FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

March 31, 2023

Honorable Joe Stephenshaw, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Honorable Phil Ting, Chair
California State Assembly Committee on Budget
State Capitol, Room 6026
Sacramento, CA 95814

Honorable Nancy Skinner, Chair
California State Senate Committee on Budget and Fiscal Review
State Capitol, Room 5019
Sacramento, CA 95814

Dear Director Stephenshaw, Chairperson Ting and Committee Members, and Chairperson Skinner and Committee Members:

This letter is submitted for your consideration in accordance with the Fiscal Crisis and Management Assistance Team's (FCMAT's) responsibilities under Assembly Bill (AB) 181 Section 36, which added Section 42162 to the Education Code (EC), regarding the Oakland Unified School District (district).

Background

In 2018, AB 1840 added EC 42160 to aid in the district's fiscal recovery. The relevant provisions of AB 1840 expired in fiscal year 2021-22. The relevant provisions of AB 181 are considered a modified extension of the basic concepts in the prior legislation.

Education Code Section 42162(b) states:

> In the 2023-24 fiscal year, the annual Budget Act shall include an appropriation for the Oakland Unified School District, if the district complies with the terms specified in sections (a) and (c), of up to 25 percent of the district's projected operating deficit, as determined by the County Office Fiscal Crisis and Management Assistance Team, with concurrence of the Department of Finance.

The intent of this letter is to provide you with FCMAT's findings regarding the district's achievement of the requirements outlined in EC 42162(a) and (c).

Education Code Section 42162(a) states:

> By April 1, 2023, the Oakland Unified School District, in collaboration with and with the concurrence of the Alameda County Superintendent of Schools and the County Office Fiscal Crisis and Management Assistance Team, shall do all of the following:

> (1) Update or develop short-and long-term financial plans based on reasonable and accurate assumptions and current and past year expenditure data.
>
> (2) Review and update school district facilities construction plans to ensure that costs are reasonable, accurate, and align with long-term financial plans for fiscal solvency.
>
> (3) Undergo an on-time annual independent audit pursuant to Section 41020 that is free of material weaknesses and that includes an unqualified opinion. Furthermore, the audit shall be free from any material internal control findings.

Education Code Section 42162(b) specifies the amount of the additional apportionment available to the district if it meets all the requirements specified in sections (a) and (c) and will be addressed later in this letter.

Education Code Section 42162(c) states:

> Disbursement of funds specified in subdivision (b) shall be contingent on the Oakland Unified School District's completion of activities specified in the prior year Budget Act to improve the school district's fiscal solvency. These activities may include, but are not limited to, all of the following:
>
> (1) Updated comprehensive operational reviews that compare the needs of the school district with similar school districts and provide data and recommendations regarding changes the school district can make to achieve fiscal sustainability, with progress updates on each of the recommendations.
>
> (2) Adoption and implementation of necessary budgetary solutions
>
> (3) Completion and implementation of multiyear, fiscally solvent budgets and budget plans.
>
> (4) Qualification for positive certification pursuant to Article 3 (commencing with Education Code Section 42130) of Chapter 6.
>
> (5) Sale or lease of surplus property.
>
> (6) Growth and maintenance of budgetary reserves.
>
> (7) Approval of school district budgets by the Alameda County Superintendent of Schools.
>
> (8) Prompt appointment following a competitive process of a permanent, experienced, and highly qualified chief business official for any vacancy of chief business official.

FCMAT Analysis and Findings Relative to EC 42162(a)(1)-(3)

(1) Update or develop short-and long-term financial plans

The district has prepared the statutorily-required interim reports and has included with those reports the multiyear projections (MYPs). The 2022-23 second interim report includes MYP scenarios with a reduced cost of living adjustment (COLA) in 2023-24 of 6.4% as an alternative plan if the estimated 8.13% COLA is not fully funded.

On February 24, 2021, the board approved the Fiscal Sustainability Plan (Appendix A), a revision to the Fiscal Vitality Plan. The new plan acknowledges that the Fiscal Vitality Plan contained activities that concluded in 2020. Although prior plans included specific actions and measurable items, the new plan lists areas to be addressed and states that the measurable actions will be identified each May and approved annually by the board in June.

A review of board agendas, minutes and, where available, video recordings to date did not provide evidence that the district has identified measurable actions or that any have been approved by the board each June since the Fiscal Sustainability Plan was adopted.

On January 12, 2022, the board approved Resolution 2122-0026 - Quality Instruction and Student Supports, Adequate Staffing, Competitive Compensation, and Long-Term Fiscal Stability (Appendix B). The goal of this resolution was to reduce the number of school sites and associated costs, freeing up ongoing funds for other priorities. The estimated staff savings from the school closures was $5.14 million annually. Some of those funds were to help the district offer competitive compensation. The resolution directed the superintendent to immediately present a list of schools to be closed, merged, or relocated at the end of the 2021-22 and 2022-23 school years. The board did close and/or consolidate three schools at the end of 2021-22.

At a special board meeting on January 11, 2023, the board adopted Resolution 2223-0036 – Rescission of School Consolidations for 2022-23 (Appendix C), which rescinded the school consolidations scheduled for the end of the 2022-23 school year. The resolution states, in part:

> WHEREAS, the Board unanimously approved a new 3-year strategic plan on June 30, 2021, which (unlikely prior plans) [sic] does not include any reference to school closures, the Blueprint for Quality Schools, or the Citywide Plan;
>
> WHEREAS, on October 27, 2021, the School Board approved Resolution No.2021-0128D –Budget Reductions In Lieu of Cohort 3 School Consolidations [Appendix D], which held that "by approving these reductions, the Board satisfies the conditions set forth in the Citywide Plan Resolution such that the Superintendent shall no longer—and the Board need no longer—move forward with consideration of school consolidations under Cohort 3";
>
> WHEREAS, in other words, the passage of Resolution No. 2021-0128D effectively ended the school closure process connected to the Blueprint and the Citywide Plan;
>
> OUSD is not in financial crisis - there is a healthy fund balance and the District is projecting budget surpluses on all years of the multiyear plan;

With the adoption of Resolution 2223-0036, the district no longer has the estimated reduced costs, and the board must find other ways to cut expenses. Based the fact that it has not implemented its Fiscal Sustainability Plan, and its recission of the previous decision to close or consolidate schools, the district does not meet the requirement of Education Code 42162 (a)(1).

(2) Review of district facilities plan

The district has not updated its Facilities Master Plan since 2020. The plan is currently 100% funded by general obligation bonds.

The district shared that funding deferred maintenance needs is a priority, and its 2022-23 second interim report includes a budgeted transfer of $3 million to Fund 14, Deferred Maintenance Fund (which is projected to continue for each of the years in the multiyear projection). This is a decrease from the prior year's $5 million investment due to the board approval of Resolution 2223-0036 – Rescission of School Consolidations. Based on the lack of an updated district facilities plan, the district is not meeting the requirement of EC 42162(a)(2).

(3) Annual Independent Audit

An independent audit of the district's 2021-22 financial statements was conducted, and the report, dated December 13, 2022, was presented to the governing board on January 25, 2023. The auditors shared that the audit process has improved over the last five years, and they were able to complete all fieldwork and submit the audit before the statutory deadline. They also acknowledge that many of the audit findings have remained for several years and that although findings are ideally resolved within a year, the number of findings presents a challenge and would take additional time to resolve completely.

The 2021-22 Independent Auditors' Report's Summary of Auditors' Results (page 87) (Appendix E) indicates that the type of auditors' report issued was unmodified. However, material weaknesses in internal control over financial reporting were identified. Furthermore, the 2021-22 Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards for the Oakland Unified School District (page 76) cites deficiencies in internal controls that were considered to be material weaknesses and significant deficiencies. The report goes on to state the following:

> A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.
>
> We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2022-001 through 2022-006 that we consider to be material weaknesses.

Details of each finding containing deficiencies in internal control that were considered to be material weakness are found on pages 88-95 as follows:

> 2022-001 Human Resources/Payroll Internal Control Process, Pension (repeat audit finding)
>
> The District could not supply documentation to satisfy us that census information and payroll amounts reported to pension providers are complete and accurate. We analytically recalculated these expenses, noting that the payment made to pension providers during the year appears correctly recorded in the accounting records of the District. However, since we could not verify if the underlying data on which those charges are based is complete and accurate, we cannot confirm if the eventual payments are for the correct amounts.
>
> 2022-002 Payroll Internal Control Process, Vacation Tracking (repeat audit finding)
>
> The District could not supply documentation to verify that vacation usage is accurately recorded in the payroll system. That balances do not exceed the maximum allowed per District policy. In substantive testing of general ledger account balances, the reported payroll expenditures are fairly stated based on the amounts paid upon separation. However, we cannot conclude if the District has a complete

and accurate accounting of vacation balances on which to base payments upon separation.

2022-003 Payroll Internal Control Process, Vacation Payments (repeat audit finding)

The District could pay $7 million to employees for vacation accumulated; however, it cannot assert that the amounts paid were actually due to the employees.

2022-004 Health Benefits Governing Board (repeat audit finding)

The formula to calculate the District's health and welfare obligations per the HBGB agreement is unclear. Specifically, the part of the formula that reads "...take the FTE from the total of all authorized full-time equivalent positions covered by this Agreement...as outlined in the Position Control Report as of October 31..." is unclear. Standard usage of the PCR is for budgeting purposes, subject to estimation risk and uncertainty.

2022-005 Audit Adjustments (repeat audit finding)

Audit adjustments were necessary for the financial statements to be presented to conform with generally accepted accounting principles.

2022-006 Twenty-First Century Attendance Reporting

The 2021-22 Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance (page 78) reflects a qualified opinion on 84.287 Twenty-First Century Community Learning Centers.

There was a material weakness in internal control over compliance and noncompliance because we identified errors in the attendance reported to the CDE.

The 2021-22 Independent Auditor's Report on State Compliance (page 82) reflects a qualified opinion on school accountability report card (2022-007), independent study (2022-008), after school education and safety program (2022-009 and 2022-010), and immunizations (2022-011).

Based on the evidence provided in the independent audit report, the district does not meet the requirement of EC 42162(a)(3).

FCMAT Analysis and Findings Relative to Activities Defined in Education Code 42162(c)

(1) Updated comprehensive operational reviews

In October 2020, the district contracted with School Services of California, Inc. to perform a department organizational structure analysis of Business Services, the Talent Division, and the Technology Division (Appendix F).

The report's findings were presented to the board on December 15, 2021. The report included 14 recommendations for the district to consider. Although numerous recommendations were made, the large number of schools relative to comparison districts was mentioned throughout the report. Following are some excerpts from the report:

It should also be noted that because of the large number of schools operated by the District, many of the economies of scale one would expect to find are absent, as a

> higher level of staffing is required to support the operational functions associated with individual schools. (page 1)
>
> This factor creates challenges when comparing staffing to other districts and has a direct impact on the District's staffing needs to support the higher number of schools. Staffing a higher number of schools has an impact on central office services like human resources functions including recruitment, hiring, onboarding, employee performance management; technology support of schools; and business services functions such as payroll and budget monitoring. A higher level of service required from the central office to meet the needs of school staff influences the ability of the District to reduce staffing levels. (page 3)
>
> Beyond the positions needed to staff a school (including principals, vice principals, office staff, teachers, and support services, maintenance, operations, and grounds positions), direct services provided to the schools by central office services are impacted by the larger number of schools served. For example, the Information Technology Services Department would need to staff at a higher level to provide technical support to 81 schools versus the average of 49 schools found in the comparable district group of similar student enrollment. If a technician is assigned to support five schools, 17 full-time positions are needed to support the District's 81 schools, while only 10 full-time positions are needed to support the average of 49 schools found in the comparative districts of similar enrollment size. The large number of schools in the District require more staff to support, and economies of scale are reduced leading to less efficient provision of services. (page 3)
>
> Consideration must also be given to the larger number of schools the District operates—more than double the comparative districts of similar enrollment. (page 5)
>
> While the number of student devices supported may be similar if comparing to a school district with enrollment similar to the District, a district with a higher number of schools will require more infrastructure support (networks, wireless access points, classroom technology, etc.) and potentially more teaching and support personnel devices to maintain. (page 31)

Another area of concern raised in the report was the nearly total decentralization of the purchasing function in the district:

> Each school is allowed to procure its own supplies and services, which, on its face, is not a bad practice. However, when multiple schools purchase the same materials or services and their combined purchase exceeds the bid threshold, the District has violated the law.

Other than completing the study and presenting it to the board, the district has made minimal progress on this benchmark.

The district has also entered into an agreement with Public Works, LLC to conduct an analysis of the level of staffing in the Continuous School Improvement (CSI) Division and associated departments. According to documents provided by the district, the analysis will be complete by June 30, 2023.

As noted above, the district has engaged with outside vendors to make recommendations to better streamline operations, increase efficiency, and provide better services to students. In one case, the district received recommendations to correct questionable purchasing practices that may have legal ramifications. The district should create and carry out measurable corrective actions based on these reports to address the concerns raised by the outside vendors.

Status: Not complete.

(2) Adoption and implementation of necessary budgetary solutions

As noted above, in 2021 the board approved the Fiscal Sustainability Plan, a revision to the Fiscal Vitality Plan. While the prior plan included specific actions and measurable items, the new plan lists areas to be addressed and states that the measurable actions will be identified each May and approved annually by the board in June. A review of board agendas, minutes and, where available, video recordings to date did not provide evidence that the district has identified measurable actions approved by the board each June. The district shared that they are working internally and with the Alameda County Office of Education on the original vitality plan updates and the additional items that were created. They continue to work on updates to be presented to the board at a future date.

Although the board approved Resolution 2122-0026 - Quality Instruction and Student Supports, Adequate Staffing, Competitive Compensation, and Long-Term Fiscal Stability as a long-term solution, on January 11, 2023 the board effectively reversed its decision and adopted Resolution 2223-0036 – Rescission of School Consolidations for 2022-23.

The district has made minimal progress in this area. The most progress was made through efforts to implement school mergers and/or closings at the end of the 2021-22 fiscal year. The Fiscal Sustainability Plan updates have not been made, making this plan ineffective.

Status: Not complete.

(3) Completion and implementation of multiyear, fiscally solvent budgets and budget plans.

As has been the case historically, the district has had limited success with fully implementing and adhering to reductions adopted in a prior year. As noted above, the board approved Resolution 2122-0026 - Quality Instruction and Student Supports, Adequate Staffing, Competitive Compensation, and Long-Term Fiscal Stability specifically to address the need to provide competitive compensation to its employees; reducing the number of schools it operates was a solution to free up resources. The actions taken in 2021-22 to close and consolidate schools were abandoned after only partial implementation. Although the board has indicated verbally that it will consider school closures and consolidations again, no formal action has been taken.

On March 9, 2023, the board approved Resolution 2223-0185A - Classified Employees Reduction in Force Due to Lack of Funds and/or Lack of Work (2023/24 Fiscal Year). Because the statutory deadline for implementation of these reductions is May 15, 2023, it is not known at this time whether the board will remain committed to the reductions.

Status: Not complete.

(4) Qualification for positive certification pursuant to Article 3 (commencing with Section 42130) of Chapter 6.

The first interim report, approved by the district's governing board on December 14, 2022, contained a positive certification. The Alameda County Office of Education did not concur with the district's certification in its letter to the district dated January 13, 2023:

Given that the Board, which has recently added three new members sworn in on January 9, 2023, arrives with an ambitious agenda including the passage of Resolution 22-2731 Rescission of School Consolidations and plans to significantly increase compensation, but has not yet identified the fiscal impact or a plan to balance the budget in alignment with their current priorities, we cannot yet confirm the district will meet its financial obligations for the current fiscal year and subsequent two fiscal years.

Based on uncertainties yet unresolved, we have determined the District may not meet its financial obligations in the subsequent fiscal years. Therefore, per EC Section 42131(a)(2) as Alameda County Superintendent of Schools, I must change the District's certification from positive to ***QUALIFIED***, and to notify the California Department of Education of this action.

The second interim report, approved by the district's governing board on March 8, 2023, contained a qualified certification. As of the date of this letter, the Alameda County Office of Education had not completed its review of the district's second interim report.

Status: Not complete.

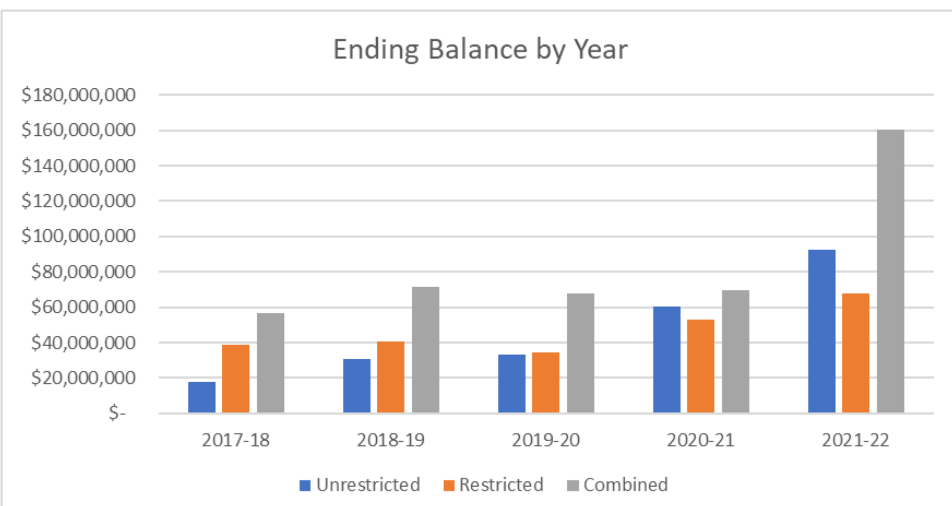
(5) Sale or lease of surplus property.

The district continues to lease multiple surplus properties. The district has not sold any surplus property or declared any additional properties as surplus since AB 181 was enacted.

Status: Not applicable at this time.

(6) Growth and maintenance of budgetary reserves.

As demonstrated by the graph below, since 2017-18, the district has not only increased its budget reserves but has also corrected the balance of unrestricted and restricted in the overall fund balance. Best practice is to have greater reserves in unrestricted than restricted because restricted funds can be spent only for specific programs or services. This is a significant area of improvement for the district.



Year	Unrestricted	Restricted	Combined
2017-18	$ 17,974,960	$ 38,612,894	$ 56,587,855
2018-19	$ 30,561,997	$ 40,683,996	$ 71,245,993
2019-20	$ 33,043,818	$ 34,526,380	$ 67,570,198
2020-21	$ 60,443,968	$ 52,920,201	$ 69,356,835
2021-22	$ 92,624,874	$ 67,617,001	$ 160,141,876

Sources: Unaudited actuals data for fiscal years 2017-18 through 2020-21 from Ed Data; 2021-22 from district documents.

Status: Complete.

(7) Approval of school district budget by the Alameda County Superintendent of Schools.

The district adopted its 2022-23 budget on June 29, 2022. The district's 2022-23 budget was approved by the county superintendent on September 14, 2022.

Status: Complete.

(8) Prompt appointment for any vacancy of chief business official.

No vacancy currently exists; however, the superintendent intends to eliminate the chief business official (CBO) position "as it currently exists" at the end of the 2023-24 fiscal year. The current employees in the chief fiscal officer (CFO) and chief systems and services officer (CSSO) positions will remain, and all duties of the current CBO will be absorbed by these two positions.

Status: Not applicable at this time.

FCMAT Analysis and Findings Regarding Activities in Addition to EC 42162(c):

Deficit Analysis

FCMAT used the district-prepared 2022-23 second interim MYP as the basis for the deficit analysis portion of this report. FCMAT used updated assumptions for enrollment and average daily attendance (ADA), which are noted in the table below. It is important to note that the district has not settled with the following bargaining units beyond 2022-23, and no estimated expenditures for settlements are included in the projection:

Oakland Education Association (OEA)

United Administrators of Oakland Schools (UAOS)

Building and State Construction Trades Council (BCTC)

Teamsters

Management/confidential

Any settlements reached with these groups may have implications for the other bargaining units that have already settled.

Assumptions used in FCMAT's MYP:

	2022-23	2023-24	2024-25
Statutory COLA	6.56%	8.13%	3.56%
Additional Investment to LCFF	6.70%	0.00%	0.00%
Enrollment	34,122	33,208	32,258
ADA	30,437.86	29,858.04	28,758.04
Attendance Factor	89.21%	89.91%	89.15%
Unduplicated Percentage	77.27%	78.09%	78.12%
Step and Column	2.0%	2.0%	2.0%
Salary Increase OEA	$1,000 Cell	0	0
Salary Increase BCTC, UAOS, Teamsters, Management/Conf	6.0%	0	0
Salary Increase SEIU	6.0%	2.25%	0
Benefits-Certificated	5.63%	5.03%	5.03%
Benefits-Classified	11.83%	11.23%	11.23%
Health Benefits	11%	15%	8%
STRS	19.10%	19.10%	19.10%
PERS	25.37%	27%	28.10

FCMAT Prepared the following MYP for the combined general fund:

	Object Code	2022-23	2023-24	2024-25
A. Revenues				
LCFF Sources	8010-8099	$461,787,961.00	$476,922,257.00	$476,599,837.00
Federal Revenue	8100-8299	$142,344,331.00	$118,423,905.00	$67,357,017.00
Other State Revenues	8300-8599	$210,829,498.00	$126,413,590.00	$127,990,779.00
Other Local Revenues	8600-8799	$83,507,307.00	$83,309,854.00	$83,151,892.00
Total, Revenue		$898,469,097.00	$805,069,606.00	$755,099,525.00
B. Expenditures				
Certificated Salaries	1000-1999	$259,413,963.00	$243,783,998.00	$238,394,016.00
Classified Salaries	2000-2999	$122,185,848.00	$115,337,631.00	$111,377,305.00
Employee Benefits	3000-3999	$208,418,541.00	$207,583,177.00	$209,363,988.00
Books and Supplies	4000-4999	$71,273,617.00	$54,565,337.00	$53,555,110.00
Services and Other Operating Expenditures	5000-5999	$179,249,939.00	$162,234,281.00	$136,799,990.00
Capital Outlay	6000-6999	$4,184,921.00	$3,519,012.00	$929,176.00
Other Outgo (excluding Transfers of Indirect Costs)	7100-7299, 7400-7499	$14,434,735.00	$10,834,735.00	$10,834,735.00
Other Outgo - Transfers of Indirect Costs	7300-7399	($1,024,297.00)	($1,208,729.00)	($1,208,729.00)
Total, Expenditures		$858,137,267.00	$796,649,442.00	$760,045,591.00

	Object Code	2022-23	2023-24	2024-25
C. Excess (Deficiency) of Revenues over Expenditures		$40,331,830.00	$8,420,164.00	($4,946,066.00)
D. Other Financing Sources/Uses				
Interfund Transfers				
Transfers In	8900-8929	$-	$-	$-
Transfers Out	7600-7629	$3,000,000.00	$3,000,000.00	$3,000,000.00
Other Sources/Uses				
Sources	8930-8979	$15,000.00	$15,000.00	$15,000.00
Uses	7630-7699	$-	$-	$-
Contributions	8980-8999	$-	$-	$-
Total, Other Financing Sources/Uses		$2,985,000.00	$2,985,000.00	$2,985,000.00
E. Net Increase (Decrease) in Fund Balance/ Net Position		$37,346,830.00	$5,435,164.00	($7,931,066.00)
F. Fund Balance, Reserves/Net Position				
Beginning Fund Balance/Net Position				
As of July 1 - Unaudited	9791	$160,141,876.00	$197,488,706.00	$209,187,494.00
As of July 1- Audited		$160,141,876.00	$197,488,706.00	$205,529,862
Ending Balance/Net Position, June 30		$197,488,706.00	$202,923,870.00	$194,992,804.00

The multiyear projection indicates deficit spending in 2024-25 of $7.9 million. As mentioned above, any settlements of salary and benefit negotiations with the above listed bargaining units will affect expenditures and fund balance. Also, changes in any other assumptions such as enrollment, average daily attendance and funded COLA will affect the projection.

Conclusion

Education Code Section 42162(b) provides for an additional apportionment of state funds to assist the district in achieving fiscal solvency "…if the school district **complies with the terms specified in subdivisions (a) and (c)…**" [emphasis added]

FCMAT's evaluation of conditions and criteria outlined in EC 42163(a) confirm that the Oakland Unified School District did not meet the requirements for additional apportionment specified in EC 42163(b).

Education Code Section 42162(e) requires that the activities identified in subdivision (c) be determined in the annual Budget Act based on joint recommendations from FCMAT and the Alameda County Superintendent of Schools. FCMAT consulted with the county trustee and the county superintendent, and all parties agreed to recommend that EC Section 42162(e) be changed to add specificity to read as follows:

> (c) Disbursement of funds specified in subdivision (b) shall be contingent on the Oakland Unified School District's progress toward completion of activities specified in the prior year

> Budget Act to improve the school district's fiscal solvency. These activities shall include, but are not limited to, all of the following:
>
> (1) Update comprehensive operational reviews not yet completed that compare the needs of the school district with those of similar school districts, and provide data and recommendations regarding changes the school district can make to achieve fiscal sustainability, with progress updates on each of the recommendations. Make progress to implement the recommendations in reviews already completed.
>
> (2) Establish, implement, and maintain detailed budget reductions identified in the district's fiscal recovery plan.
>
> (3) Adopt and implement necessary budget solutions that lead to multiyear, fiscally solvent budgets that include detailed budget reductions. These solutions should be feasible and clearly indicate whether the solution is one-time or ongoing.
>
> (4) Qualification for positive certification pursuant to Article 3 (commencing with Section 42130) of Chapter 6.
>
> (5) Sale or lease of surplus property.
>
> (6) Continue the increase and maintenance of budgetary reserves at or greater than the required minimum. At each reporting period, the components of ending fund balance and reserves should be sufficiently detailed to comply with Governmental Accounting Standards Board (GASB) Statement 34, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments.
>
> (7) Approval of school district annual budget by the Alameda County Superintendent of Schools.
>
> (8) Prompt appointment following a competitive process for any cabinet-level vacancy.
>
> (9) Progress in resolving all findings identified in the prior year audit report and implementing practices necessary to prevent repeat audit findings in each area noted.
>
> (10) Annually, by June 30, identify, adopt and implement measurable actions in support of the Fiscal Sustainability Plan.

In January 2023, the district made the final payment on the portion of the original $100 million emergency appropriation that was provided through the California Infrastructure and Economic Development Bank. This frees up $3.8 million in annual debt service beginning in 2023-24. The district will continue to make an annual debt service payment of $2.1 million each June for the portion of the emergency appropriation provided through the state's general fund. The final payment is scheduled for June 29, 2026 but can be made earlier.

The district has indicated that starting the process for a fiscal systems audit before it pays off the state loan is a high priority. Education Code 41320.1(a)(4) states:

> Before the school district repays the loan, including interest, the recipient of the loan shall select an auditor from a list established by the Superintendent and the Controller to conduct an audit of its fiscal systems. If the fiscal systems are deemed to be inadequate, the county superintendent of schools, with concurrence from both the Superintendent and the president of the state board or his or her designee, may retain the trustee until the deficiencies are corrected. The cost of this audit and any additional cost of the trustee shall be borne by the school district.

The governing board introduced the topic at its March 8, 2023, board meeting however, no official action was taken.

Respectfully,

Robbie Montalbano, CFE
FCMAT intervention specialist

C: Brooks Allen, Executive Director, California State Board of Education

Chris Ferguson, Program Budget Manager, California Department of Finance

Amber Alexander, Assistant Program Budget Manager, California Department of Finance

Abel Guillen, Deputy Superintendent, California Department of Education

Elizabeth Dearstyne, Director, School Fiscal Services Division, California Department of Education

Yong Salas, Consultant, Senate Budget and Fiscal Review Sub-Committee #1 – Education

Erin Gabel, Consultant, Assembly Budget Sub-Committee #2 – Education Finance

Alysse Castro, Alameda County Superintendent of Schools

Luz Cázares, County Trustee, Oakland Unified School District

Kyla Johnson-Trammell, Superintendent, Oakland Unified School District

Appendices

Click on any appendix title to view and download that appendix.

Appendix A: **Oakland USD Fiscal Sustainability Plan**

Appendix B: **Board Resolution 2122-0026 — Quality Instruction and Student Supports, Adequate Staffing, Competitive Compensation, and Long-Term Fiscal Stability**

Appendix C: **Board Resolution 2223-0036 — Rescission of School Consolidations for 2022-23**

Appendix D: **Board Resolution No. 2021-0128D — Budget Reductions In Lieu of Cohort 3 School Consolidations**

Appendix E: **2021-22 Independent Auditors' Report**

Appendix F: **School Services of Califoronia, Inc. Comparative Organizational Structure and Staffing Review**