FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Trinity Alps Unified School District

Fiscal Health Risk Analysis

April 2, 2020

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Table of Contents

About FCMAT 3

Introduction 5

Background 5

Study Guidelines 5

Study Team 5

District Overview 6

Fiscal Health Risk Analysis 7

Annual Independent Audit Report 7

Budget Development and Adoption 7

Budget Monitoring and Updates 8

Cash Management 9

Charter Schools 9

Collective Bargaining Agreements 9

Contributions and Transfers 10

Deficit Spending 10

Employee Benefits 10

Enrollment and Attendance 11

Facilities 11

Fund Balance and Reserve for Economic Uncertainty 12

General Fund – Current Year 12

Information Systems and Data Management 13

Internal Controls and Fraud Prevention 13

Leadership and Stability 15
Multiyear Projections 15
Non-Voter-Approved Debt and Risk Management 15
Position Control 16
Special Education 16
Total Risk Score, All Areas 17
Summary 18

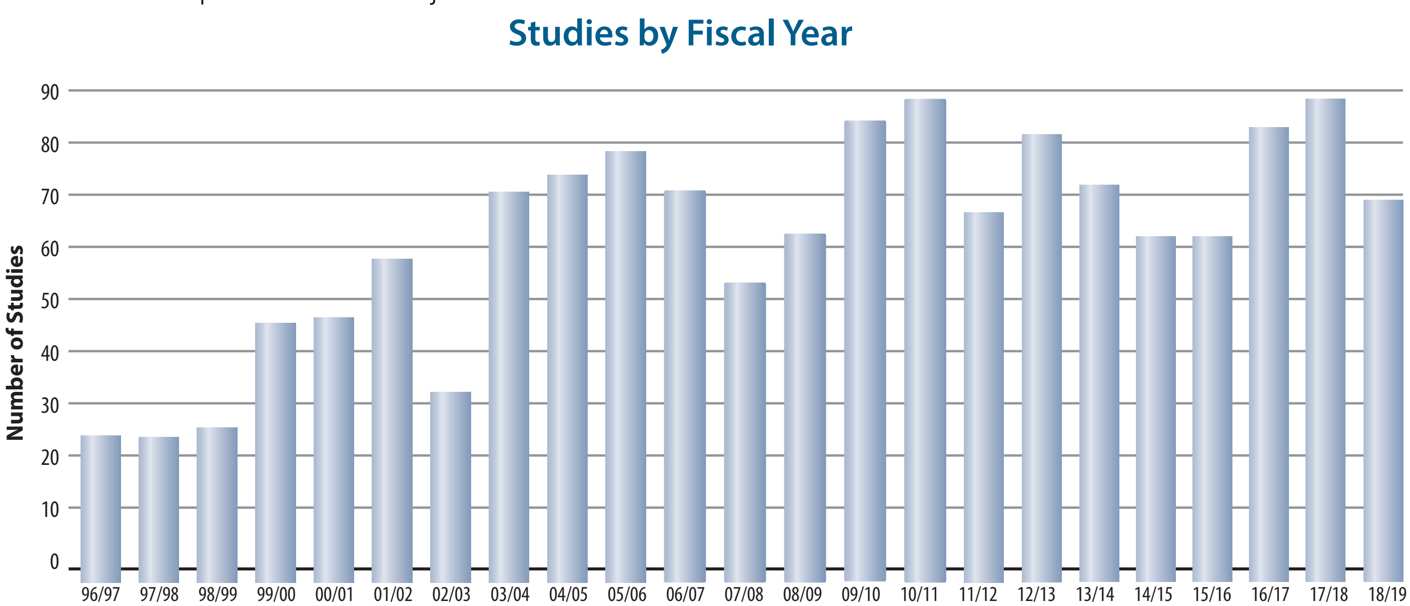
About FCMAT

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

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

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

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



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

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

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

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

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

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

Introduction

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

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

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

Study Guidelines

FCMAT entered into the study agreement with the Trinity Alps Unified School District on November 15, 2019. The team visited the district on January 14-15, 2020 to conduct interviews, collect data and review documents. This report is the result of those activities.

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

Study Team

The team was composed of the following members:

Jeffrey B. Potter
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Bakersfield, CA

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

District Overview

The Trinity Alps Unified School District is located in Weaverville, California, about 44 miles west of Redding. The school district boundaries are geographically large, extending approximately 80 miles north and 50 miles west of Weaverville, encompassing the northern half of Trinity County. Because of the rural location, Trinity County's population density is sparse compared to other areas of the state. The median household income is among the lowest in California at approximately $36,563.

The district is governed by a board of five trustees representing four geographical areas within the county. The district operates one elementary school, one high school, and a continuation high school. District enrollment was 744 students in 2018-19, but declined to 676 in 2019-20 (certified Fall 1 reporting is shown as 677). The district's unduplicated count, which includes students who qualify for free and reduced-price meals, was approximately 59% in 2018-19.

The district ended fiscal year 2018-19 with an excess of approximately $862,000 in expenditures over revenues in the general fund and projects deficit spending to continue in 2019-20. The district indicates the primary reason for the deficit spending as an unexpected need for extensive mold remediation at the district's school sites. Mold removal is ongoing, and temporary classrooms and offices are in use. Reserves have been depleted as a result of the repairs, and the district projects an inability to meet the statutory 4% minimum reserve for economic uncertainties in 2019-20 and beyond.

The Trinity County Office of Education conditionally approved the district's 2019-20 adopted budget on August 15, 2019 because of the mold remediation expenditures, as well as an overstatement of LCFF revenues, and expenditure reductions that were not clearly identified on the district's multiyear projection. Subsequently, on October 8, 2019, the County Office designated the district a "lack of going concern," in accordance with Education Code Section 42127. The determination was based on a structural budget deficit in the general fund, declining enrollment, and inadequate cash flow.

Following the district's designation as a lack of going concern, FCMAT engaged and performed an FHRA to determine the district's level of risk for insolvency.

Fiscal Health Risk Analysis

For K-12 Local Educational Agencies

FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

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

The FHRA includes 20 sections, each containing specific questions. Each section and specific question is included based on FCMAT's work since the inception of AB 1200; they are the common indicators of risk or potential insolvency for districts that have neared insolvency and needed assistance from outside agencies. Each section of this analysis is critical to an organization, and lack of attention to these critical areas will eventually lead to financial insolvency and loss of local control. The analysis focuses on essential functions and processes to determine the level of risk at the time of fieldwork; however, it is not a detailed review of all systems and finances, nor does it consider subsequent events.

The greater the number of "no" answers to the questions in the analysis, the higher the score, which points to a greater potential risk of insolvency or fiscal issues for the district. Not all sections in the analysis and not all questions within each section carry equal weight; some areas carry higher risk and thus count more heavily toward or against a district's fiscal stability percentage. For this tool, 100% is the highest total risk that can be scored. A "yes" or "n/a" answer is assigned a score of 0, so the risk percentage increases only with a "no" answer.

To help the district, narratives are included for responses that are marked as "no" so the district can better understand the reason for the response and actions that may be needed to obtain a "yes" answer.

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

District or LEA Name: Trinity Alps USD

Dates of Fieldwork: January 14-15, 2020

1. Annual Independent Audit Report

		Yes	No	N/A
1.1	Can the district correct prior year audit findings without affecting its fiscal health (e.g., material apportionment or internal control findings)?	✓	☐	☐
1.2	Has the independent audit report for the most recent fiscal year been completed and presented to the board within the statutory timeline? (Extensions of the timeline granted by the State Controller's Office should be explained.)	✓	☐	☐
1.3	Was the district's most recent independent audit report free of material findings?	✓	☐	☐
1.4	Has the district corrected all reported audit findings from the current and past two audits?	✓	☐	☐
1.5	Has the district had the same audit firm for at least three years?	☐	✓	☐

The district had the same auditor for fiscal years 2016-17 and 2017-18. Following a bidding process, the district awarded an auditing contract to a new auditor, Nigro & Nigro, PC, beginning with the 2018-19 audit.

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?	✓	☐	☐
2.2	Does the district use a budget development method other than a prior-year rollover budget, and if so, does that method include tasks such as review of prior year estimated actuals by major object code and removal of one-time revenues and expenses?	✓	☐	☐
2.3	Does the district use position control data for budget development?	✓	☐	☐
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?	☐	✓	☐

While the county office approved the 2017-18 and 2018-19 budgets, the 2019-20 budget was conditionally approved due to the mold remediation expenditures, as well as an overstatement of LCFF revenues, and expenditure reductions that were not clearly identified on the district's multiyear projection.

		Yes	No	N/A
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 LCAP and the budget been adopted within statutory timelines established by Education Code sections 42103 and 52062 and filed with the county superintendent of schools no later than five days after adoption or by July 1, whichever occurs first, for the current and past two fiscal years?	✓	☐	☐
2.9	Has the district refrained from including carryover funds in its adopted budget?	✓	☐	☐
2.10	Other than objects in the 5700s and 7300s and appropriate abatements in accordance with the California School Accounting Manual, does the district avoid using negative or contra expenditure accounts?	✓	☐	☐
2.11	Does the district have a documented policy and/or procedure for evaluating the proposed acceptance of grants and other types of restricted funds and the potential multiyear impact on the district's unrestricted fund?	☐	✓	☐

The district lacks a documented policy or procedure for evaluating the proposed acceptance of grants and other types of restricted funds and the potential multiyear impact on the district's unrestricted fund.

		Yes	No	N/A
2.12	Does the district adhere to a budget calendar that includes statutory due dates, major budget development tasks and deadlines, and the staff member/department responsible for completing them?	☐	✓	☐

The district does not have an established budget calendar, although site interviews indicated that it intends to develop a calendar for the 2020-21 budget development.

3. Budget Monitoring and Updates

		Yes	No	N/A
3.1	Are actual revenues and expenses consistent with the most current budget?	✓	☐	☐
3.2	Are budget revisions 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 before the next financial reporting period?	✓	☐	☐
3.5	Does the district provide a complete response to the variances identified in the criteria and standards?	✓	☐	☐
3.6	Has the district addressed any deficiencies the county office of education has identified in its oversight letters in the current and prior two 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 each interim report, at a minimum?	✓	☐	☐
3.10	Have the interim reports and the unaudited actuals been adopted and filed with the county superintendent of schools within statutory timelines established by Education Code?	✓	☐	☐

4. Cash Management

		Yes	No	N/A
4.1	Are accounts held by the county treasurer reconciled with the district's and county office of education's reports monthly?	✓	☐	☐
4.2	Does the district reconcile all bank (cash and investment) accounts with bank statements monthly?	✓	☐	☐
4.3	Does the district forecast its cash receipts and disbursements at least 18 months out, updating the actuals and reconciling the remaining months to the budget monthly to ensure cash flow needs are known?	☐	✓	☐
	Documentation provided to FCMAT indicates the district projects cash flow through the current fiscal year only.			
4.4	Does the district have a reasonable plan to address cash flow needs during the current fiscal year?	✓	☐	☐
4.5	Does the district have sufficient cash resources in its other funds to support its current and projected obligations 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 funds through external borrowing, has the district set aside funds for repayment attributable to the same year the funds were borrowed?	✓	☐	☐

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 the issuance of 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 prior two fiscal year(s)?	✓	☐	☐
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?	✓	☐	☐
6.5	In the current and prior two fiscal years, has the district settled the total cost of the bargaining agreements at or under the funded cost of living adjustment (COLA)?	✓	☐	☐
6.6	If settlements have not been reached in the past two years, has the district identified resources to cover the estimated costs of settlements?	☐	☐	✓
6.7	Did the district comply with public disclosure requirements under Government Code sections 3540.2 and 3547.5 and Education Code section 42142?	✓	☐	☐

		Yes	No	N/A
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 district lacks a board-approved plan to eliminate, reduce or control any contributions/transfers from the unrestricted general fund to other restricted programs and funds, including special education, which requires the largest contribution.			
7.2	If the district has deficit spending in funds other than the general fund, has it included in its multiyear projection any transfers from the unrestricted general fund to cover any projected negative fund balance?	✓	☐	☐
7.3	If any contributions/transfers were required for restricted programs and/or other funds in either of the prior two fiscal years, and there is a need in the current year, did the district budget for them at reasonable levels?	✓	☐	☐

8. Deficit Spending

		Yes	No	N/A
8.1	Is the district avoiding deficit spending in the current fiscal year?	☐	✓	☐
	As shown in the district's 2019-20 first interim report, it projects to deficit spend by approximately $162,000 in the current fiscal year.			
8.2	Is the district projected to avoid deficit spending in both of the two subsequent fiscal years?	☐	✓	☐
	As shown in the district's 2019-20 first interim report, it is projected to deficit spend $34,339 in 2020-21. The district identified reductions to eliminate deficit spending in 2021-22; however the board had not yet acted on the proposed reductions at the time of FCMAT's fieldwork.			
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?	☐	✓	☐
	The district included certificated reductions of $241,233 and $161,000 for 2020-21 and 2021-22, respectively, on the 2019-20 first interim report. Classified reductions are also included in both years for $23,500 and $19,729. However, the board had not yet taken formal action to approve and enact the reductions at the time of fieldwork.			
8.4	Has the district decreased deficit spending over the past two fiscal years?	☐	✓	☐
	Deficit spending increased from 2017-18 to 2018-19 by approximately $925,000, but is projected to be lower in 2019-20, with a total excess of expenditures over revenues of $162,004.			

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?	✓	☐	☐
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?	✓	☐	☐

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

10. Enrollment and Attendance

		Yes	No	N/A
10.1	Has the district's enrollment been increasing or remained stable for the current and two prior years?	☐	✓	☐
	District enrollment has declined each year since 2017-18. Enrollment in 2017-18 was 757 and declined to 744 in 2018-19. Enrollment in 2019-20 is projected at 676 (certified fall 1 reporting is shown as 677).			
10.2	Does the district monitor and analyze enrollment and average daily attendance (ADA) data at least monthly through the second attendance reporting period (P2)?	✓	☐	☐
10.3	Does the district track historical enrollment and ADA data to predict 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?	☐	✓	☐
	District interviews indicated that daily enrollment and attendance are reviewed at the district level, but are not reconciled at all sites.			
10.5	Has the district certified its California Longitudinal Pupil Achievement Data System (CALPADS) data by the required deadlines (Fall 1, Fall 2, EOY) for the current and two prior years?	✓	☐	☐
10.6	Are the district's enrollment projections and assumptions based on historical data, industry-standard methods, and other reasonable considerations?	✓	☐	☐
10.7	Do all applicable sites and departments review and verify their respective CALPADS data and correct it as needed before the report submission deadlines?	✓	☐	☐
10.8	Has the district planned for enrollment losses to charter schools?	☐	☐	✓
10.9	Does the district follow established board policy to limit outgoing interdistrict transfers and ensure that only students meeting the required qualifications are approved?	☐	✓	☐
	While the district has board policy and administrative regulations outlining the process for the approval and denial of interdistrict transfer requests (BP / AR 5117), it is unclear whether the district is following these policies. Outgoing interdistrict transfers totaling 128 for 2019-20 are significantly higher than the incoming transfers of 42 for the same time period. Information collected by FCMAT suggests there may be confusion among districts in the county regarding a joint agreement addressing this process.			
10.10	Does the district meet the average class enrollment for each school site of no more than 24-to-1 class size ratio in TK-3 classes or does it have an alternative collectively bargained agreement?	✓	☐	☐

11. Facilities

		Yes	No	N/A
11.1	If the district participates in the state's School Facilities Program, has it met the 3% Routine Restricted Maintenance Account requirement?	☐	☐	✓
11.2	Does the district have sufficient and available capital outlay and/or bond funds to cover all contracted obligations for capital facilities projects?	☐	✓	☐
	Because of the significant cost of ongoing mold remediation, which exceeds \$6 million, as well as the added costs of leasing temporary facilities, the district lacks sufficient and available capital outlay and bond funds to cover all obligations related to capital facilities. With the increasing fiscal pressure on its resources, the district sought relief through the passage of a bond in March 2020. While this occurred subsequent to fieldwork, the bond measure failed. Additional efforts to seek passage may occur on a subsequent ballot.			
11.3	Does the district properly track and account for facility-related projects?	✓	☐	☐

		Yes	No	N/A
11.4	Does the district use its facilities fully in accordance with the Office of Public School Construction's loading standards?	☐	☐	✓
11.5	Does the district include facility needs (maintenance, repair and operating requirements) when adopting a budget?	✓	☐	☐
11.6	Has the district met the facilities inspection requirements of the Williams Act and resolved any outstanding issues?	✓	☐	☐
11.7	If the district passed a Proposition 39 general obligation bond, has it met the requirements for audit, reporting, and a citizens' bond oversight committee?	☐	☐	✓
11.8	Does the district have an up-to-date long-range facilities master plan?	☐	✓	☐

The district does not have a long-range facilities master plan. Additionally, it does not appear the district has been performing deferred maintenance proactively, increasing the risk of costly repairs and maintenance.

12. Fund Balance and Reserve for Economic Uncertainty

		Yes	No	N/A
12.1	Is the district able to maintain the minimum reserve for economic uncertainty in the current year (including funds 01 and 17) as defined by criteria and standards?	☐	✓	☐

The district has a minimum reserve requirement of 4%. As indicated by the district's 2019-20 first interim report, it projects total available reserves of 1.55% for 2019-20.

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

As shown in the district's 2019-20 first interim report multiyear projection, the district anticipates reserves of 1.64% and 2% in 2020-21 and 2021-22, respectively. The reserve level is calculated following the incorporation of both certificated and classified expenditure reductions in both years. These reductions had not been approved or enacted by the governing board as of first interim.

		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?	☐	✓	☐

Fiscal year 2019-20 and the two subsequent years do not demonstrate a restoration of the district's reserves. As referenced above, while the proposed reductions in salary expenditures are included in 2020-21 and 2021-22, these are insufficient to restore the minimum reserve and have not been approved or enacted by the governing board.

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

While the district's unrestricted fund balance shows slight increases on the multiyear projection for 2020-21 and 2021-22, these occur as a result of the incorporation of the proposed certificated and classified salary reductions in both years. The governing board has not yet approved or enacted these reductions.

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

The district has ongoing costs exceeding $6 million associated with the mold remediation currently underway. The district lacks any assigned or committed reserves to fund the repairs, and is further unable to meet the minimum required reserve as indicated above.

13. General Fund - Current Year

		Yes	No	N/A
13.1	Does the district ensure that one-time revenues do not pay for ongoing expenditures?	✓	☐	☐
13.2	Is the percentage of the district's general fund unrestricted budget that is allocated to salaries and benefits at or below the statewide average for the current year?	✓	☐	☐
13.3	Is the percentage of the district's general fund unrestricted budget that is allocated to salaries and benefits at or below the statewide average for the two prior years?	✓	☐	☐
13.4	If the district has received any uniform complaints or legal challenges regarding local use of supplemental and concentration grant funding in the current or two prior years, is the district addressing the complaint(s)?	☐	☐	✓
13.5	Does the district either ensure that restricted dollars are sufficient to pay for staff assigned to restricted programs or have a plan to fund these positions with unrestricted funds?	✓	☐	☐
13.6	Is the district using its restricted dollars fully by expending allocations for restricted programs within the required time?	✓	☐	☐
13.7	Does the district consistently account for all program costs, including the maximum allowable indirect costs, for each restricted resource?	☐	✓	☐

The 2018-19 unaudited actuals indicate the district has not been charging indirect costs to any program, including special education.

14. Information Systems and Data Management

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

The district lacks a formal process to ensure system access is updated upon the hiring or termination of an employee. Interviews indicated this is typically handled verbally, without the use of forms or established communication channels.

		Yes	No	N/A
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)	☐	✓	☐

The district lacks sufficient separation of duties in accounts receivable, with the same individual handling outgoing invoices and incoming deposits with minimal oversight. The district recognizes this internal control weakness, which is partly a function of the district's smaller size and limited staffing resources. Nonetheless, increased oversight is critical to safeguarding district assets.

• Purchasing and contracts	✓	☐	☐
• Payroll	☐	✓	☐

Payroll lacks sufficient segregation of duties, in part because of the smaller size of the district. A singular position has access to add and change positional assignments, salary schedule placements, and supplemental pay. A manual approval process is in place, but there is no formal oversight that ensures this process is followed. As a critical function, payroll also lacks sufficient coverage of duties. Increased oversight of this function is necessary for sufficient internal controls.

• Human resources	☐	✓	☐

The functions related to Human Resources are combined with Payroll and handled by a singular position. This prevents an appropriate segregation of duties since one position can create a new employee record and add or modify all compensation components. The district indicated that a manual approval process is in place for the creation or modification of employee records, however*, additional oversight is necessary to ensure internal controls are followed.*

• Associated student body (ASB)	✓	☐	☐
• Warehouse and receiving	✓	☐	☐
15.4 Are beginning balances for the new fiscal year posted and reconciled with the ending balances for each fund from the prior fiscal year?	✓	☐	☐
15.5 Does the district review and clear prior year accruals by first interim?	✓	☐	☐
15.6 Does the district reconcile all suspense accounts, including salaries and benefits, at least at each interim reporting period and at the close of the fiscal year?	✓	☐	☐
15.7 Has the district reconciled and closed the general ledger (books) within the time prescribed by the county office of education?	✓	☐	☐
15.8 Does the district have processes and procedures to discourage and detect fraud?	☐	✓	☐

While Board Policy (BP) 3400 requires that "The Superintendent or designee shall develop internal controls which aid in the prevention and detection of fraud…," site interviews and documentation received by FCMAT did not provide evidence that the district has comprehensive fraud detection controls.

15.9 Does the district maintain an independent fraud reporting hotline or other reporting service(s)?	☐	✓	☐

Site interviews, district documentation and a review of the district website determined that no fraud hotline or other reporting mechanism exists for this purpose.

15.10 Does the district have a process for collecting and following up on reports of possible fraud?	☐	✓	☐

While Board Policy (BP) 3400 requires that "…the Superintendent or designee shall establish a method for employees and outside persons to anonymously report any suspected instances of fraud…" and "The Superintendent or designee shall have primary responsibility for any necessary investigations of suspected fraud…", site interviews and documentation received by FCMAT did not provide evidence that a formal fraud collection and investigation process has been developed.

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

The district lacks an internal audit department or 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 more than two years?	✓	☐	☐
16.2	Does the district have a superintendent who has been with the district more than two years?	☐	✓	☐

While the superintendent has been employed at the district in various positions for more than 20 years, at the time of FCMAT's site visit, he had served as the superintendent for approximately one year and seven months.

		Yes	No	N/A
16.3	Does the superintendent meet on a scheduled and regular basis with all members of the administrative cabinet?	✓	☐	☐
16.4	Is training on financial management and budget provided to site and department administrators who are responsible for budget management?	☐	✓	☐

Site interviews and documentation provided to FCMAT indicated there is no formal, ongoing training on financial management and budget. While some site and department administrators may receive an initial budget overview or training when hired, budget processes and fiscal inquiries are handled as questions arise, rather than within a scheduled training structure.

		Yes	No	N/A
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?	☐	✓	☐

Site interviews indicated that the district lacks a process to effectively communicate newly adopted or revised policies and administrative regulations to ensure all employees always receive this information.

		Yes	No	N/A
16.7	Is training on the budget and governance provided to board members at least every two years?	☐	✓	☐

Site interviews indicated that while training on governance is provided at regular intervals, formal budget training is not provided regularly for all board members.

		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?	✓	☐	☐
17.2	To help calculate its multiyear projections, did the district prepare an LCFF calculation with multiyear considerations?	✓	☐	☐
17.3	Does the district use its most current multiyear projection in making financial decisions?	✓	☐	☐
17.4	If the district utilizes a broad adjustment category in its multiyear projection such as line B10, Other Adjustments, in the SACS form MYP/MYPI, is there a detailed list of what is included in the adjustment amount?	✓	☐	☐

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?	☐	☐	✓

		Yes	No	N/A
18.2	If the district has issued non-voter-approved debt, has its credit rating remained stable or improved in the current or prior two fiscal years?	☐	☐	✓
18.3	If the district is self-insured, does the district have a recent (every 2 years) actuarial study and a plan to pay for any unfunded liabilities?	☐	☐	✓
18.4	If the district has non-voter-approved debt (such as COPs, bridge financing, BANS, RANS and others), is the total of annual debt service payments no greater than 2% of the district's unrestricted general fund revenues?	☐	☐	✓

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?	☐	✓	☐
	The superintendent and site administrators analyze and adjust staffing based on enrollment, contractual requirements, and site needs. Staffing ratios have not been adopted by the governing board and are not used to determine staffing.			
19.3	Does the district reconcile budget, payroll and position control regularly, meaning at least at budget adoption and interim reporting periods?	☐	✓	☐
	Documentation demonstrates the use of a position control system; however interviews and district documentation do not indicate that an established, documented process to reconcile the position control system with budget and payroll is followed.			
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	Has the district adopted staffing ratios for certificated, classified and administrative positions in the past three years, and is the district following those ratios?	☐	✓	☐
	Site interviews and district documentation indicated that staffing ratios have not been adopted and are not in use to determine appropriate staffing levels. The district acknowledges this is an area of improvement.			
19.7	Do managers and staff responsible for the district's human resources, payroll and budget functions meet regularly to discuss issues and improve processes?	☐	✓	☐
	While one position, with oversight from the superintendent, largely administers human resources, payroll and budgetary functions, the district acknowledges that regular meetings do not occur specifically to discuss issues and improve processes in these areas.			

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)?	☐	✓	☐

District interviews and the 2018-19 unaudited actuals indicate the district has not charged 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 comparable with countywide and statewide average rates?	✓	☐	☐
20.7	Does the district analyze whether it will meet the maintenance of effort requirement at each interim reporting period?	✓	☐	☐

Total Risk Score, All Areas **26.9%**

Key to Risk Score

High Risk: 40% or more

Moderate Risk: 25-39%

Low Risk: 24% and lower

Summary

The district has experienced increasing fiscal distress caused by numerous factors identified in this report and outlined below. The county office conditionally approved the district's 2019-20 adopted budget on August 15, 2019. Subsequently, because of continued fiscal concerns, the county office designated the district a "lack of going concern" on October 8, 2019, in accordance with Education Code Section 42127.

Under the lack of going concern designation, FCMAT engaged and performed an FHRA to determine the district's level of risk for insolvency. This report determined the district to be at "moderate" risk of insolvency with an overall risk score of 26.9%. The report also identifies the signs of fiscal weakness and risks of insolvency.

The primary risk factors causing fiscal distress include the following:

- *Declining enrollment that began in 2017-18. Enrollment, and the resulting student attendance, are the most significant drivers of district revenues.*
- *A structural budget deficit in the general fund, a declining ending fund balance, and the inability to meet the minimum required reserve for economic uncertainty in the current and two subsequent fiscal years.*
- *A lack of staffing ratios to guide staffing decisions.*
- *Inadequate cash flow to meet district needs.*
- *Insufficient internal controls and separation of duties in certain critical district functions.*
- *An increase in facility expenditures resulting from a sudden, extensive and costly need for mold removal throughout the district's facilities. This has also caused a need to lease temporary classrooms and office space.*

With the decrease in LCFF revenue resulting from declining enrollment along with the increase in expenditures related to facility needs, the district shows an excess of expenditures over revenue in both the current and subsequent fiscal years. While deficit spending is projected to end in 2021-22, this is contingent on certificated and classified staffing reductions in 2020-21. At the time of FCMAT's fieldwork, these reductions had been incorporated into the district's multiyear projection prior to formal board approval. Therefore, these spending reductions may not ultimately materialize, and continued deficit spending is possible.

Without formal adoption of these expenditure reductions by the governing board, the district's ending fund balance continues to decline. As a result, the district cannot meet its minimum required reserve for economic uncertainty of 4%. As shown in the district's 2019-20 first interim report multiyear projection, the district anticipates reserves of 1.64% and 2.00% in 2020-21 and 2021-22, respectively. However, the reserve level is calculated following the incorporation of the unadopted certificated and classified expenditure reductions in both years. Even if these reductions are approved by the governing board, the district will still be unable to meet the required minimum reserve. The district should therefore develop and adopt a comprehensive budget balancing plan, with additional reductions and/or revenue enhancements, to restore its minimum reserve and avoid any further erosion of the ending fund balance.

With the majority of any district's expenditures dedicated to certificated and classified salaries and benefits, it is imperative that the governing board adopt and follow staffing ratios to ensure appropriate staffing levels are maintained. The use of ratios also prevents overstaffing, and ratios should be reviewed and revised, if necessary, at least every three years. Site interviews and documentation provided by the district indicate that it has not adopted staffing ratios in recent years, and no ratios are used to determine staffing levels. Accordingly, the district may be overstaffing in some areas, leading to further pressure on the general fund.

The district's cash flow is also a risk factor, since insufficient cash is available to fund district expenditures. The district projects cash for the current fiscal year only, which limits the ability to adequately plan for future cash shortfalls. Borrowing from local sources, such as the county office or county treasurer, has been necessary to mitigate the cash shortage.

This report also indicates that the district needs to improve internal controls in several areas. Weaknesses were identified in payroll, human resources and accounts receivable, although these are partly a function of the district's smaller size. While limited staffing can cause difficulties in ensuring adequate separation of duties and oversight of critical functions, the district should ensure that processes and procedures, system accessibility, and separation of duties are sufficient to safeguard its assets at all times.

At the time of FCMAT's fieldwork, the district sought additional revenue sources to assist with the costs of mold remediation. Among potential state and local sources, the district placed a potential bond issuance of approx-

imately $16.7 million (Measure F) on the March 2020 ballot. While this occurred after FCMAT's fieldwork, the measure did not pass. Additional state sources continue to be explored such as funding from the Office of Public School Construction as well as considering placing a second bond measure on the ballot in November 2020. The district should continue seeking additional revenue sources to meet facility needs.

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