for the district to address its underlying deficit in the short term, but additional long-term solutions will be needed to ensure the district remains fiscally solvent.

The 2021-22 second interim report projected deficit spending in the unrestricted general fund in the two subsequent years, totaling \$10.4 million in 2022-23 and \$12.9 million in 2023-24. This trend continued in the 2022-23 adopted budget, resulting in a projected unrestricted fund balance decline from \$21.9 million in 2021-22 to a negative \$6.3 million in 2024-25. The district finished the 2021-22 fiscal year with \$30.3 million in the unrestricted general fund.

The assistant superintendent and director of business services are both new to the district. This, combined with the fact that several fiscal services department employees, as well as others in critical district positions such as attendance and CALPADS are also new, contributes to many areas of elevated risk noted in this report. Under the direction of its new leadership, the Business Services Department is reviewing and improving processes and procedures to address critical areas such as separation of duties, financial system access and authorization, and position control.

The district is failing to perform charter school oversight responsibilities as defined in Education Code Section 47604.32. A chartering authority is not liable for the debts and obligations of its charter schools if it complies with all oversight responsibilities required by law (Education Code Section 47604). Failure to provide appropriate and documented oversight could expose the district to the charter school's debt and obligations.

Accurate cash flow projections are a vital tool to ensure a district is aware of the timing of its fiscal obligations and its ability to meet them. FCMAT noted the district's 2022-23 adopted budget did not include a cash flow projection, and the 2021-22 first and second interim reports only included a current year projection. The best practices in cash management include preparing and updating current and subsequent year cash flow projections and reconciling cash and all other general ledger accounts monthly.

The governing board is responsible for the district's budget. Management has the responsibility to maintain the integrity of the district's systems, secure the district's assets and present sound financial information based on current and accurate data for the board to consider when making decisions to protect the district's fiscal solvency.

FCMAT's analysis for this FHRA determined that the district has a high risk of insolvency. The risk score from the 20 numbered sections of the FHRA is 35.1%, which is rated as moderate; however, the existence of any condition from the Budget and Fiscal Status section (shown below), and/or an answer of "no" in the Material Weakness Questions (also shown below) elevates the district's risk. Accordingly, the district's fiscal solvency risk level is designated as high.

District Fiscal Solvency Risk Level: High

About the Analysis

The Fiscal Crisis and Management Assistance Team (FCMAT) has developed the Fiscal Health Risk Analysis (FHRA) as a tool to help evaluate a school district's fiscal health and risk of insolvency in the current and two subsequent fiscal years.

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

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

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

Areas of High Risk

The 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	✓	<input type="checkbox"/>
Negative interim report certification	✓	<input type="checkbox"/>
Three consecutive qualified interim report certifications	<input type="checkbox"/>	✓
Downgrade of an interim certification by the county superintendent	✓	<input type="checkbox"/>
“Lack of going concern” designation	✓	<input type="checkbox"/>

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

6.4	Did the district conduct a presettlement analysis and identify related costs or savings, if any (e.g., statutory benefits, and step and column salary increase), for the current and subsequent years, and did it identify ongoing revenue sources or expenditure reductions to support the agreement?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
7.2	If the district has deficit spending in funds other than the general fund, has it included in its multiyear projection any transfers from the unrestricted general fund to cover any projected negative fund balance?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
8.3	If the district has deficit spending in the current or two subsequent fiscal years, has the board approved and implemented a plan to reduce and/or eliminate deficit spending to ensure fiscal solvency?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
10.6	Are the district's enrollment projections and assumptions based on historical data, industry-standard methods, and other reasonable considerations?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11.2	Does the district have sufficient and available capital outlay and/or bond funds to cover all contracted obligations for capital facilities projects?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12.1	Is the district able to maintain the minimum reserve for economic uncertainty in the current year (including Fund 01 and Fund 17) as defined by criteria and standards?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12.2	Is the district able to maintain the minimum reserve for economic uncertainty in the two subsequent years?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
12.3	If the district is not able to maintain the minimum reserve for economic uncertainty, does the district's multiyear financial projection include a board-approved plan to restore the reserve?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
19.1	Does the district account for all positions and costs?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Score Breakdown by Section

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

1.	Annual Independent Audit Report	0.0%
2.	Budget Development and Adoption	2.3%
3.	Budget Monitoring and Updates	2.0%
4.	Cash Management	2.0%
5.	Charter Schools	0.5%
6.	Collective Bargaining Agreements	2.0%
7.	Contributions and Transfers	2.0%
8.	Deficit Spending (Unrestricted General Fund)	2.5%
9.	Employee Benefits	0.6%
10.	Enrollment and Attendance	3.9%
11.	Facilities	0.1%
12.	Fund Balance and Reserve for Economic Uncertainty	2.9%
13.	General Fund - Current Year	2.0%
14.	Information Systems and Data Management	0.0%
15.	Internal Controls and Fraud Prevention	4.9%

16.	Leadership and Stability	2.5%
17.	Multiyear Projections	1.0%
18.	Non-Voter-Approved Debt and Risk Management	0.0%
19.	Position Control	3.5%
20.	Special Education	0.4%
Score		35.1%

Fiscal Health Risk Analysis Questions

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

1. Annual Independent Audit Report	Yes	No	N/A
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1.1	Has the district corrected the most recent and prior two years’ audit findings without affecting its fiscal health?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.2	Has the audit report for the most recent fiscal year been completed and presented to the board within the statutory timeline? (Extensions of the timeline granted by the State Controller’s Office should be explained.)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.3	Were the district’s most recent and prior two audit reports free of findings of material weaknesses?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.4	Has the district corrected all reported audit findings from the most recent and prior two audits?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

The 2020-21 Audit Report included a finding regarding the School Accountability Report Cards (SARC). The auditors reported that the SARC was not completed accurately based on the information from the most recent Facility Inspection Tool and the quarterly Williams complaint procedures and reporting. This was a repeat finding from 2019-20.

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

The county office conditionally approved the district’s 2021-22 adopted budget. The county office’s analysis indicated that the district may not be able to meet its multiyear financial commitments. The county office directed the district to develop short- and long-term financial plans based on reasonable economic assumptions and implement them with a commitment to attaining fiscal solvency.

- 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? ✓
- 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? ✓
The county office reported that in 2021-22 and prior years, the district used negative budget accounts in various objects for budget placeholders. In the 2022-23 adopted budget, the district has negative budgets in some salary, benefits, and services 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? ✓
The district did not provide evidence of a documented policy or procedure, and information from interviews indicates that it lacks a procedure for evaluating the multiyear impact of proposed grants on the unrestricted general fund before grants are accepted.
- 2.12 Does the district adhere to a budget calendar that includes statutory due dates, major budget development tasks and deadlines, and the staff members/departments responsible for completing them? ✓
The district did not provide a budget development calendar for the 2020-21 or 2021-22 fiscal years. The district submitted a sample 2022-23 budget development calendar developed by another district, but did not provide any evidence that the calendar was used in the development of its 2022-23 budget.

3. Budget Monitoring and Updates

Yes No N/A

- 3.1 Are actual revenues and expenses consistent with the most current budget? ✓
Most revenue and expenditure categories were reasonably budgeted as of the 2021-22 second interim report except for books and supplies, which appeared to be overbudgeted. As of January 31, 2022, only 10% of the budget had been expended, while 58% of the fiscal year was complete.
- 3.2 Are budget revisions posted in the financial system at each interim report, at a minimum? . . . ✓
- 3.3 Are clearly written and articulated budget assumptions that support budget revisions communicated to the board at each interim report, at a minimum? ✓
- 3.4 Following board approval of collective bargaining agreements, does the district make necessary budget revisions in the financial system to reflect settlement costs in accordance with Education Code Section 42142? ✓

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

The district provided incomplete responses to the variances identified in the criteria and standards as described below.

2021-22 First Interim

Not Met Criteria	Issue
S6A. Identification of the district's long-term commitments	<i>The district reported information about certificates of participation and general obligation bonds on the wrong line. The amounts reported for balances and annual payments on certificates of participation and general obligation bonds do not tie to the district's audit report.</i>
S7A. Identification of the district's estimated unfunded liability for postemployment benefits other than pensions (OPEB)	<i>The district did not fully complete this section; some data is missing.</i>

2021-22 Second Interim

Not Met Criteria	Issue
4B. Projected LCFF revenue has changed since first interim projections by more than 2% in 2022-23	<i>The district's response was "Reduction in ADA;" however, the percent change in LCFF revenue was -3.3%. The percent change in the district's projection of 2022-23 funded ADA between first and second interim was 0%.</i>
S6A. Identification of the District's Long-term Commitments	<i>The district reported information about certificates of participation and general obligation bonds on the wrong line. Principal balance and annual payment amounts reported by the district do not tie to the audit report. SERP and compensated absence balances and payments were not reported by the district.</i>

2022-23 Budget

Not Met Criteria	Issue
4C.1a. Projected change in LCFF revenue is outside the standard in 2022-23	<i>The district's response was "2022-23". The explanation is incomplete and does not address the projected change in LCFF revenue.</i>

<p>10D.1a. Projected available reserves are below standard in 2023-24 and 2024-25</p>	<p>The district's response was "Transfer of community redevelopment funds not subject to revenue limit that has been committed to pay for certificates of participation for lighting project." The response does not address the issue of the reserve being below the standard.</p>
<p>S2. Does the district have ongoing general fund expenditures in the budget in excess of one percent of the total general fund revenues that are funded with one-time resources</p>	<p>The district's response was "No." However, the district is using one-time COVID relief funds for ongoing positions.</p>
<p>S5B.1c. Projected transfers out of the general fund have changed by more than the standard in 2022-23</p>	<p>The district's response was "Transfer of community redevelopment funds not subject to revenue limit that has been committed to pay for certificates of participation for lighting project." The response does not address the elimination of the transfer in the current and subsequent years.</p>
<p>S8A. Cost analysis of district's labor agreements - certificated (nonmanagement) employees</p>	<p>Some required sections were left blank.</p>
<p>S8B. Cost analysis of district's labor agreements - classified (nonmanagement) employees</p>	<p>Some required sections were left blank.</p>
<p>S8C. Cost analysis of district's labor agreements - management/supervisor/confidential employees</p>	<p>Some required sections were left blank.</p>
<p>A8. Does the district have any reports that indicate fiscal distress?</p>	<p>The district's response was "No." However, the county office issued a letter to the district on July 23, 2021 because the county determined the district to be in a position of fiscal uncertainty.</p>

- 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? ✓
- 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? ✓
- 3.9 Are all balance sheet accounts in the general ledger 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?

The district provided reconciliations for April, May, and June 2022 for most bank accounts. The April and June reconciliations were completed in a timely manner; within a month of the statement date. However, the May reconciliation was not completed timely; it was completed in July. The district did not provide any bank reconciliations for the cash with fiscal agent accounts.

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?

A two-year cash flow projection was included with the 2021-22 adopted budget; however only the current year projection was included with the 2021-22 first and second interim reports. A cash flow projection was not included with the 2022-23 adopted budget.

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?

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?

The district does not have a board policy or other written documents 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?

The district did not provide evidence showing fulfillment of its oversight responsibilities as specified in 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?

The district has not assigned charter school oversight responsibilities to any employees in its various departments.

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?

- 6.2 Has the district settled with all its bargaining units for the current year?

- 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?

The district's analysis identified related costs for the current and two subsequent years. However, the public disclosure documents dated May 4, 2021, June 15, 2021, and June 22, 2021, indicate that the ongoing costs of the agreements with the certificated and classified bargaining groups will be funded with one-time sources and future unspecified expenditure reductions.

- 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 total cost of the settlement with the district's certificated bargaining unit for 2020-21 was 0.50%. The total cost of the settlement with the district's classified bargaining groups for 2020-21 was 1.50%. The funded COLA was 0.00% in 2020-21.

- 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?

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

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 2021-22 first and second interim reports projected planned contributions to special education, ongoing and major maintenance, and one other locally restricted program. The district does not have a plan to eliminate, reduce or control any contributions/transfers from the unrestricted general fund to other restricted programs and funds.

7.2 If the district has deficit spending in funds other than the general fund, has it included in its multiyear projection any transfers from the unrestricted general fund to cover any projected negative fund balance?

7.3 If any contributions/transfers were required for restricted programs and/or other funds in either of the two prior fiscal years, and there is a need in the current year, did the district budget for them at reasonable levels?

The district's 2021-22 second interim projects the 2022-23 contribution to restricted programs to increase by 2.11% over the 2021-22 projected contribution and the 2023-24 contribution to restricted programs to decrease by 0.06%. The contribution budgeted in 2021-22 increased over the prior year by 10.6%. The variances in the amounts projected for 2021-22, 2022-23, and 2023-24 do not seem reasonable. It is expected that restricted program costs will rise naturally because of step/column salary increases, benefit increases, and supplies/services increases attributed to inflation.

8. Deficit Spending (Unrestricted General Fund) **Yes** **No** **N/A**

8.1 Is the district avoiding deficit spending in the current fiscal year?

8.2 Is the district projected to avoid deficit spending in both of the two subsequent fiscal years? . .

The district's 2021-22 second interim report projected deficit spending of \$10,366,553 in 2022-23 and \$12,948,938 in 2023-24. This trend continued in the 2022-23 adopted budget subsequent fiscal years, with deficit spending projected at \$7,247,964 in 2023-24 and \$9,273,219 in 2024-25.

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?

On June 22, 2021, the board adopted resolution no. 3706 to reflect its commitment to enact a plan to address any budgetary shortfalls in the multiyear analysis. However, the resolution was not specific about the amount of the shortfall or specific actions to restore the minimum reserve and did not include a timeline for implementation. On June 21, 2022, the board adopted a similar, nonspecific resolution.

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

The district's unaudited actuals financial reports showed an unrestricted general fund surplus of \$3,997,619 in 2019-20, a deficit of \$355,521 in 2020-21 and a surplus of \$12,033,069 in 2021-22.

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?

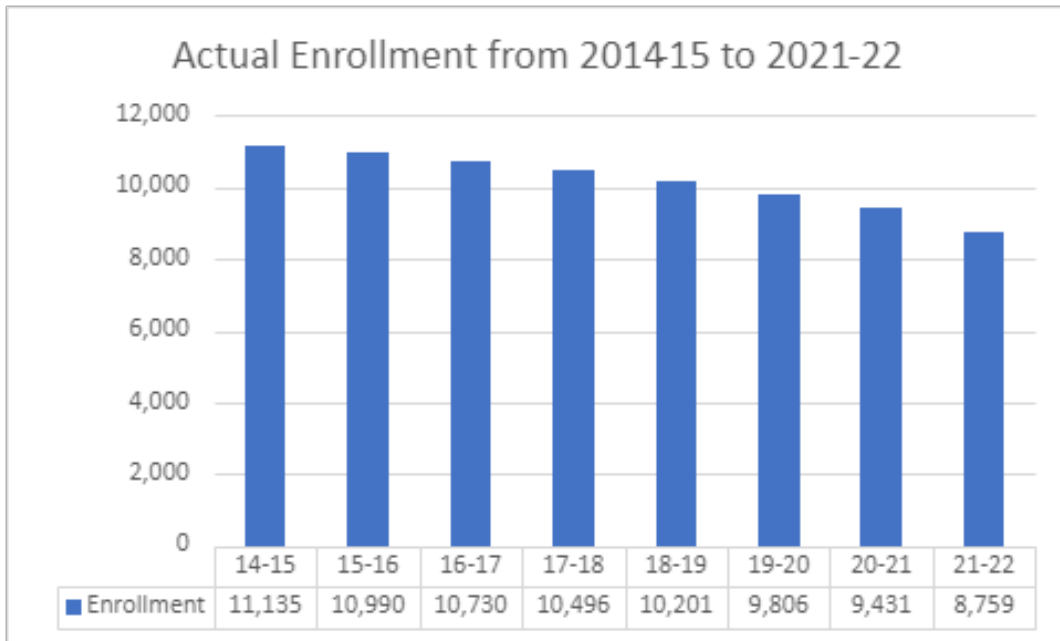
9.3 Has the district followed a policy or collectively bargained agreement to limit accrued vacation balances?

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?
The district has not conducted a verification to determine eligibility for benefits in the last five years.

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?
The district's enrollment has declined annually since 2014-15, resulting in a total cumulative decline of 21.3% in the last seven years.



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)?
The district does not have a procedure to monitor and analyze enrollment and ADA at least monthly through 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?
The district did not certify its CALPADS data by the required deadline for the 2021-22 fall 2 submission.

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?
The district does not have processes and procedures to have school sites and departments (or a designated responsible person) review and verify their respective CALPADS data to correct it as needed before the report submission deadline.
- 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?
- 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?
As a result of declining enrollment, the district underuses its facilities. A 2020 facilities survey identified excess capacity at all school sites and calculated the districtwide average usage at 63%.
- 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?
The district’s 2022-23 adopted budget projects a reserve percent of -0.41% in 2023-24 and -8.10% in 2024-25. The district’s required reserve percent is 3.00%.

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?

On June 22, 2021, the board adopted resolution no. 3706 to reflect its commitment to enact a plan to address any budgetary shortfalls in the multiyear analysis. However, the resolution was not specific about the amount of the shortfall or specific actions to restore the minimum reserve and did not include a timeline for implementation. On June 21, 2022, the board adopted a similar, nonspecific resolution.

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

In the 2021-22 second interim, the district’s unrestricted fund balance was projected to decline from \$20.1 million to \$9.8 million in 2022-23 and negative \$3.2 million in 2023-24. This trend was projected to continue in the 2022-23 adopted budget.

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 district is using one-time COVID relief funds to pay for ongoing salary and benefit expenditures.

13.2 Is the percentage of the district’s general fund unrestricted expenditure budget that is allocated to salaries and benefits at or below the statewide average for the current year?

13.3 Is the percentage of the district’s general fund unrestricted expenditure budget that is allocated to salaries and benefits at or below the statewide average for the two prior years?

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

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

The 2021-22 second interim and 2022-23 adopted budget include the use of COVID one-time funds to support various certificated and classified positions previously funded by the unrestricted general fund. The district’s 2022-23 adopted budget MYFP does not indicate that these expenditures will be eliminated or transferred back to unrestricted sources.

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

13.7 Does the district account for program costs, including the maximum allowable indirect costs, for each restricted resource and other funds?

14. Information Systems and Data Management **Yes No N/A**

14.1 Does the district use an integrated financial and human resources system?

14.2 Does the district use the system(s) to provide key financial and related data, including personnel information, to help the district make informed decisions?

14.3	Has the district accurately identified students who are eligible for free or reduced-price meals, English learners, and foster youth, in accordance with the LCFF and its LCAP?	✓	☐	☐
14.4	Is the district using the same financial system as its county office of education?	✓	☐	☐
14.5	If the district is using a separate financial system from its county office of education, 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?	☐	✓	☐
	<i>The district uses the ESCAPE system, which is hosted and supported by the Alameda County Office of Education. While the system provides the necessary controls to limit access, including multiple levels of authorization, the district-provided list of system users included employees with authorization levels that did not align to their duties or best support segregation of duties.</i>			
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?	☐	✓	☐
	<i>The district-provided list of system users included terminated employees with accounts that had yet to be disabled. The district reports it recently assumed responsibility from the county for maintaining user access to the financial system and is in the process of auditing and updating user access and authorizations.</i>			
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)	☐	✓	☐
	<i>The employee reconciling bank statements is also responsible for making bank deposits and processing receipts in the financial system. To provide better segregation of duties, the individual responsible for bank reconciliations should not be involved in accounts receivable transactions.</i>			
	• Purchasing and contracts.	✓	☐	☐
	• Payroll	☐	✓	☐
	<i>The district did not provide evidence that a supervisory employee reviews payroll before it is submitted to the county office for further processing. The payroll supervisor can input pay information into the system and may be auditing her own work and the work of the payroll analysts. The best practice is for a supervisory employee who is not involved in processing transactions to review the payroll prelist before payroll is submitted to the county office.</i>			
	<i>In addition, payroll warrants are printed at the county office and are collected and distributed by the staff members who processed them. To provide better segregation of duties, the individual responsible for generating payroll warrants should not have access to them after they are printed.</i>			

- 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 documentation received by FCMAT did not provide evidence that the district has comprehensive fraud detection controls or programs.
- 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 district lacks a formal process for collecting and following up on reports of fraud. Interviews with staff also indicated a lack of process or procedures to report fraud.
- 15.9 Does the district have an internal audit process? ✓
The district does not have an internal audit 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? ✓
The assistant superintendent of business services has served as the district's chief business official since March 2022.
- 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? ✓
The Business Services Department recently started scheduling quarterly budget meetings with site and department administrators; however, interviews indicated these trainings have not been historical standard practice.
- 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? ✓
The district has a thorough process for reviewing, revising, and adopting policies and administrative regulations, but no process to communicate and make them available to staff. The policies and administrative regulations posted on the website are not updated to reflect the most recent board adoption date.
- 16.7 Do all board members attend training on the budget and governance 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?	✓	<input type="checkbox"/>	<input type="checkbox"/>
17.2	To help calculate its multiyear projections, did the district prepare an accurate LCFF calculation with multiyear considerations?	✓	<input type="checkbox"/>	<input type="checkbox"/>
17.3	Does the district use its most current multiyear projection in making financial decisions?	✓	<input type="checkbox"/>	<input type="checkbox"/>
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?	<input type="checkbox"/>	✓	<input type="checkbox"/>

The explanations provided by the district on its MYPs for adjustments on lines B1d and B2d are not detailed or reasonable.

The district's 2021-22 second interim unrestricted MYP shows the following:

	2022-23 Projection	2023-24 Projection
B1d. Certificated Salaries, Other Adjustments	\$1,082,537	\$653,114
B2d. Classified Salaries, Other Adjustments	\$1,043,026	\$1,381,934

The district's explanation is "Reduce 10 FTE due to declining enrollment."

The district's 2021-22 second interim restricted MYP shows the following:

	2022-23 Projection	2023-24 Projection
B1d. Certificated Salaries, Other Adjustments	-\$297,297	-\$1,553,114
B2d. Classified Salaries, Other Adjustments	\$82,703	-\$1,381,934

The district's explanation is "One Time COVID Funds."

The district's 2022-23 adopted budget restricted MYP shows the following:

	2023-24 Projection
B1d. Certificated Salaries, Other Adjustments	-\$127,829

The district's explanation is "Adjustment to categorical funded positions out of ESSER/ COVID Funds."

18. Non-Voter-Approved Debt and Risk Management		Yes	No	N/A
18.1	Are the sources of repayment for non-voter-approved debt (such as certificates of participation (COPs), bridge financing, bond anticipation notes (BANS), revenue anticipation notes (RANS) and others) stable, predictable, and other than unrestricted general fund?	✓	<input type="checkbox"/>	<input type="checkbox"/>

18.2	If the district has issued non-voter-approved debt, has its credit rating remained stable or improved 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? <i>The district reports it is developing tools to analyze and adjust staffing based on staffing ratios and enrollment. These tools were not implemented at the time of FCMAT's review.</i>	☐	✓	☐
19.3	Does the district reconcile budget, payroll and position control regularly, at least at budget adoption and interim reporting periods? <i>The district reports it is developing a process to regularly reconcile budget, payroll and position control. This process was not in place at the time of FCMAT's review.</i>	☐	✓	☐
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? <i>The governing board does not consistently approve all new positions and extra assignments before positions are posted.</i>	☐	✓	☐
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? <i>Interviews indicated that human resources, payroll, and budget staff do not meet regularly to discuss issues and improve processes.</i>	☐	✓	☐

20. Special Education **Yes** **No** **N/A**

20.1	Does the district monitor, analyze and adjust staffing ratios, class sizes and caseload sizes to align with statutory requirements and industry standards?	✓	☐	☐
20.2	Does the district access available funding sources for costs related to special education (e.g., excess cost pool, legal fees, mental health)?	✓	☐	☐
20.3	Does the district use appropriate tools to help it make informed decisions about whether to add services (e.g., special circumstance instructional assistance process and form, transportation decision tree)?	✓	☐	☐
20.4	Does the district budget and account correctly for all costs related to special education (e.g., transportation, due process hearings, indirect costs, nonpublic schools and/or nonpublic agencies)?	✓	☐	☐
20.5	Is the district's contribution rate to special education at or below the statewide average contribution rate?	✓	☐	☐

- 20.6 Is the district’s rate of identification of students as eligible for special education at or below the countywide and statewide average rates? ✓
The district's 2021-22 identification rate is 11.86%, which is above the countywide rate of 11.77% and below the statewide rate of 12.65% for the same period.
- 20.7 Does the district analyze whether it will meet the maintenance of effort requirement at each interim reporting period? ✓

Risk Score, 20 numbered sections only: 35.1%

Key to Risk Score from 20 numbered sections only:

High Risk: 40% or more

Moderate Risk: 25-39.9%

Low Risk: 24.9% and lower

District Fiscal Solvency Risk Level, all FHRA factors: High

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