



FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

June 29, 2026

Cancy McArn, Superintendent
Sacramento City Unified School District
5735 47th Avenue
Sacramento, CA 95824

Dear Superintendent McArn,

On March 6, 2026, the Sacramento City Unified School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for FCMAT to provide both on-site and off-site technical assistance to the Business Services Department through June 30, 2026. This included guiding and supporting district staff in their reconciliation and general ledger work, specifically addressing accounts receivable and accounts payable, in preparation for the district's third interim financial report. FCMAT provided on-site technical assistance on April 14-16, 2026, and follow-up off-site technical assistance in April and May.

The purpose of this letter is to summarize the technical assistance activities conducted since March 6, 2026.

1. Accounts Payable

As FCMAT reviewed the prior two years of accounts payable (AP) transactions in preparation for on-site technical assistance, it became clear that reconciliation work had not occurred since closing the 2024-25 fiscal year, with some balances outstanding since 2023-24. During on-site interviews, staff described the district's past practice of accruing the full remaining balances of purchase orders (POs) and blanket purchase orders (BPOs) rather than only the amounts supported by outstanding invoices for goods and services. As a result, some balances may represent valid liabilities, while others may need to be cleared. Although staff indicated there was a directive from former staff to end the practice as of 2024-25, related balances remain on the books, and each PO must be reviewed to determine whether it was paid or should be reversed. The impact of this practice has compounded over several fiscal years. In the ledgers provided by the district as of March 20, 2026, the district had an outstanding AP balance of \$8.9 million in the general fund, with a grand total of \$18.9 million in AP balances in all funds. The district is reviewing all AP accruals against historical transactions and prior-year invoices to make the necessary adjustments to the ledger, using workbooks provided to the district by FCMAT and a consultant.

As this reconciliation work was occurring, budget staff indicated that accounting's reconciliation work is affecting federal and state grant budgets. For example, a COVID-19-era grant previously reported as fully spent now shows a repayment obligation of approximately \$668,000, because prior-year reconciliations changed the grant's ending balance.

To control spending and manage cash flow, the district effectively stopped paying invoices in November 2025. Interviewees indicated that the work to catch up on past-due payments began in January 2026, and at the time of FCMAT's work, payments were current through February 2026.

During review of prior-year accounts payable balances in other funds, FCMAT noted that Fund 76, the district's payroll clearing account, had not been cleared. Staff also indicated uncertainty about who is responsible for reconciling this fund.

FCMAT recommends that the district accrue only amounts supported by outstanding contracts and invoices, discontinue the practice of accruing entire PO or BPO balances, and communicate with departments to confirm what should be accrued or closed. Fiscal year-end meetings should include accounting and budget staff to confirm open encumbrances, invoices, and contract obligations so AP can close accurately. Staff should coordinate during reconciliation to identify impacts on grants, address any amounts due to other government agencies, and manage cash flow to avoid payment delays and backlogs. In addition, the district needs to clearly assign reconciliation duties so it can continue the work of reconciling every fund, including Fund 76, the payroll clearing account.

2. Accounts Receivable

Accounts receivable recording and cleanup: In 2025-26, the district recorded prior-year receipts as current year revenue rather than first applying them to outstanding accounts receivable (AR) balances. This caused receivables to carry forward without timely clearance. While on site, FCMAT identified more than \$33.8 million in general fund receivable balances ready to be cleared and helped staff clear most of those balances. Some receivables required further research because of discrepancies between accrued and actual amounts or because necessary documentation was not readily available. Some may need to be written off as uncollectible, including over-accrued grant revenue. This condition resulted in part from the reassignment of accrual-related duties during a period of turnover in fiscal leaders that reduced oversight and left staff uncertain about roles and expectations. As a result, current-year revenues were overstated, and cash flow projections were less reliable.

FCMAT recommends that the district record prior-year receipts to AR balances by resource, clearly define and document accrual clearing responsibilities, and re-establish consistent management review and staff support, to ensure accurate and timely financial reporting.

Clearing account use and expenditure reconciliation: FCMAT identified an AR balance of more than \$8.0 million in object 9206 in the unrestricted general fund (resource 0000), which has been used as a clearing account for certain credit card and chargeback accounts, such as Cal Card, Office Depot and copiers. Although these vendor payments were processed through this object code, expenditures were not reconciled and reclassified to the appropriate expenditure accounts, including those in other funds and restricted programs. District staff stated that this practice has been ongoing for at least a decade and that reconciliations were not completed for several years because of limited oversight during COVID-19 and recent periods of transition in fiscal leadership. For example, district staff reported that approximately \$385,000 of \$689,000 in Cal Card transactions for 2025-26 had not been reconciled at the time of FCMAT's visit. Portions of the outstanding balance may be offset by the over-accrual of expenses discussed in

the accounts payable section above. However, the unrestricted general fund will need to absorb the costs of any expenditures that were supposed to be charged to restricted grant resources that have expired or are no longer available, which will reduce the unrestricted fund balance.

FCMAT recommends that the district discontinue using object 9206 as a long-term clearing account, complete a full reconciliation and reclassification of the existing balance, and require monthly reconciliation of credit card and chargeback accounts with supervisory review to ensure accurate financial reporting.

3. Cash Reconciliations

Cash reconciliations are a key internal control because they help ensure the accuracy and completeness of accounting records and help prevent and detect fraud. Reconciliations should be completed and reviewed monthly for all district bank accounts, including transactions between the district and cash in the county treasury. During FCMAT's on-site work, staff explained that Sacramento County Office of Education and district staff both perform portions of the cash reconciliation process; however, the process is incomplete because it does not capture certain district interfund transactions that occur outside the county treasury. As a result, cash activity between the district's financial system and the county treasury is not fully reconciled.

FCMAT met with the county treasury staff regarding the cash reconciliation process and recommended that the county work with the district to develop procedures and train staff in a process for reconciling cash activity between the two systems.

Because the district is fiscally accountable and operates its own financial system, including issuing payroll and commercial warrants independent of the county, regular reconciliation between the district's records and those of the county is essential to ensure both systems accurately reflect cash activity and balances.

FCMAT recommends the district partner with the county to establish and implement cash reconciliation procedures, resolve outstanding discrepancies, and ensure reconciliations are completed and reviewed monthly.

4. Budget

While assisting with the district's ledger reconciliation, FCMAT noted that the district used contra accounts (which are accounts to record offsetting transactions) with budgeted amounts but no corresponding expenditures. FCMAT was able to reconcile some adjustments (e.g., education protection account to the unrestricted general fund), but noted that other accounts had negative balances without corresponding offsets. Staff acknowledged this practice and stated that the balances would be addressed during the estimated actual process. FCMAT also noted that resources in the two subsequent years of the multiyear projection (MYP) were not balanced, resulting in negative restricted ending balances that would require additional contributions from the unrestricted general fund, further reducing the unrestricted fund balance.

FCMAT recommends that the district avoid the use of contra accounts in its budget. Negative accounts without offsets can overstate budget savings and misrepresent actual budget costs. The district should also balance each resource at every budget reporting period to ensure that restricted program costs and required unrestricted contributions are reflected accurately.

5. **Staff professional development and leadership**

FCMAT provided staff with on-site assistance in using Projection-Pro, including the cash flow module, and additional remote training in cash flow during follow-up Zoom sessions in April and May. Based on discussions with district staff, FCMAT noted that gaps in training, leadership, communication, and role clarity have contributed to inconsistent practices, lack of budget monitoring, and delayed reconciliations in the Business Services Department. Staff reported that certain AR and AP clearing responsibilities were reassigned without clear expectations or direction, and accounting and budget staff have not consistently communicated with each other when transactions affect funding sources. Continued turnover in leadership, pending central office staffing reductions, and uncertainty regarding key positions increase the risk that these weaknesses will continue unless responsibilities are clearly assigned, staff are trained, and both intradepartmental and interdepartmental communication are strengthened.

FCMAT recommends that the district clearly assign accounting, budget monitoring and reconciliation responsibilities in the Business Services Department, and provide ongoing training to ensure staff understand their roles and expectations. The district should also establish regular communication among accounting, budget, payroll and fiscal leadership to identify and resolve in a timely manner any transactions that affect funding sources, cash flow, or restricted programs. To maintain these improvements, the district should monitor staffing and leadership changes and cross-train staff to ensure essential fiscal duties continue to be assigned, reviewed and completed each month in the event of vacancies and reductions.

FCMAT appreciates the opportunity to serve the Sacramento City Unified School District and extends thanks to all the staff for their assistance during this engagement.

Sincerely,



Alyssa Low

Intervention Specialist

cc: David W. Gordon, Sacramento County Superintendent of Schools
Nick Schweizer, Associate Superintendent, Business Services
Lisa Grant – Dawson, Chief Business and Operations Officer