FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Fiscal Health Risk Analysis

October 6, 2020

Southern Kern Unified School District

Michael H. Fine
Chief Executive Officer

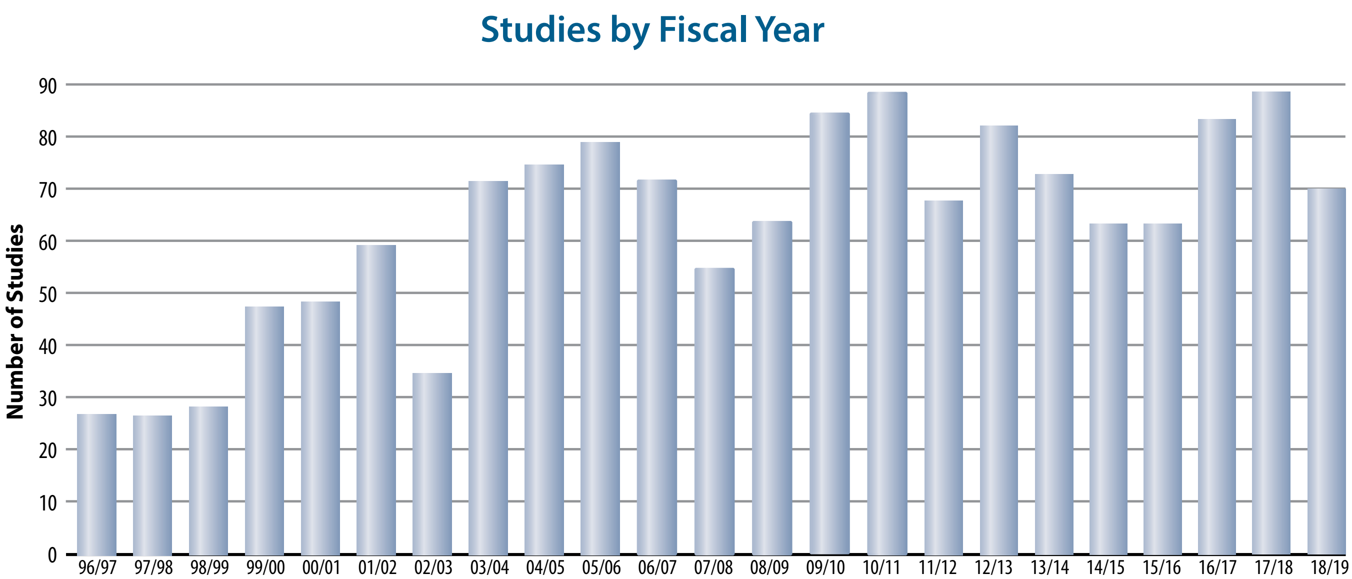
Contents

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 the how fiscally insolvent districts are administered once an emergency appropriation has been made, shifting the former state-centric system to be more consistent with the principles of local control, and providing new responsibilities to FCMAT associated with the process.

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

Introduction

Background

Historically, the Fiscal Crisis and Management Assistance Team (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) 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 his or her 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 FHRA is being conducted because the district had the following condition(s) that require an analysis according to the 2018-19 State Budget Act.

- Negative interim report certification

The Southern Kern Unified School District has an enrollment of approximately 3,400 and is in the city of Rosamond, in the Antelope Valley. The district has two elementary schools, a middle school, an alternative school, continuation school and a traditional high school. According to 2018-19 data, 69.64% of the student population is eligible for increased or improved services.

From 2014-15 through 2017-18, the district experienced extreme deficit spending that fully depleted reserves and resulted in a $3.3 million negative ending fund for the 2017-18 fiscal year in the amount of $3.3 million. For the 2018-19 and 2019-20 years, the district has begun a positive fund balance trend but projects to end the 2019-20 year with negative fund balance. The district projects positive fund ending fund balance in 2020-21; however, it will not meet minimum reserve requirements until 2021-22.

Because of cash management difficulties, the Kern County Superintendent of Schools provided the district with a cash loan in July 2018. The district has since repaid the loan as of September 2020. For the duration of the loan and due to negative budget certification status, the county office maintained stay and rescind authority over district decisions.

FCMAT performed an FHRA to determine the district's level of risk for insolvency.

Fiscal Health Risk Analysis Guidelines

On April 29, 2020, FCMAT entered into a study agreement with the Southern Kern Unified School District, and a study team conducted video-conference interviews with the district on August 10, 11 and 17. Following fieldwork, the study team continued to review and analyze documents. This report is the result of those activities.

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

Study Team

The team was composed of the following members:

Tami Ethier
Intervention Specialist

Robbie Montalbano
Intervention Specialist

Leonel Martínez
FCMAT Technical Writer

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

Fiscal Health Risk Analysis
For K-12 School Districts

Date: 8/10/20, 8/11/20 and 8/17/20

District: Southern Kern Unified School District

Summary

The district has been identified as a fiscal concern since the 2017-18 fiscal year, with concurrence from the Kern County Superintendent of Schools. For the fiscal year 2017-18, the district submitted the first interim as positive; however, this was changed to qualified as part of the county office fiscal oversight review. At that time, the district was projecting high levels of deficit spending and not meeting the statutory minimum reserve. The second interim was submitted as qualified, but also was changed after county office review. The district status was changed to negative certification and lack of going concern at second interim since projections reflected both a negative ending fund balance and cash at the end of the 2017-2018 fiscal year.

As a result of the budget and spending activities in the 2017-18 fiscal year, the district required a cash loan from the county office to remain solvent in July 2018. The loan was established as a line of credit with a two-year repayment term. The county office retained stay and rescind authority for the duration of the loan, which was repaid in September 2020 (after an extension was granted because of COVID-19).

This report shows that the district is at high risk of insolvency and identifies the areas of fiscal weaknesses. The district's fiscal concerns stem largely from significant deficit spending in the 2017-18 fiscal year. The district revenues and expenditures were nearly balanced in 2018-19, and a positive fund balance trend is projected for 2019-20 and beyond. .

Although the deficit spending has ceased, the district has many areas of great concern in budget development, budget monitoring, collective bargaining agreements, enrollment and attendance and stability of leadership. Details are included in the related sections of this report.

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

Risk Level: High

About the Analysis

FCMAT has developed the FHRA 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. In this Excel file, every question in every section must be answered with a "Yes," "No," or "N/A" for the risk level to be accurate. Unanswered questions will be counted as "no" answers and thus will raise a district's risk.

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.

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 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 42124?	☐	✓	☐
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	If the district has any charters in fiscal distress, has the district performed its statutory fiscal and operational oversight functions, including formal communication to the charter, such as notices of violation?	☐	☐	✓
5.3	Has the district fulfilled and does it have evidence showing fulfillment of its oversight responsibilities in accordance with Education Code Section 47604.32?	☐	☐	✓
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	0.4%
2.	Budget Development and Adoption	5.5%
3.	Budget Monitoring and Updates	7.8%
4.	Cash Management	2.5%
5.	Charter Schools	0.0%
6.	Collective Bargaining Agreements	5.9%
7.	Contributions and Transfers	1.0%
8.	Deficit Spending (Unrestricted General Fund)	1.0%
9.	Employee Benefits	2.2%
10.	Enrollment and Attendance	5.1%
11.	Facilities	0.3%
12.	Fund Balance and Reserve for Economic Uncertainty	2.0%
13.	General Fund - Current Year	2.7%
14.	Information Systems and Data Management	1.0%
15.	Internal Controls and Fraud Prevention	3.3%
16.	Leadership and Stability	4.1%
17.	Multiyear Projections	1.0%
18.	Non-Voter-Approved Debt and Risk Management	2.2%
19.	Position Control	2.5%
20.	Special Education	1.6%

Score	**51.9%**

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?	☐	✓	☐

Findings for the prior two years have not been corrected in the following areas: fixed asset inventory, deficit spending and inaccuracies in calculating unduplicated pupil counts.

		Yes	No	N/A
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?	☐	✓	☐

For 2018, the district audit identified materials weaknesses in financial statements in the areas of: financial stability (due to deficit spending, not maintaining the minimum reserve requirement, balance of long-term debt liabilities, and staff turnover) and internal control over financial reporting with regards to understatements and overstatements of accounts payable and receivable.

		Yes	No	N/A
1.4	Has the district corrected all reported audit findings from the most recent and prior two audits?	☐	✓	☐

The district is still struggling with three main areas as repeat findings. The most recent and prior two audits contain repeated findings in the following areas: concerns regarding deficit spending, a need to establish proper fixed asset inventory tracking, and miscalculated unduplicated pupil counts.

2. Budget Development and Adoption

		Yes	No	N/A
2.1	Does the district develop and use written budget assumptions and multiyear projections that are reasonable, are aligned with the county office of education instructions, and have been clearly articulated?	☐	✓	☐

The district did not provide evidence that written assumptions are used to develop the budget or multiyear projections. The district also does not articulate budget assumptions to the board or stakeholders as part of budget presentations.

		Yes	No	N/A
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?	☐	✓	☐

The district uses a rollover method to develop a new budget; one-time expenditures are not always removed. Cleanup of the budget occurs with first and second interim.

		Yes	No	N/A
2.3	Does the district use position control data for budget development?	☐	✓	☐
	The district uses position control for most salary data in budget development, but not all salaries are derived from position control.			
2.4	Does the district calculate the Local Control Funding Formula (LCFF) revenue correctly?	✓	☐	☐
2.5	Has the district's budget been approved unconditionally by its county office of education in the current and two prior fiscal years?	✓	☐	☐
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)?	☐	✓	☐
	Interviews with staff and the board indicate that budget development does not include input from staff, administrators, the governing board or the community.			
2.7	Does the district budget and expend restricted funds before unrestricted funds?	☐	✓	☐
	Review of budget documentation reflects that the district does not consistently expend restricted funds first. Staff interviews indicate that this is an area of improvement for the district.			
2.8	Have the Local Control and Accountability Plan (LCAP) and the budget been adopted within statutory timelines established by Education Code Sections 42103 and 52062 and filed with the county superintendent of schools no later than five days after adoption or by July 1, whichever occurs first, for the current and one prior fiscal year?	✓	☐	☐
2.9	Has the district refrained from including carryover funds in its adopted budget?	☐	✓	☐
	The district includes carryover funds in the original (adopted) budget. Also, interviews with staff indicated that carryover is included in the adopted budget, and adjusted as necessary at first interim reporting period.			
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?	☐	✓	☐
	The district does not have a documented policy procedure for evaluating proposed grants or other types of restricted funds.			
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 does not have a budget calendar but is developing one that identifies the tasks and staff 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?	☐	✓	☐
	Using the 19-20 second interim report, there were several areas where actuals exceeded budgeted amounts. This was identified in the following areas: unsecured property taxes, prior year's taxes, supplemental taxes, mandated cost reimbursements, career technical grant, specialized secondary grant, other state revenue, miscellaneous			

revenue, noncapitalized equipment, materials and supplies, rentals/leases/repairs, and debt service. While not all amounts over budget are material, budget and actuals should be closely monitored so that actuals never exceed budgeted amounts for the year either for revenues or expenditures.

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? . . . . ☐ ✓ ☐

The district did not provide evidence that written assumptions are used to develop the interim budget or multiyear projections. In staff interviews and a review of board agendas, FCMAT found no indication that assumptions and revisions are clearly communicated. The district also does not articulate budget assumptions to the board or stakeholders as part of budget presentations.

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? . . . . ☐ ✓ ☐

The district did not make the necessary budget revisions in a timely fashion to reflect settlement costs. The district's budget revisions made at each interim period are minimal.

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

The district does not complete all of the areas of the criteria and standards. For example, in the 2019-20 second interim report, the district did not complete the long-term liabilities section of the criteria and standards. Also, the ending cash balance was not entered, which caused a variance and required an explanation that would not have been required had the value been entered.

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 2017-18 first interim letter from the county office identified an alignment issue between position control and payroll. While not mentioned in subsequent letters from the county office, this issue still exists at the district.

3.7 Does the district prohibit processing of requisitions or purchase orders when the budget is insufficient to support the expenditure? . . . . ☐ ✓ ☐

No control prevents users from processing requisitions or purchase orders when the budget is insufficient to support the expenditure. The district hopes to implement a new procedure to address this weakness through the QSS financial system.

3.8 Does the district encumber and adjust encumbrances for salaries and benefits? . . . . ☐ ✓ ☐

The district does not encumber salary and benefits, but would like to set it up with assistance from the county office.

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

Balance sheet accounts are not reconciled at interim reporting periods or annually with the year-end closing. This has been an area of improvement evidenced by audit findings for several years.

3.10 Have the interim reports and the unaudited actuals been adopted and filed with the county superintendent of schools within the timelines established in Education Code? . . . . ✓ ☐ ☐

4. Cash Management

		Yes	No	N/A
4.1	Are accounts held by the county treasurer reconciled with the district's and county office of education's reports monthly?	☐	✓	☐
	Staff indicate that the reports are not reconciled with the county treasurer or county office. The county office reconciles to county treasurer monthly, but retains the reports.			
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?	☐	✓	☐
	Staff indicate that the cash flow reports are prepared for current and subsequent year, however, documentation was not provided to support the practice. The county office prepares and monitors monthly cash flow.			
4.4	If the district's cash flow forecast shows insufficient cash in its general fund to support its current and projected obligations, does the district have a reasonable plan to address its cash flow needs for the current and subsequent year?	✓	☐	☐
4.5	Does the district have sufficient cash resources in its other funds to support its current and projected obligations in those funds?	✓	☐	☐
4.6	If interfund borrowing is occurring, does the district comply with Education Code Section 42603?	☐	✓	☐
	Evidence was not provided showing the timing of interfund borrowing.			
4.7	If the district is managing cash in any fund(s) through external borrowing, does the district's cash flow projection include repayment based on the terms of the loan agreement?	✓	☐	☐

5. Charter Schools

		Yes	No	N/A
5.1	Are all charters authorized by the district going concerns?	☐	☐	✓
5.2	If the district has any charters in fiscal distress, has the district performed its statutory fiscal and operational oversight functions, including formal communication to the charter, such as notices of violation?	☐	☐	✓
5.3	Has the district fulfilled and does it have evidence showing fulfillment of its oversight responsibilities in accordance with Education Code Section 47604.32?	☐	☐	✓
5.4	Does the district have a board policy or other written document(s) regarding charter oversight?	☐	☐	✓
5.5	Has the district identified specific employees in its various departments (e.g., human resources, business, instructional, and others) to be responsible for oversight of all approved charter schools?	☐	☐	✓

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?	☐	✓	☐
	The district did not provide estimated cost-of-settlement agreements.			

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 did not provide evidence that a presettlement analysis was performed and therefore, there is no indication that presettlement information was submitted to the board at or prior to settlement of negotiations or to the county office as required for negative or qualified certification districts per EC 42131.

6.5 In the current and prior two fiscal years, has the district settled the total cost of the bargaining agreements at or under the funded cost of living adjustment (COLA)? . . . . . . ☐ ✓ ☐

The district settled bargaining agreements above the funded COLA in 2017-18 and 2018-19, but settled below the funded COLA in 2019-20 as shown below:

2017-18	2017-18	2018-10	2019-20
Statutory COLA	1.56%	2.71%	3.26%
District salary settlement	3.50%	3.50%	0.00%
District health/welfare settlement*	0.00%	0.84%	0.00%

**Estimated percentage. District did not disclose the cost of the settlement*

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? . . . . ☐ ✓ ☐

The district did not provide copies of disclosure of collective bargaining agreements. Board minutes submitted by the district do not indicate compliance with public disclosure requirements.

Statute requires the provisions, including costs, associated with a tentative collective bargaining agreement in the current and subsequent fiscal years to be disclosed at a public meeting before the agreement becomes binding on the district. This provision ensures that the public is aware of the costs of a tentative collective bargaining agreement before it is in effect. Before it enters into a written agreement with an exclusive representative covering matters within the scope of representation, a public school employer must meet certain requirements. At a public meeting and in a format prescribed by the SPI or county office, the employer is required to disclose the major provisions of the agreement including but not limited to the costs that would be incurred by the public school employer under the agreement for the current and subsequent fiscal years [G.C. 3547.5(a)].

Government Code Section 3540.2 provides added oversight related to collective bargaining. A school district with a qualified or negative budget certification according to Education Code Section 42131 must allow the county office at least 10 working days to review and comment on any proposed agreement between the exclusive representative and the public school employer before it is ratified. The school district is required to provide the county superintendent with all information relevant to an understanding of the financial impact(s) of the agreement, pursuant to Government Code section 3543.2. The county superintendent must notify the school district, the county board of education, the district superintendent, the governing board of the *school district, and each parent and teacher organization of the district within those 10 days if, in his or her opinion, the agreement would endanger the fiscal well-being of the school district.*

The district had a qualified certification for the first interim reporting period for 2017-18 and has had three consecutive negative certifications beginning with the second interim reporting period in 2017-18.

The county office confirmed it has not received disclosures of collective bargaining agreements from July 1, 2015 to the present, yet the district has settled with represented employee groups during that time as follows:

> *Ongoing increases to California School Employees' Association (CSEA) salaries and health and welfare allowance for 2017-18 and 2018-19 were included in the agreement approved by the governing board on October 4, 2017.*
>
> *Ongoing increases to Rosamond Teachers' Association salaries and ongoing increases to health/welfare allowance for 2017-18 and 2018-19 were included in the agreement approved by the governing board on August 21, 2019.*

The district may be in violation of Government Codes 3547.5(a) and 3540.2.

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

Government Code 3547.5(b) states the following:

> *...the superintendent of the school district and the chief business official shall certify in writing that the district can meet the costs it is incurring under the agreement during the term of the agreement. This certification shall itemize any budget revision necessary to meet the costs of the agreement in each year of its term.*

No certifications were provided indicating that the district can meet the costs of the agreement by the superintendent and CBO.

The district is in violation of Government Code 3547.5(b)

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

No certification by the superintendent or CBO was provided.

7. Contributions and Transfers — Yes No N/A

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

The district does not have a plan to eliminate, reduce or control contributions from the general fund to other restricted programs and funds. The district makes a required match to the Career Technical Education Incentive Grant as well as required match to the RRMA. The district also contributes to special education and to the After School Education and Safety program.

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

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

8. Deficit Spending (Unrestricted General Fund)

		Yes	No	N/A
8.1	Is the district avoiding deficit spending in the current fiscal year?	✓	☐	☐
8.2	Is the district projected to avoid deficit spending in both of the two subsequent fiscal years?	✓	☐	☐
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?	☐	☐	✓
8.4	Has the district decreased deficit spending over the past two fiscal years?	✓	☐	☐

9. Employee Benefits

		Yes	No	N/A
9.1	Has the district completed an actuarial valuation in accordance with Governmental Accounting Standards Board (GASB) requirements to determine its unfunded liability for other post-employment benefits (OPEB)?	✓	☐	☐
9.2	Does the district have a plan to fund its liabilities for retiree health and welfare benefits with the total of annual required service payments no greater than 2% of the district's unrestricted general fund revenues?	☐	✓	☐

The actuarial study dated December 4, 2018 estimates the district's total OPEB liability as $18,248,985 for the fiscal year ended June 30, 2018. The annual required contribution is $1,765,620, and the district made payments of $1,024,326 in 2017-18. The district funds its retiree health and welfare benefits program on a pay-as-you-go basis. It has not established an irrevocable OPEB trust with assets dedicated toward paying OPEB liabilities nor is there a segregated funding source to cover long-term retiree benefits. Because there is no ongoing commitment to cover the unfunded liability, the district may not have an adequate plan to sufficiently fund the future liability.

		Yes	No	N/A
9.3	Has the district followed a policy or collectively bargained agreement to limit accrued vacation balances?	☐	✓	☐

Current collective bargaining agreement between the district and California School Employees Association (CSEA) Chapter 587 language:

Article 5 Vacations and Holidays

Vacation Accrual Limit:

C. *Vacation time earned by the employee may accrue to a total of forty-eight (48) days. Earned time above forty-eight (48) days shall be taken no later than the following school year. No employee shall lose earned vacation time by operation of this Article.*

The District will notify employees of the amount of vacation they have accrued twice a year.

All employees will be paid for unused vacation at the end of the fiscal year with the exception of twelve-month employees.

A review of leave balance information provided by the district indicates that the district does not enforce the leave limit as three employees have leave balances that are in excess of agreed-upon language in the collective bargaining agreement.

Interviews with staff indicated a policy for confidential/management was drafted in 2017, but was never implemented. The district does not limit vacation carryover for confidential/management employees.

The district posts leave balances on check stubs monthly to inform employees of leave 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? . . . . ☐ ✓ ☐

Interviews with staff indicated that the district has not conducted a verification and determination of eligibility for benefits for all active and retired employees and dependents. Staff indicated that they believe Self Insured Schools of California (SISC), the joint powers agreement (JPA) for health insurance, handles this for them however no documentation noting the results was provided.

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?. . . . . ☐ ✓ ☐

After a several years of significant growth, the district declined in enrollment in 2018-19 and 2019-20.

Year	2017-18	2018-19	2019-20
Census Day Enrollment	3,560	3,557	3,522
Change from prior year	154	-3	-35
Percent change	4.5%	-0.08%	-0.98%

Source: https://www.ed-data.org/district/Kern/Southern-Kern-Unified

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)? . . . . ☐ ✓ ☐

Interviews with staff indicated that data is reviewed at relevant attendance reporting periods. A spreadsheet showing each month's enrollment and ADA was provided; however, staff indicated this is not used in decision-making or projections.

10.3 Does the district track historical enrollment and ADA data to establish future trends? . . . . ☐ ✓ ☐

Interviews with staff indicated that the district uses a cohort survival method to project enrollment however no documentation of any method was provided.

10.4 Do school sites maintain an accurate record of daily enrollment and attendance that is reconciled monthly at the site and district levels? . . . . ☐ ✓ ☐

No evidence was provided to demonstrate that reconciliation is performed monthly at the site or 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? . . . . ☐ ✓ ☐

Interviews with staff indicated that the district uses a cohort survival method to project enrollment; however, no documentation was provided.

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? . . . . ☐ ✓ ☐

The district is unaware of enrollment losses to charter schools although there are several charters in contiguous counties.

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? . . . . ☐ ✓ ☐

Education Code Section 17070.75 requires LEAs in the 1998 School Facility Grant Program (SFP) to annually deposit at least 3% of the LEA's total general fund adopted budget expenditures and other financing uses into an ongoing and major maintenance account called the routine restricted maintenance account (RRMA) (SACS Resource 8150). Education Code 17070.75 reduced the required deposit to the routine restricted maintenance account for the 2015-16 and 2016-17 fiscal years to the lesser of 3% of the total general fund expenditures for that fiscal year or the amount that the school district deposited into the account in the 2014-15 fiscal year.

For the 2017-18 to 2019-20 fiscal years, the minimum amount required to be deposited shall be the greater of the following amounts:

(a) The lesser of 3% of the general fund expenditures for that fiscal year or the amount that the school district deposited into the account in the 2014-15 fiscal year.

(b) Two percent of the total general fund expenditures of the applicant school district for that fiscal year.

Routine Restricted Maintenance Account Calculations

Fiscal Year	2018-19 Final	2019-20 Estimated*
contribution required per EC 17070.75	$1,018,746	$1,018,746
contribution made (budgeted)	773,193	929,956
Calculations:		
"Adopted General Fund		
Expenditures (excluding RRMA)"	41,008,846	37,087,607
3%	1,230,265	1,112,628
2%	820,177	741,752
2014-15 actual contributions	1,018,746	1,018,746
Greater of:		
Calc 5(a) - lesser of 3% of adopted expenditures or 2014-15 actual contribution	1,018,746	1,018,746
Calc 5(b) - 2% of adopted expenditures	820,177	741,752
2017-18 through 2019-20 must be at least:	$1,018,746	$1,018,746

**2019-20 actuals have not been finalized*

The district is in violation of Education Code 17070.75.

		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?	☐	✓	☐

Education Code 15278 requires the governing board of the school district to establish and appoint members to an independent citizens' oversight committee. There is no evidence of citizens' bond oversight committee at the district. Interviews with staff indicate this is because of lack of interest from the public.

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

The district lacks a current master plan. Interviews with staff indicated no organizational meeting on a master plan has occurred since 2010.

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?	☐	✓	☐

According to the 2019-20 second interim report, the district projects ending fund balance of (-$1,946,364), which equals -5.02% reserve.

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

The projection for the first subsequent year, 2020-21, reflects a reserve level of 1.85%, which is below the 3% statutory reserve for a district of this size.

		Yes	No	N/A
12.3	If the district is not able to maintain the minimum reserve for economic uncertainty, does the district's multiyear financial projection include a board-approved plan to restore the reserve?	✓	☐	☐
12.4	Is the district's projected unrestricted fund balance stable or increasing in the two subsequent fiscal years?	✓	☐	☐
12.5	If the district has unfunded or contingent liabilities or one-time costs other than post-employment benefits, does the unrestricted general fund balance include sufficient assigned or committed reserves above the recommended reserve level?	✓	☐	☐

13. General Fund – Current Year

		Yes	No	N/A
13.1	Does the district ensure that one-time revenues do not pay for ongoing expenditures?	✓	☐	☐
13.2	Is the percentage of the district's general fund unrestricted expenditure budget that is allocated to salaries and benefits at or below the statewide average for the current year?	☐	✓	☐

The district's 2019-20 projected unrestricted general fund salaries and benefits are 91.94% of the expense budget. The statewide average for unified districts as of 2018-19 (the latest data available) was 87%.

		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?	☐	✓	☐

The district's unrestricted general fund salaries and benefits were 90.16% of the total unrestricted expenditures in 2017-18 and 91.44% in 2018-19. The statewide average for unified districts was 86.8% in 2017-18 and 87% in 2018-19.

		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?	☐	✓	☐

While the district does not ensure that restricted dollars are sufficient to pay for restricted staff positions.

		Yes	No	N/A
13.6	Is the district using its restricted dollars fully by expending allocations for restricted programs within the required time?	✓	☐	☐
13.7	Does the district account for program costs, including the maximum allowable indirect costs, for each restricted resource and other funds?	☐	✓	☐

The district does not evenly charge indirect costs across all restricted programs and funds. Indirect was not charged to any restricted programs in the general fund for 2018-19. Indirect was charged to programs in other funds. (per 2018-19 unaudited actuals report).

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? . . . . ☐ ✓ ☐

While showing improvement in 2018-19, the district has had audit findings in each of the last three years for incorrectly identifying students as eligible for free or reduced-price meals:

	2016-17	2017-18	2018-19
Errors	6	14	2
Percentage of errors to sample	9.09%	28.57%	3.08%
Financial effect	$(6,855.00)	$(11,193.00)	$(3,879.00)

14.4 Is the district using the same financial system as its county office of education? . . . . . . ✓ ☐ ☐

14.5 If the district is using a separate financial system from its county office of education and is not fiscally independent, is there an automated interface with the financial system used by the county office of education? . . . . ☐ ☐ ✓

14.6 If the district is using a separate financial system from its county office of education, has the district provided the county office with direct access so the county office can provide oversight, review and assistance? . . . . ☐ ☐ ✓

15. Internal Controls and Fraud Prevention Yes No N/A

15.1 Does the district have controls that limit access to its financial system and include multiple levels of authorization? . . . . ☐ ✓ ☐

The district does not have a process to determine appropriate levels of access to the financial system. Interviews with staff indicate that the district does not use the financial system to its fullest capabilities, and authorizations are generally limited to the CBO and the superintendent.

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? . . . . ☐ ✓ ☐

Interviews with staff indicated that access and authorization controls are not reviewed regularly. The staff has an overall lack of understanding on how to add/change/delete access to the system.

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) . . . . ✓ ☐ ☐

		Yes	No	N/A
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?	☐	✓	☐
	The district has some internal control processes that discourage fraud; however staff interviews provided no intentional process or procedure to detect fraud.			
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 does not have a process for collecting reports of possible fraud. Interviews with staff indicated they report suspicion of fraud to the CBO or the superintendent.			
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 CBO started with the district in October 2019, the sixth in the past five years.			
16.2	Does the district have a superintendent who has been with the district as superintendent for more than two years?	☐	✓	☐
	The superintendent has been with the district since July 1, 2019, the associate superintendent served as interim from July 2018 to July 2019, and the prior superintendent had served in the position since 2012.			
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?	☐	✓	☐
	Interviews with staff indicated site or department administrators do not receive training on financial management or the budget. The CBO and superintendent develop the budget. The CBO performs all budget and financial 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?	☐	✓	☐
	While board policies and administrative regulations are updated annually, the district does not have a formal process to communicate them to staff.			
16.7	Do all board members attend training on the budget and governance at least every two years?	☐	✓	☐
	Interviews with staff indicated board members do not receive training on the budget. However, the district provides evidence that two board members have completed California School Boards Association's (CSBA) masters in governance training, one in 2015 and the other in 2018. The county office and Schools Legal Service have provided workshops for the board on selected topics.			

		Yes	No	N/A
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?	☐	✓	☐
	The district does not provide assumptions for either the budget or multiyear projections prepared at each reporting period.			
17.2	To help calculate its multiyear projections, did the district prepare an accurate LCFF calculation with multiyear considerations?	✓	☐	☐
17.3	Does the district use its most current multiyear projection in making financial decisions?	✓	☐	☐
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?	☐	✓	☐
	The district has a loan from the county office. In a letter dated July 31, 2020, addressed to the superintendent, the district was expected to pay back the loan in full by August 30, 2020. The loan is secured by the 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?	☐	✓	☐
	On September 4, 2018, Moody's Investor Service downgraded the district's rating from A1 to Baa1 and on October 26, 2018, S&P Global Ratings downgraded the district's rating from A to A-.			
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?	☐	✓	☐
	If the district makes an estimated $1.5 million payment as suggested in the letter from the county office, the amount would be greater than 4% 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?	☐	✓	☐
	The district does not include stipends or extra duty in position control increasing the risk of omission from the budget until after expended.			
19.2	Does the district analyze and adjust staffing based on staffing ratios and enrollment?	✓	☐	☐

		Yes	No	N/A
19.3	Does the district reconcile budget, payroll and position control regularly, at least at budget adoption and interim reporting periods?	☐	✓	☐
	A best practice is to have a position control system that is integrated with, or at least reconciled with, budget, payroll and human resources records. The district does not reconcile these records regularly to ensure that its budget represents the amount the district should set aside for such costs. In interviews, employees indicated that at interim reporting times, the district identifies variances between budgeted and actual amounts, and salary and benefit budgets are often revised based on that analysis. By contrast, the standard industry practice is to reconcile actual human resources and payroll records to ensure that only open, authorized positions are shown as such in the budget.			
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?.	☐	✓	☐
	Staff indicated that this has not occurred in the past and they are working on establishing a formal process. Communication between these functions is critical to ensure accuracy within the budget and the financials.			

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?	☐	✓	☐
	For half of the mild/moderate special education teachers, class sizes exceeds the industry standard of 12-15 students per teacher.			
20.2	Does the district access available funding sources for costs related to special education (e.g., excess cost pool, legal fees, mental health)?	✓	☐	☐
20.3	Does the district use appropriate tools to help it make informed decisions about whether to add services (e.g., special circumstance instructional assistance process and form, transportation decision tree)?	✓	☐	☐
20.4	Does the district budget and account correctly for all costs related to special education (e.g., transportation, due process hearings, indirect costs, nonpublic schools and/or nonpublic agencies)?	☐	✓	☐
	The district does not charge indirect costs to special education.			
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 statewide average identification rate for 2018-19 was 11.72%, and the Kern County was 11.17%. The district identification rate for 2018-19 was 15.83% (the 2018-19 year is used because of the availability of complete data).			
20.7	Does the district analyze whether it will meet the maintenance of effort requirement at each interim reporting period?	☐	✓	☐
	The district does not monitor special education maintenance of effort at the interim periods.			

Risk Score, 20 numbered sections only:	**51.9%**

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 as described in the Instructions & Summary tab, will supersede the score above because it elevates the district's risk level.)