



# **Emery Unified School District**

## **Fiscal Review**

August 19, 2008

Joel D. Montero  
Chief Executive Officer





**CSIS California School Information Services**

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August 19, 2008

Stephen J. Wesley, Ph.D., Superintendent  
Emery Unified School District  
4727 San Pablo Avenue  
Emeryville, CA 94608

Dear Superintendent Wesley:

In May 2008, the Emery Unified School District and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into a study agreement to provide a fiscal review of the district. The agreement asked FCMAT to perform the following:

1. Prepare a multiyear financial projection using FCMAT's Budget Explorer software to identify the financial condition of the district's general fund in 2008-09 and 2009-10, using identified industry variables. The projection will be based on a review of the district's 2007-08 second interim, as well as revenue and expenditure trends of recent years.
2. Conduct a review of the district's budget development, monitoring, and updating processes and procedures and provide recommendations that, if implemented, will help insure that all budgets reflect current revenue and expenditure expectations.
3. Review the district's current organizational structure within the business department and provide recommendations, if any, for staffing levels and job responsibilities.

FCMAT visited the district June 2, 3 and 4, 2008 to review data, collect information and conduct interviews. This report is the results of those activities. It has been a pleasure to serve you, and please give our regards to all the employees of the Emery Unified School District.

Sincerely,

Joel D. Montero  
Chief Executive officer

**FCMAT**

Joel D. Montero, Chief Executive Officer

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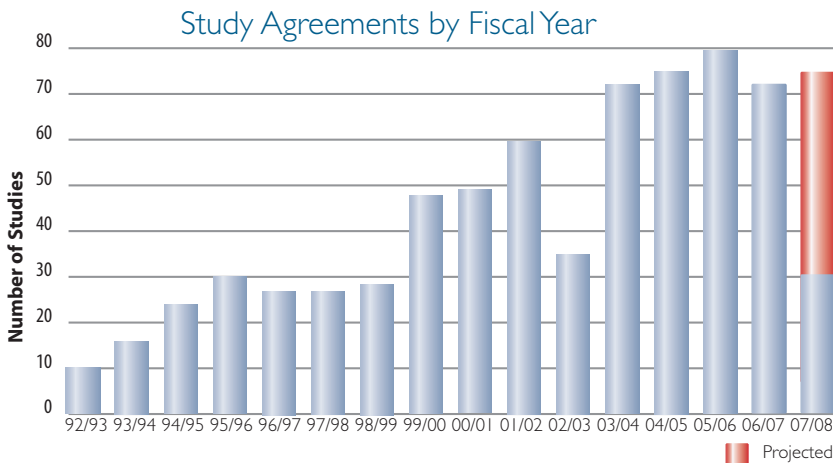
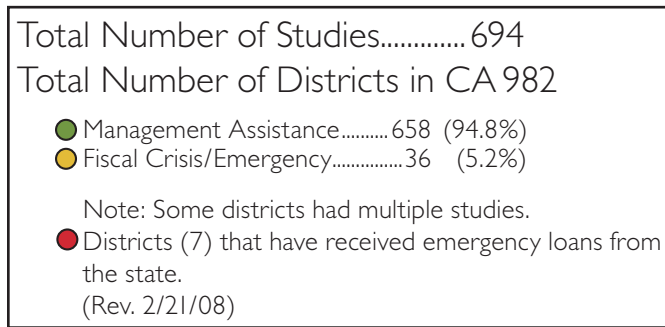
# Foreword

## FCMAT Background

The Fiscal Crisis and Management Assistance Team (FCMAT) was created by legislation in accordance with Assembly Bill 1200 in 1992 as a service to assist local educational agencies in complying with fiscal accountability standards.

AB 1200 was established from a need to ensure that local educational agencies throughout California were adequately prepared to meet and sustain their financial obligations. AB 1200 is also a statewide plan for county offices of education and school districts to work together on a local level to improve fiscal procedures and accountability standards. The legislation expanded the role of the county office in monitoring school districts under certain fiscal constraints to ensure these districts could meet their financial commitments on a multiyear basis. AB 2756 provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans. These include comprehensive assessments in five major operational areas and periodic reports that identify the district’s progress on the improvement plans.

Since 1992, FCMAT has been engaged to perform nearly 700 reviews for local educational agencies, including school districts, county offices of education, charter schools and community colleges. Services range from fiscal crisis intervention to management review and assistance. FCMAT also provides professional development training. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The agency is guided under the leadership of Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.







# Introduction

## Background

The Emery Unified School District is located in Alameda County and encompasses approximately 1.2 square miles, including the city of Emeryville. The district is composed of two schools, Anna Yates Elementary School and Emery Secondary School, and has an enrollment of more than 800 students.

In May 2008, the district entered into a study agreement with the Fiscal Crisis and Management Assistance Team (FCMAT) for a study that would perform the following:

1. Prepare a multiyear financial projection using FCMAT's Budget Explorer software to identify the financial condition of the district's general fund in 2008-09 and 2009-10, using identified industry variables. The projection will be based on a review of the district's 2007-08 second interim, as well as revenue and expenditure trends of recent years.
2. Conduct a review of the district's budget development, monitoring, and updating processes and procedures and provide recommendations that, if implemented, will help ensure that all budgets reflect current revenue and expenditure expectations.
3. Review the district's current organizational structure within the business department and provide recommendations, if any, for staffing levels and job responsibilities.

## Study Team

The study team was composed of the following members:

Michelle Plumbtree  
FCMAT Chief Management Analyst  
Petaluma, CA

Leonel Martinez  
FCMAT Public Information Specialist  
Bakersfield, CA

Jim Cerreta  
FCMAT Fiscal Intervention Specialist  
Petaluma, CA

## Study Guidelines

FCMAT visited the district June 2, 3 and 4, 2008 to review data, collect information and conduct interviews. This report is the result of those activities.



# Executive Summary

Because of continuing financial difficulties, the Emery Unified School District received a state loan of \$1.3 million in 1991. However, in the intervening years the district has made timely payments on the state loan despite declining enrollment.

The state's current economic status, including the projected state deficit and the fiscal emergency declared by the Governor in January 2008 under Proposition 58, is projected to significantly affect the district's general fund balance. While the district has been diligent in managing the current crisis, additional efforts should be made. The district is confronted by substantial fiscal challenges that will require difficult decisions to be made and implemented. The board, administration and community may need to identify additional potential areas of reduction to eliminate projected deficit spending and sustain the district's fiscal solvency.

## Budget Communication/Presentation of Information

During meetings with FCMAT, a common theme among administrators, board members and district office staff members was the need to be more involved in budget development. Updated information on available funds and budget expenditures is needed throughout the year, and budget presentations and information are often unclear and confusing.

Most of these concerns can be addressed by improving communication and implementing processes and procedures to develop, monitor and update the budget. An annual budget calendar should also be developed so all affected parties know when processes begin and remember their input is expected.

When FCMAT requested a list of budget changes between fiscal year 2007-08 and 2008-09 to prepare the multiyear projection, this information was not updated or readily understandable. Although the staff eventually created a list, these documents should have been developed at the time of June 2008 fieldwork because of the many conversations and planning meetings necessary to adopt a new budget. The initial absence of a list indicated that there is insufficient and inadequate documentation and explanation regarding the differences between fiscal years.

All affected parties should fully understand the revenues and expenditures represented in separate funds and reported annually to the county office and the California Department of Education. Clear information should be provided on all funds and resources during budget development, budget adoption, budget interim and unaudited actuals reporting times. Reports made to the board on financial updates, budget revisions, and/or related information should be accompanied by written communication that thoroughly explains financial amounts.

The district should consider revising current board policy to specify how often budget revisions should be submitted to the board for approval, as well as setting guidelines and parameters of the detail that should be included.

## Budget Development

The district lacks formal processes for developing, monitoring, updating and validating the budget throughout the year. For future fiscal years, the district should establish a budget development process with more involvement from district and site administrators. All district departments should be part of budget development so they can provide comment and be held accountable for their own budgets as the year progresses. In the past, budget development included no comment from most of those affected and few comments from the Governing Board regarding educational goals and priorities.

The district has used rollover budgeting for most of the budget until now, basing the proposed budget on prior-year budget allocations with adjustments to increase or decrease specific accounts. Because a rollover budget is based on the past instead of accurately representing the future direction of the district, it is not viewed as a planning document.

A better method is zero-based budgeting, which recreates and analyzes the entire budget each year, allowing the district to review all available funding, determine the most efficient way to spend resources, and decide whether ongoing and new expenditures meet the district's goals and objectives. All district obligations are reviewed to determine the appropriate funding source and the affect on the overall budget and to ensure that expenditures align with the board's goals.

The district expects to make improvements to budget development throughout the 2008-09 fiscal year. However, major changes should be made for the 2009-10 fiscal year since the 2008-09 budget is already developed and approved. FCMAT has identified suggested adjustments to the 2009-10 budget development process and timeline if they are determined appropriate for the district.

### *2007-08 Budget and Multiyear Financial Projections*

FCMAT reviewed all the district's funds by resource to identify trends and formulate questions about the status of accounts. This review allowed FCMAT to project the funds in two subsequent years as required by AB 1200. The review suggested that some of the district's 2007-08 accounts may not be budgeted appropriately, which is discussed in the report. Further, the district appears have started deficit spending, which will erode the general fund ending fund balance over time if corrective actions are not taken.

FCMAT's MYFP shows that the district will be able to maintain the required 4% reserve in 2007-08 through 2009-10, but will not be able to do so in 2010-11 based on current economic indicators and information provided to FCMAT. FCMAT's MYFP is based

on assumptions listed later in this report but does not include the impact of any unsettled negotiations or changes to ongoing costs that have not been approved by the governing board. The MYFP assumes that the district will continue to operate in the same manner with the ongoing costs currently in place. This includes the costs of step-and-column adjustments, utilities and other ongoing expenditures such as encroachment from special education. Salary increases and/or health and benefit increases, as well as any other increased expenditures, would significantly affect the ending fund balance.

When evaluating the MYFP, much attention is focused on the bottom line, which indicates the district's undesignated, unappropriated fund balance. If the bottom line shows a positive unappropriated fund balance, this amount may be used by the governing board and/or superintendent to improve educational programs, increase employee compensation or spend in other categories. However, if the unappropriated fund balance is negative, the deficit is the amount by which the budget must be reduced to sustain the recommended reserve levels under AB 1200 guidelines. The projection must be viewed comprehensively, and the district must determine what compounding effects using any or all of the unappropriated fund balance will have on the projection in the current and future years. The unappropriated balance and the corresponding compound effect can be clearly determined as the years proceed.

#### **Multiyear Financial Projection Summary - Unrestricted General Fund**

<b>Description</b>	<b>Base Year</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
2007 - 08	Year 1	\$7,237,951	\$7,532,342	\$7,667,795
2008 - 09	Year 2	\$7,016,662	\$7,245,102	\$7,369,157
2009 - 10	Year 3	\$221,289	\$287,240	\$298,638
2010 - 11	(\$796,053)	(\$910,051)	(\$1,042,622)	(\$1,067,618)
Total Revenues	\$7,399,407	\$7,182,391	\$7,192,553	\$7,254,530
Total Expenditures	\$6,791,596	\$6,657,287	\$6,784,839	\$6,910,503
Excess (Deficiency) of Revenues Over Expenditures	\$607,811	\$525,104	\$407,714	\$344,027
Total Other Financing Sources\Uses	(\$807,053)	(\$768,079)	(\$912,282)	(\$951,234)
Net Increase (Decrease)	(\$199,242)	(\$242,975)	(\$504,568)	(\$607,206)
Beginning Fund Balance	\$1,860,079	\$1,660,837	\$1,417,862	\$913,294
Ending Fund Balance	\$1,660,837	\$1,417,862	\$913,294	\$306,088
Revolving Cash	\$11,538	\$11,538	\$11,538	\$11,538
Stores	\$29,959	\$29,959	\$29,959	\$29,959
Designated for Economic Uncertainties	\$449,273	\$416,220	\$412,045	\$419,818
Other Designated	\$409,005	\$349,989	\$150,000	\$150,000
Undesignated/Unappropriated	\$761,062	\$610,156	\$309,752	\$0
Negative Shortfall	\$0	\$0	\$0	(\$305,227)

The Governor's 2008-09 budget proposal includes severe cuts to education, and those proposed cuts have been included in the multiyear projection that FCMAT has produced. As the state budget continues to be developed and further revised, the district will need to update its projections accordingly. *Although the budget proposal may evolve from its present form, FCMAT's policy is to provide a conservative projection in the absence of an approved state budget.*

### **Deficit Spending**

Deficit spending is a budgetary condition characterized by an excess of expenditures over revenues. Deficit spending can result from, or be worsened by, the allocation of restricted carryover funds, but it can also indicate a structural imbalance in the budget. Left unchecked, deficit spending will erode fund balances and eventually lead to fiscal insolvency.

The above multiyear financial projection summary projects a deficit spending pattern in the district. The "net increase (decrease)" line reflects a deficit of \$199,242 that grows to \$607,206 by 2010-11. Of particular concern is that this table represents only the unrestricted general fund, and thus, the deficit spending pattern is not artificially inflated by allocation of restricted carryover funds.

The projection indicates the district will be able to absorb these deficits in the earlier years because it has a substantial beginning fund balance of \$1,860,079, or approximately \$2,200 per pupil, in 2007-08. However, the deficit spending pattern reduces this balance to \$306,088 by the end of the 2010-11 fiscal year. This a 84% decrease in the fund balance would prevent the district from meeting its required 4% reserve for economic uncertainties that year.

As stated earlier in this report, FCMAT utilized conservative assumptions in developing the multiyear financial projection because of the absence of a state budget. Nonetheless, the district should carefully monitor its budget and address any deficit spending pattern by implementing budget reductions before it results in fiscal insolvency.

### **Cash Flow Issues**

Emery Unified may not have apparent cash-flow issues during the July to September 2008 apportionment delay because of its available unappropriated general fund balance and cash balances in other district funds, however, it is prudent to understand the available options if unexpected obligations arise other than the delay. For instance, the district is entering into large construction contracts, and contractors may request payment before it receives state facility funding apportionments for the projects. If cash from the undesignated general fund balance and/or other funds is being used to compensate for the apportionment delay, the amount available may be insufficient to cover obligations for these construction contracts. The district must plan for the worst by monitoring its cash as well as evaluating strategies to deal with any shortages.

Emery Unified staff members indicated they are concerned about funding and cash flow for planned construction regarding the Anna Yates Growth Project. Contracts for related project construction were signed before approval of state funding and preparation of a detailed budget and/or cash flow projections. Despite these omissions, construction was scheduled to begin in the summer of 2008. It is important for budgets, cash projections and other financial disclosures and analyses to be prepared well in advance of construction and planning. State approval and reception of funds frequently take longer than originally planned, so districts should have contingency plans to deal with any shortages and delays. No project documents were available to demonstrate that a detailed contingency plan was developed.

The district has subsequently entered into an agreement with the Emeryville Redevelopment Agency (RDA) for a loan of \$975,000 to cover any cash flow shortages and/or a failure to receive state funds. Because of this agreement, it appears that the potential cash-flow issues have been remedied based on the information provided.

## Organizational Structure

At Emery Unified, food services and facility staff members and functions report to the Superintendent instead of the Assistant Superintendent of Business. The industry standard is for the Assistant Superintendent of Business to be responsible for these operational areas.

The Assistant Superintendent of Business should also take a more active day-to-day role in the Center for Community Living and other upcoming construction and facility projects. The Director of Business should take a more active role in monitoring the budget and other financial areas, including functioning as the main contact with the site and department administrators regarding their respective budgets. In addition, the AP/Payroll Clerk would report to the Director of Business.

Working to improve relatively low test scores, the district has focused on obtaining additional local and categorical funding for low-achieving students. The district should consider adding a Grant Writer position to continue the tradition of accessing additional funding. Various additional opportunities exist to apply for outside local funding, but the district has insufficient time and resources to accomplish this. The addition of a Grant Writer will ensure that current underlying services, as well as the possibility of new and expanded services, will continue to be part of Emery Unified's programs and prevent them from becoming a financial burden on general fund.

## Staffing and Internal Controls

FCMAT compared Emery Unified's district office staffing with four similarly sized, unified districts and found that the district's staffing level is equal to or greater than the comparison districts. The Business and Human Resources divisions were combined for this comparison since duties were widely distributed among all district office staff members because of the small size of the districts.

Job descriptions for the business office staff are dated or nonexistent. Job descriptions should be developed or revised for each board-approved position to reflect the work employees actually perform.

The Human Resources Department should have the duty of approving all extended-work calendars before the employee performs the work instead of relying on site or department administrators to do so. Site or department administrators should not authorize work that exceeds the initial contract amount without this approval. This process will ensure that a sufficient budget amount is available and that the appropriate paperwork is on file.

The Fiscal Service Specialist should not mail warrants to vendors once they are received from the county office since that position performs many functions related to vendor payments and purchase orders. Another district office position should obtain these checks and mail them to vendors.

The district office should ensure there is adequate and appropriate oversight of associated student body activities.

The district must establish policies and procedures covering employee leave, including an outline of employee responsibilities for requesting and reporting all types of leave and identification of the forms that must be processed. In addition, the procedures should require Human Resources to perform a monthly audit to ensure the accuracy of submitted information.

The district should also establish formal written policies on the responsibilities of Human Resources and the procedures for reconciling absence requests and the absence log. Substitute time sheets should be expanded to include additional detail and clarification. Strong internal controls require leave records to be correctly maintained and verified with substitute payments. The district should be able to reconcile the employee's leave time with the substitute pay event.

The district will soon implement significant facilities construction and modernization projects, creating additional demands on the accounts payable function. Adding an Accounts Payable Clerk would be beneficial once construction begins modernizing the elementary school and building the Center for Community Living. The existing accounts payable position will not be able to handle all the additional invoices, purchase orders and other reporting responsibilities for construction projects of this size.



The district should continue to invest time and attention to complying with internal controls to minimize the number of audit findings. The district should continue to review audit findings and recommendations with the Governing Board on an annual basis and develop corrective action plans annually as required by law. Audit findings should be continually reviewed for compliance and to ensure these issues will not continue.

The district's business office lacks written desk manuals, standard operating procedures and other reference documents. Desk manuals and documented procedures are critical to ensuring internal controls and communicating the responsibilities of various positions. Procedural manuals should be developed for all business and business-related functions, detailing the processes and procedures that are expected or needed to comply with rules, regulations and board and district policies and procedures. Updating manuals at least annually is a best practice.

Because communication and full disclosure and understanding were constant themes during FCMAT's visit, establishing an audit committee may serve the district well, especially since approved board policy already sets parameters for this process. Setting up such a committee would also enhance internal controls.

## Training and Evaluations

Personnel at various levels should understand the information generated by the Escape financial system instead of expecting this data to be provided in a simpler format. Although financial system training was provided in the past, staff members are not confident that they comprehend the system data. The district's decision makers and staff members who are responsible for the management of district budgetary allocations should be trained on the appropriate use of the financial system, in particular on the most efficient means to access budget information.

Each employee's performance should be evaluated at least annually by a management-level employee with knowledge of the employee's work product. Evaluation criteria should be clearly communicated and should be measurable as much as possible. Following up on prior performance issues and establishing goals for improving future performance are essential components of proper employee evaluations.

All school district business office personnel must keep current with developing school business trends regarding their job duties and responsibilities. Change occurs often in public education finance, and continuing professional development is essential to the district's business function. The staff should be provided with the opportunity to attend training sessions, and attendance should be mandatory.

An annual staff development plan should be implemented for personnel outside the Business Department so departments and sites are updated on changes in business procedures and the application of routine internal control processes.

# Findings and Recommendations

## Budget Communication

The Business Department is responsible for communicating regularly with the Governing Board, community and other affected parties on the status of district finances and the financial impact of proposed revenue and expenditure decisions. The communications should be written whenever possible, particularly when this information affects many individuals, involve issues of high importance to the district and board, or reflect a change in policy. Documents developed by the Business Department should be easily understood. Detailed explanations should accompany budget reports on one-time, ongoing, and eliminated revenues and expenditures. This type of supplemental information allows the board to make spending decisions that are more informed and accountable. Developing a more readable format with narratives will improve communication.

The adopted budget, interim reports and unaudited actuals should be submitted to the board in compliance with statutory deadlines. Even though statutory reports should be accompanied by additional information, board members and other affected parties who want to understand budget information need training so they can more easily interpret state-mandated reports. Statutory reports must be approved by the board in the standardized account code structure (SACS) format, but additional, more understandable information should also be provided at the same time. For example, FCMAT and School Services of California (SSC) have developed the User-Friendly Budget software that complements the required state budget reports that are in the SACS format. The software is available at no cost through SSC. Submitting User-Friendly Budget reports with the statutory SACS report will make the entire package more understandable and satisfy the statutory submittal requirements as well as more clearly communicate what the financial information represents.

During meetings with FCMAT, a common theme among administrators, board members and district office staff members was the need to be more involved in budget development and to receive updated information on available funds and budget expenditures throughout the year. Most of these concerns can be addressed by improving communication and implementing processes and procedures to develop, monitor and update the budget. An annual budget calendar should also be developed so all affected parties know when processes begin and remember their input is expected.

Staff members indicated that budget presentations sometimes do not clearly explain the reasons for increases or decreases or indicate whether these changes are ongoing or will occur only once. Budget presentations often contain so much information that those affected find it difficult to interpret the data. Additional support, communication, and training are clearly needed.

District administrators indicated that they receive little timely, understandable budget information, and the information they get is often unclear and confusing. This needs to be remedied immediately since otherwise, the district cannot realistically expect administrators to be held responsible for overseeing their site or department budgets.

FCMAT requested a list of budget changes between fiscal year 2007-08 and 2008-09 to prepare the multiyear projection, but staff members indicated that this list did not exist since the information was directly entered into the financial system. Although the staff eventually created a list, the changes should have been documented by the time of June 2008 fieldwork because of the many conversations and planning meetings that took place to adopt a new budget. The initial absence of a list indicated that there is insufficient and inadequate documentation and explanation regarding the differences between fiscal years. In using the created list to prepare a multiyear projection, FCMAT found that some of the amounts and their specified details were different from those the district actually adopted in the 2008-09 budget, significantly impeding the analysis FCMAT performed for this report.

Much of the site and department administrators' confusion centers on understanding the information from the district's Escape financial system. It is important that site and department staff members know how to use the system and generate understandable system reports. Although administrators indicated they dislike the Escape reports' appearance, the documents generated by the system should be used instead of building other databases, which increases the probability of error.

School sites reported they don't know what budgets are available for expenditure since budgets can be changed without informing the sites. Budget information is often unclear until late in the year, leaving a minimal amount of time to expend available funds. The budget office should continue working with site and department administrators to determine what additional resources would improve budget review and comprehension.

Although departments and school sites have access to the Escape financial system, they are reportedly uncomfortable with running the budget reports available to them. Additional training would help staff members better understand these reports. Next year, Escape plans to issue an updated version that will simplify information retrieval and provide a new, more user-friendly approach, but the district sites and departments need to start using and trusting the current financial system instead of waiting for the release of the newer version.

Training on the Escape software should go beyond navigating the system to include reading the budget account. The accounting string or account code structure is not being fully utilized to capture financial information that benefits the administrators and board members. The SACS accounting string is well defined and contains many options to capture data by function, department and other levels not used by the district.

Those involved with the budget should communicate to the budget office the types of information they need and the formats that would make this data easier to understand. If this occurred, 2009-10 budget development could include coding that is more useful while maintaining the accounting integrity necessary to comply with state standards.

The district should have budget monitoring controls such as a review of monthly reports that would indicate or alert the department and site administrators of potential overexpenditure of budgeted amounts. Revenue and expenditures should be forecast and verified at least monthly. If the current practice is not satisfactory, the Business Department should provide the sites and departments with additional information for budget review. Site administrators and department administrators should be responsible for monitoring and managing their budgets. The annual performance reviews of these employees should include fiscal accountability.

All affected parties should fully understand the revenues and expenditures represented in separate funds and reported annually to the county office and the California Department of Education. Clear information should be provided on all funds and resources during budget development, budget adoption, budget interim and unaudited actuals reporting times. Reports made to the board on financial updates, budget revisions, and/or related information should be accompanied by written communication that thoroughly explains financial amounts.

Budget reports should be accompanied by detailed information explaining existing funding and the length of time it will be available, allowing the board to make more informed expenditure decisions. This change would help the board and community better understand specific funding sources and could help the district expend restricted categorical funding in a timely manner. Emery Unified receives a significant amount of revenue from local grants that are not typical in other districts and have specific purposes. Some are one-time in nature while others span more than one fiscal year. A considerable amount of planning must occur with these grants, and those involved must understand the funding's purpose and duration.

Board Policy 3460, Financial Reports and Accountability, adopted November 1, 2004, includes guidelines on ensuring that all financial reports are prepared in accordance with the law and in conformance with generally accepted accounting principals and financial reporting standards stipulated by the Governmental Accounting Standards Board and the California Department of Education. The associated administrative regulations cover the required statutory budget, audit and other financial requirements. However, neither document specifies what the appropriate supporting or additional information should be. Because communication on budget and finance needs to be strengthened, Board Policy and the Administrative Regulations 3460 should be reviewed and updated to clearly reflect local requirements as well as statutory requirements. The district should add information to the current policies/administrative regulations or adopt new ones that require budget and financial information to be presented monthly. These updates should

include issues that will affect the district's finances as well as routine budget reports on the status of the general fund, including categorical programs.

Open and ongoing communication is important in creating an environment of cooperation and trust within the organization. District leadership meetings and principals' meetings should occur regularly, with time allocated to discussing periodic financial and other business-related information with budget managers. Periodic meetings for the office manager, clerical support and other classified staff members can also help increase the flow of information and provide updates on policy and procedure changes.

The budget should reflect district goals and objectives that are developed and approved annually by the Governing Board. The district should have a process of checks and balances regarding the budget and budget assumptions. In a district of less than 1,000 ADA, this process typically occurs between the district's chief business official (CBO) and the Superintendent. While the financial data reflects the results, the assumptions used to develop the data can be better identified and validated through communication and joint discussion.

The relationship between the Superintendent and the Business Department is critical, and communication between the two should be open and ongoing. The district's CBO/Assistant Superintendent of Business is the major support for the Superintendent on financial information, and the Superintendent should be fully informed at all times. Although the Superintendent may not need to know each fiscal detail, he or she should know enough information to speak on the subject openly and knowledgeably.

No one type of budget information packet works for all districts. These packets are individualized based on the information desired by interested parties. The Superintendent provided FCMAT with a packet from Madison County Public Schools. FCMAT found it to be an effective model that could be utilized for the fiscal year 2009-10. That document includes detailed information about the budget and the district and how the budget directly relates to the district's organization, overall philosophy and priorities. Changes to the budget are clearly presented in comparisons with the prior year, the process is defined with a calendar, and the document includes a well written narrative with graphics and comparison information.

After the district submits the budget, interim and unaudited actuals to the Alameda County Office of Education, the county office's practice is to reply using two different types of correspondence to the district, a technical/clarification letter and a final approval letter. The technical/clarification letter is addressed to the CBO/Assistant Superintendent, and should also be reviewed by the Superintendent. The final approval letter is sent to the board president. The county office also sends a letter to the district after receiving each AB 1200 Disclosure of Collective Bargaining Agreement. Reviewing these different forms of documentation will help the board and Superintendent determine whether these submittals are understandable and whether the county office believed the assumptions behind the financial amounts were adequate.

## Recommendations

*The district should:*

1. Increase communication between the district and those affected by the budget regarding how the budget is developed, monitored and updated.
2. Hold district leadership meetings and principals' meetings and schedule time to discuss periodic financial and business-related information with principals, support department managers, and program managers.
3. Hold periodic meetings for office managers, clerical employees and other specific classified staff members to discuss information and updates on policy and procedure changes, and establish open and ongoing communication about fiscal issues.
4. Communicate regularly with the Governing Board and community in writing and verbally regarding the status of the district's finances and the financial impact of proposed expenditure decisions and changes in policy.
5. Submit adopted budget, interim reports and unaudited actuals to the Governing Board in compliance with statutory deadlines.
6. Review and update Board Policy and Administrative Regulations 3460 to reflect local requirements and statutory requirements. Policies and procedures should be adopted that require both routine and time-sensitive budget and financial information to be presented monthly.
7. Involve all administrators, including principals, in budget development and monitoring.
8. Provide site and department administrators with timely, understandable budget information so they can effectively monitor and manage their budgets. In annual performance reviews, the district should evaluate these employees on their fiscal accountability.
9. Include additional narrative sections in public presentations of budget information to support the data in charts and tables. The district should consider implementing the User-Friendly Budget software templates and samples.
10. Ensure the Governing Board receives copies of communications from the county office on budget submittals and collective bargaining disclosures. The Superintendent should also review the letter to the CBO after a technical review to determine whether these submittals were considered adequate and understandable.

11. Develop a tracking method to help budget managers identify any adjustments to site or department budgets that they did not initiate.
12. Offer training on the Escape financial system to provide site and department administrators the skills to access the information they need on a timely basis.
13. Expand use of the SACS accounting string so that affected parties can gather the revenue and expenditure information they currently lack.



## Budget Development

The district lacks formal processes for developing, monitoring, updating and validating the budget throughout the year as compared to current industry standards. For future fiscal years, the district should establish a budget development process with more involvement from district and site administrators. All district departments should participate in budget development so they can provide comment and be held accountable for their own budgets as the year progresses. In the past, budget development did not include comments from most of those affected and little comment from the Governing Board regarding educational goals and priorities. During the past several years, there has been significant turnover in key staff members and administrative positions. With these new key staff members and administrators, the district has an opportunity to establish a comprehensive budget development process that provides for comment from all those affected, including the board, community, Curriculum and Instruction, Human Resources, special education, and school site administrators.

In 2001 (AB96, Chapter 35/01), the district received a state loan to remain fiscally solvent and was governed by a State Administrator. The administrator and Fiscal Advisor made all decisions related to the budget, including any updates to that budget. Because budget and fiscal authority was returned to the Governing Board in 2004 with oversight and guidance from the State Trustee, it is important that the board and others who have a vested interest understand and have the opportunity to comment on the budget. This commentary may include site councils at both school sites, parents and other community members. These parties should be invited to participate in the budget process (during budget workshops) and should feel comfortable asking questions. The established Budget Committee should communicate with the community to broaden the participant base so that more community members attend the pertinent meetings, especially parents.

Many types of budget development models exist. These include the following:

- Decentralized budgeting: Major budgeting and related decisions are made at the school-site and department level.
- Centralized budgeting: Budget decisions are made in a “top-down” manner, commonly used when the district has a severe financial condition or must exert greater fiscal control.
- Blended decentralized/centralized method: This approach uses budget committees to gain broad participation while maintaining control.
- Zero-based budgeting: The entire budget is recreated and analyzed each year.
- Rollover budgeting: Prior-year budgets are “rolled over” to the current year and are reviewed for additions or deletions.

- Enrollment-based budgets: Accurate demographic information becomes the basis for budget allocations.
- Program budgeting: Spending plans are based on the expected results of services to be performed by the organizational units.
- Program planning and budget systems: Current and future budgets are considered.

Because one budget approach seldom meets all of a district's needs or requirements, many districts combine elements from the above models. In choosing a budget development model, the primary considerations are assessing the district's budget needs and tailoring the process to the district's unique characteristics. All budget methods must be carefully communicated to the interested parties so that the advantages of the chosen method are evident.

In the past, the district has used rollover budgeting for most of the budget. In this model, the proposed budget is based on prior-year budget allocations with adjustments to increase or decrease specific accounts, such as step-and-column movement and utility rate increases. Districts that use rollover budgeting often do not strategically adjust budgets based on needs or priorities in any given year. Because a rollover budget is based on the past instead of accurately representing the future direction of the district, it is not viewed as a comprehensive planning document.

A more efficient method for districts comparable to Emery Unified is zero-based budgeting, which recreates and analyzes the entire budget each year. This allows the district to review all available funding, determine the most efficient way to spend resources, and decide whether ongoing and new expenditures meet the district's goals and objectives. All district obligations are reviewed to determine the appropriate funding source and the affect on the overall budget and to ensure that expenditures align with the board's goals. In addition, this type of budgeting uses categorical funds to their full advantage. The disadvantages are that this method is very time consuming and can cause significant turmoil in the organization as the expenditures of each department and program are re-evaluated with each budget development cycle.

A common complaint in several interviews was that the budget is developed and built in the business office and then communicated to the board and all those affected. The affected parties should be given the opportunity to provide comment beforehand instead of being told after budgetary assumptions and allocations are final.

The district expects to make improvements to budget development throughout the 2008-09 fiscal year. Major changes should be made for the 2009-10 fiscal year. In the future, budget development should include more participation from district and site administrators.

On November 1, 2004, the board adopted Board Policy and Administrative Regulations 3100 regarding the budget, with the following statement:

“The Board of Education accepts responsibility for adopting a sound budget that is aligned with the district’s vision, goals and priorities. The distinct budget shall guide administrative decisions and actions throughout the year and serve as a tool for monitoring the fiscal health of the district.”

This policy discusses the necessity of encouraging public comment on budget development, including the formation of a budget advisory committee and the creation of a budget development calendar. However, the district clearly is not utilizing a budget development calendar.

Budget development should include policy direction from the board to help the district create an expenditure plan that fulfills the district’s goals and objectives. The district budget lacks a board-approved mission statement, core values or a strategic plan. When providing direction on the budget, the Governing Board should not focus on specific line items, but on expenditure standards and formulas to meet the district’s goals. The board should direct the staff to design an expenditure plan that meets the needs of students and the district.

The district’s business office lacks formal, documented budget development processes and procedures and desk manuals. Developing these resources can improve staff efficiency and the accuracy of budget data and maintain continuity of procedures in case of staff turnover.

The budget office should develop the preliminary budget using a technical process that includes revenue forecasts, expenditure verifications and projections, identification of known carryovers and accruals, and expenditure plans. The process should also clearly identify one-time sources and uses of funds. Reasonable average daily attendance (ADA) and cost-of-living adjustment (COLA) estimates should be used when planning and budgeting. This type of process should be applied to all funds and documented so that it can be easily understood and used in the future.

The district receives a significant amount of categorical funding, so budget development for categorical funding and expenditures should be strengthened. Accurate budgeting and appropriate expenditure of these funds must be a priority and should emphasize the connection between educational goals and available resources. Educational goals should be determined and tied to resources and expenditures, and benchmarks regarding expected results and outcomes should be included in the documentation. Restricted dollars should be utilized first. As the district identifies its educational goals and budget priorities, categorical dollars should be included in budget development. The district should make maximum use of categorical funds by identifying the specific goals that can be met with restricted funds and ensuring that any one-time funds are not used for ongoing expenditures.

The district should consider developing a document that contains budget guidelines to explain how the budget is developed and the assumptions it contains. This type of document should be updated as assumptions change. A sample document is attached as Appendix A to this report.

The district should continue improving communication on the budget so that all those affected gain a better understanding of this document. It is important that the budget document contain a narrative so everyone understands what the data represents.

### *Improvements to Budget Process during 2008-09*

Major changes to budget development will need to occur for the 2009-10 fiscal year since the 2008-09 budget is already developed, however, the following improvements can be made during the 2008-09 fiscal year:

- Reconstitute the district's Budget Advisory Committee, establishing a clear understanding of the committee's role in budget development. This will be the most significant and important step towards restoring staff, board and community confidence in the district's budgeting process. All affected parties should be represented and provided with information and ample opportunity for comment in a manner that communicates the district's appreciation for their involvement.
- Outside professional experts should work with the staff to improve the budget format, processes, procedures and templates for 2009-10 budget development. This expenditure should be one-time in nature for the 2008-09 year.
- The goal and function levels of the SACS account code structure should be used to present information in ways the superintendent/principals and other administrators find more helpful. Staff members expressed a desire to have financial information accounted for by school site, including professional development, speech, utilities and psychologist time. This could easily be accomplished by utilizing the SACS coding structure as designed.
- Funds should be allocated to school sites for supplies or other materials. At present, individual administrators must request specific items through the business office, which decides whether to grant the request. This approach does not provide the site administrator with the opportunity to be an effective manager of his or her school site. Furthermore, asking for an allocation of funds for normal operating expenses can be demeaning to a professional educator.

- Each presentation of the district's budget - adoption, first and second interim, and unaudited actuals - should be considered an opportunity to review the district's financial status and the direction of the district's programs and performance. A process should be developed to connect the budget to the board's goals and objectives, and most importantly, to student performance.
- The following time line should be utilized for the 2008-09 year to improve the district's budget development process and ultimately allow the district to adopt a 2009-10 budget that represents the consensus of all interested parties:
  - ✓ August/September 2008 - Close the 2007-08 fiscal year books and present the unaudited actuals financial report to the school board, identifying any significant issues that will affect the budget.
  - ✓ September/October 2008 - Allocate carryover of unspent funds from the 2007-08 year to the 2008-09 budget.
  - ✓ September/October/November 2008 - Utilize outside professional experts to help the staff develop new budget report formats, processes and templates, including a more effective utilization of the account code structure.
  - ✓ November 2008 - Form a new Budget Advisory Committee (BAC) with representation from a broad spectrum of constituents and interested parties.
  - ✓ December 2008 - Present the district's 2008-09 first interim budget report, receive the 2007-08 independent auditor's report, and advise the school board of any significant issues affecting the district's budget. Initial meetings should be conducted with the BAC, establishing committee, expectations and processes. A clear understanding of BAC's role in budget development should be established. The committee is advisory in nature and provides feedback to the district staff and the school board. The board has the final responsibility for making decisions.
  - ✓ January 2009 - Receive and analyze the Governor's 2009-10 budget proposal and present it to the BAC and the school board. It should be determined whether the district intends to utilize zero-based budgeting model to develop the 2009-10 budget. District goals and objectives should be revisited with the school board to determine how the budget will support them and student performance in general.

- ✓ February/March/April 2009 - Develop enrollment projections and staffing and operations allocations for 2009-10. Allocations should be distributed to budget managers and feedback should be solicited. Meetings should continue to be held with the BAC to apprise the committee of the status of budget development and seek feedback. The district should consult with outside professional experts to determine whether new processes and procedures are working properly and fine tune as necessary.
- ✓ March 2009 - Present the district's 2008-09 second interim budget report and advise the school board of any significant issues affecting the district's budget. Reduction-in-force notices should be issued to the certificated staff if necessary.
- ✓ April 2009 - Receive feedback from budget managers regarding 2009-10 budget allocations, and adjust as appropriate.
- ✓ May 2009 - Update the district's budget assumptions as amended by the Governor's May Revision budget proposals for 2009-10. These should be reviewed with the BAC for comment and presented to the school board. The public hearing process for budget adoption should be advertised in the local newspaper as dictated by the county office. Reduction-in-force notices should be issued to the classified staff if necessary.
- ✓ June 2009 – The school board conducts a public hearing regarding the proposed 2009-10 district budget. The BAC representatives join the staff in presenting the proposed budget to the school board, and the board adopts the budget as appropriate.

The above list should be viewed as consisting of the minimal number of items necessary to improve the district's budget processes. If any item is not completed or not completed in a timely manner, the prospect for the success of the entire process will be threatened.

## Recommendations

*The district should:*

1. Make improvements to budget development procedures throughout the 2008-09 fiscal year, and implement the major changes that need to occur for the 2009-10 fiscal year.
2. Establish budget development for future fiscal years that includes greater involvement from district and site administrators, and conduct meetings with cabinet, department and site administrators to discuss budget development. These administrators should be part of the process and should be held accountable for their budgets as the year progresses.

3. Develop site, department and district budgets using a zero-based budget model.
4. Obtain feedback from all affected parties for budget development, including the board, the community, Curriculum and Instruction, Human Resources, special education and school site administrators.
5. Include in the annual budget packet a mission statement, statement of core values, or a strategic plan that has been approved by the Governing Board.
6. Draft and approve budget development policies so the district's goals, objectives, concepts and guidelines can be linked to the district's expenditure plan. The board should adopt these policies so the staff and the public understand that the budget reflects the district's goals and objectives.
7. Develop spending standards and formulas that clearly reflect the district's goals and objectives, and include them in the budget document. For example, site allocations should be determined based on calculations that can clearly be understood and justified.
8. Establish comprehensive budget development procedures that use categorical funds appropriately and to the fullest extent possible.
9. Create a comprehensive budget development calendar that details major preparation activities. This calendar should include opportunities for comment from the board, Superintendent and cabinet regarding the district's goals and objectives for the upcoming year and subsequent years.
10. Create a formal manual of budget development procedures, and develop desk manuals for each position in the business office that participates in budget development. These manuals should specify how various tasks are carried out. This will improve staff efficiency and the accuracy of budget data and maintain continuity of procedures in case of staff turnover.
11. Develop accounting and budget procedures manuals for sites and departments. These manuals should be revised periodically and forwarded to sites and departments so that they understand what is expected of them and why.
12. Continue to improve budget communication methods to increase the understanding of all affected parties regarding the budget.
13. Make adjustments to the 2009-10 budget development process as outlined above if they are determined appropriate for the district.





## Budget Review

One of the unique characteristics of fund accounting, as compared with commercial accounting, is the use of budgetary accounts. These accounts project the amount to be received and expended in a specific period of time to carry out the educational agency's goals. Budgetary accounts allow for comparisons between projections and what has actually occurred during the year.

Governmental Accounting Standards Board (GASB) Statement 34, which applies to both state and local governments, changed the way budget information is reported in year-end audited financial statements. Agencies previously reported only the final budget and the results of financial transactions. Under GASB 34, the budget comparison must include the original budget, the final budget, and the results of financial operations for the general fund and major special revenue funds.

Encumbrances represent commitments in the form of purchase orders to buy goods or services. They are a budgetary mechanism used to prevent the overspending of an appropriation. The district's financial system provides the option of encumbering all expenditure accounts used by the district. This is an excellent way to monitor budgets and ensure that the portions of the budget that are committed are protected from being spent in any other manner. For nonsalary items, encumbrances are established when a purchase order is issued and disencumbered when the item is paid for after it is received.

In government funds, the difference between assets and liabilities is reported as the fund balance, which is divided into reserved and unreserved portions. The reserved fund balance is the portion that is unavailable for expenditure or is legally segregated for a specific future use. For example, stores, prepaid expenditures and revolving cash are not available for discretionary spending, so the portion of the ending fund balance that is attributed to those items must be reserved. The remaining amount of fund balance is unreserved and is separated into designated and undesignated portions.

The state requires governing boards to designate a reserve for economic uncertainty. Emery Unified School District's required reserve for economic uncertainty is 4% of total expenditures, transfers out and other financing uses of the general fund. Boards can designate other specific balances for intended uses such as equipment replacement or potential salary increases. Any remaining amounts after designations are considered part of the undesignated, unappropriated fund balance.

All purchase orders should be properly encumbered against the budget until payment is made. At the time of FCMAT's review, some budgets exceeded allocations at the object level. This demonstrates that the financial system allows purchase orders and/or expenditures to be processed even if sufficient funds do not exist. While there may be sufficient budget upon review of all expenditure budgets, allowing overexpenditures in one area distorts balances at the resource level. This reduces the overall budget category

in a nonspecific way, making it unclear why a negative amount is occurring. If adequate funds are not available or the budget code is invalid, the financial system should be modified to prevent the purchase order from being finalized until an actual budget revision occurs.

When purchase orders are created in the financial system, funds are encumbered until a payment is made or the order is cancelled. The purchasing system is integrated with the budget and accounting modules. If adequate funds are not available or the budget code is not valid, the district's financial system might generate an error or warning, but the transaction can continue to be processed. However, the system can be adjusted to prevent the purchase order from progressing further or being finalized until a budget revision occurs. This is often referred to as a "hard code warning." Hard coding is not used for salary accounts because paying salaries is a legal obligation whether there is a sufficient budget amount or not. Payroll accounts should be regularly monitored to ensure that adequate funds are budgeted.

Districts need to review and evaluate categorical program revenues and expenditures in the same manner as unrestricted general fund revenues and expenditures. Categorical carryover and unearned income should be similarly monitored.

The district's adopted budget contains categorical budgets with no estimates of beginning balances or deferred revenue. The district establishes prior year carryover and beginning balance amounts only when unaudited actuals are complete, usually at first interim reporting period. The categorical budgets in the adopted budget are also set up as if all carryover amounts and new funding will be spent in the current year, however, this has rarely occurred in the past. Instead, carryover has continued at the same rate at the end of each fiscal year. An effective second interim practice would be to review categorical budgets for remaining funds and adjust them as appropriate. If there are no plans to spend the budgets, they should be decreased rather than waiting until year end to do so. Interim reports should reflect the most current plans.

Because restricted funds are allocated for students in the year they are received, they should be spent in the year they are received whenever possible. The district will need to develop a plan to spend categorical funds and avoid carryover balance unless there is a specific expenditure that requires more than one year's funding such as a future textbook adoption.

The Superintendent, superintendent's cabinet and business office should establish procedures to ensure that categorical funds are used to meet district goals. It is important to ensure that categorical fund expenditures are consistent with categorical funding guidelines and restrictions. Program guidelines must also be followed to ensure that qualifying students receive the appropriate level of supplies and instructional support to achieve success.

The district should ensure that categorical, restricted resources are self-supporting. This includes paying for their fair share of general fund overhead expenses, such as direct support, indirect costs, public employee retirement system (PERS) revenue limit reduction, post retirement benefits and all other costs. Overhead charges should be discussed at the board level so the board understands the costs to implement categorical programs. This will be especially important in the 2008-09 fiscal year because the state’s current budget proposal includes a deficit that is greater than the categorical cost-of-living increase in restricted programs.

FCMAT reviewed all the district’s funds by resource to identify trends and formulate questions about the status of accounts. This review allowed FCMAT to project the funds in the two subsequent years. The review suggested that some of the district’s 2007-08 accounts may not be budgeted appropriately, which is discussed in the following section of this report. Further, the district is beginning to experience deficit spending, which will erode the general fund ending fund balance over time.

**2007-2008 Budget Analysis**

Following is a summary of adjustments FCMAT made to the district’s 2007-08 budget at the time of FCMAT’s field work. These adjustments were derived from FCMAT’s analysis utilizing Budget Explorer version 3.0 software as compared to the districts 2007-08 estimated actuals column of their 2008-09 Adopted Budget SACS report. The adjusted amounts are included in the 2007-08 budget column used for FCMAT’s multiyear projection.

Revenues were adjusted. Revenue limit sources were decreased by \$19,050 because of the following:

Small differences in Average Daily Attendance (ADA) assumptions	\$5,950
Different accounting treatment of special education property tax transfers	-\$25,000

Federal and state revenues amounts were decreased by \$28,016 to reflect the differences confirmed via the source documents of various categorically funded programs.

Other local revenues were increased by \$34,001 for the following:

Increase to reflect actual special education allocations from the SELPA.	\$111,100
A decrease to reflect actual parcel tax collections.	-\$101,316
Increase for the special education property tax transfer accounting noted above as well as actual transfer amounts	\$27,190
Various other minor adjustments that decreased revenues	-\$2,973

Expenditures and other financing sources and uses were also adjusted. Benefits were reduced by -\$21,456 to provide for differences in assumptions regarding funding of the retiree benefit obligation. Supplies and services expenditures were reduced by -\$6,209 and -\$42,539, respectively, to reflect actual expenditures and encumbrances from the most recent 2007-08 financial report prepared by the district.

Interfund transfers out were increased by \$77,594 to provide for a projected shortfall in cafeteria program meal reimbursements and increases in salaries and other costs:

A reduction of \$101,429 was made in contributions to restricted programs as a result of the changes noted above, most significantly the special education revenue increase.

The net impact of the above changes is to decrease the total ending fund balance by \$20,455.

The ending fund balance reserves and designations were also adjusted. An increase of \$150,000 was made to designations to provide a reserve for the potential impact of the underaccrual of the health and welfare benefit liability account based on initial estimates of the district staff.

Differences in the reserve for revolving cash of -\$3,269, stores inventory of -\$7,347, legally restricted ending balances of \$19,392 and the reserve for economic uncertainties of \$4,083 combined to change the components of the ending fund balance by \$12,859.

The above changes combined to decrease the undesignated, unappropriated portion of ending fund balance by \$183,314.

### **2008-2009 Budget Analysis**

Following is a summary of adjustments FCMAT made to the district's 2008-09 adopted budget during fieldwork. These adjustments are included in the 2008-09 budget column used for FCMAT's multiyear projection. Revenues were adjusted as follows:

Revenue limit sources were decreased by -\$8,700 because of small differences in assumptions for ADA, meals for needy pupils, state unemployment insurance and PERS reduction:

Federal revenues were increased by \$18,136 to reflect differences in projection assumptions.

State revenues were increased by \$37,939 to reflect the following:

Increase to provide for the continuance of hourly-funded programs in 2008-09	\$38,687
Decrease to reflect minor differences in projection assumptions	-\$748

Other local revenues were decreased by -\$147,522 for the following:

Decrease to reflect parcel tax projections based on prior-year actual collections that have not been updated for growth in 2008-09	-\$162,385
Net increase to account for differences in assumptions regarding a local grants.	\$14,863

Expenditures were also adjusted. Salaries and benefits were adjusted by a combined \$-29,544 to provide for differences in estimations of cost savings as a result of budget reductions.

Supplies and materials were increased \$4,931, and services and operating expenses were decreased by -\$22,166 to reflect minor differences in budget assumptions.

Interfund transfers out were increased by \$442,423 to provide for projected decreased meal reimbursements and increased costs of the cafeteria fund.

The combined impact of the above changes increased deficit spending by \$154,881.

The beginning fund balance was decreased by -\$20,455 to provide for the changes made to the 2007-08 estimated actual balances.

The ending fund balance was also adjusted. Designations were increased by \$150,000 to provide a reserve for the potential impact of the underaccrual of the health and welfare benefit liability account based on initial estimates of the district staff.

Revolving cash and stores changes of \$31,497 and legally restricted balances changes of \$2,752 combined with differences in the reserve for economic uncertainties of \$2,189, changing the components of the ending fund balance by \$36,438.

The net impact of all the above changes is to decrease the total ending fund balance by -\$175,335 and decrease the undesignated/unappropriated portion of the ending fund balance by -\$361,773.

The adjustments FCMAT made to 2007-08 and 2008-09 are based on the documentation that was provided to FCMAT, as well as trend analysis results based on district past actual financial data.

The district should develop a budget monitoring process for all resources, unrestricted and restricted. Budgets should show the most current spending plan at all times. The spending plan may change during the year as decisions are made, so the budget will need to be updated regularly. The law requires budgets to be updated at the first and second interim reporting periods, but there should be additional updates as well. The Governing Board should receive monthly budget reports that explain why changes have occurred between major object codes.

## Recommendations

1. Ensure that 2008-09 accounts are budgeted appropriately. This includes both salary and nonsalary categories, as well as the adjustments identified by FCMAT and included in the 2008-09 recommended budget in FCMAT's multiyear projection.
2. Implement a purchase order system that automatically verifies fund availability and account coding when the site or department prepares a purchase requisition. If funds are not available, the district should require a budget transfer before processing the purchase requisition.
3. Set up the financial system with a hard code warning that does not allow a purchase order or expenditure to be processed if the budget is not sufficient.
4. Consider including estimated categorical fund carryover when adopting the budget.
5. Update categorical budgets at interim reporting periods. If it is anticipated that certain funds will not be spent during that fiscal year, budgets should be adjusted accordingly.
6. Monitor categorical budgets to ensure that available funds are being used appropriately and to the maximum extent possible so that students receive the greatest benefit in accordance with program guidelines.
7. Ensure that categorical restricted resources pay for themselves, including general fund overhead expenses such as direct support, indirect costs, PERS revenue limit reduction, post-retirement benefits and all other costs.
8. Spend restricted categorical program funds in the year they are received whenever possible. The district should encourage schools to use restricted funds first whenever an item or program can be legitimately funded from either restricted or unrestricted funds.
9. Aggressively evaluate categorical carryover to ensure that departments and sites use available dollars effectively. The district should use the funds to respond to district needs in the year they are allocated. From February to June, the Superintendent should be provided with a monthly report so that the district can determine whether the funds can be redirected to support expenses in other areas.
10. Develop monthly budget monitoring processes for all resources.

11. Ensure that budget information is updated regularly throughout the year.
12. Provide the Governing Board with monthly budget reports that include explanations of changes between major object codes.

### **Multiyear Financial Projection**

Multiyear financial projections (MYFPs) are required by AB 1200 and AB 2756 and are a part of the adoption budget and interim reporting process. In June 2004, AB 2756 (Daucher) was passed and signed into law on an urgency basis. This legislation made substantive changes to the financial accountability and oversight processes used to monitor the fiscal position of school districts and county offices of education. Among other things, AB 2756 strengthened the roles of the Superintendent of Public Instruction (SPI) and the County Office of Education and their ability to intervene during fiscal crises.

The 11 most common predictors of a school district needing intervention, as referenced in AB 2756 and included in recently amended Education Code sections 42127 and 42127.6, are as follows:

1. Governance crisis
2. Absence of communication to education community
3. Lack of interagency cooperation
4. Failure to recognize year-to-year trends
5. Flawed ADA projections
6. Failure to maintain reserves
7. Insufficient consideration of the effects of long-term bargaining agreements
8. Flawed multiyear projections
9. Inaccurate revenue and expenditure projections
10. Poor cash flow analysis and reconciliation
11. Bargaining agreements beyond state COLA

Districts must continuously assess themselves to ensure that the above predictors are monitored and valued.

Multiyear financial projections should be accurate, on time and contain the most current fiscal information available. MYFPs allow districts and county offices of education to predict revenues and expenditures and help ensure that a district will be able to meet its financial obligations in the current and two subsequent fiscal years. When developing and implementing the multiyear financial projection, the district's primary objectives are to achieve and sustain a balanced budget, improve academic achievement and maintain local governance.

If a district is unable to meet its financial obligations for the current or two subsequent fiscal years, or has a qualified or negative budget certification, the county superintendent of schools must notify the district's governing board and the state Superintendent of Public Instruction (SPI) of the determination. The county office must follow Education Code section 42127.6 when assisting a school district in this situation. Assistance may include assigning a fiscal expert to advise the district on financial issues, conducting a study of the district's financial and budgetary conditions, or requiring the district to submit a proposal for addressing its fiscal condition. The intent of the MYFP is to help the county office and the district formulate a recovery plan to regain fiscal solvency and re-establish the district's reserve for economic uncertainties if one is not in place.

The governor's 2008-09 state budget proposal, which was later updated by the May 2008 revision, includes severe cuts to education, and those cuts have been included in FCMAT's MYFP. The district will need to update its projections as the state budget continues to be further developed and revised.

FCMAT's MYFP shows that the district *will be able* to maintain the required 4% reserve in 2007-08 through 2009-10, but *will not be able to do so* in 2010-11 based on current information provided to FCMAT. FCMAT's MYFP is based on assumptions listed later in this report but does not include the impact of any unsettled negotiations or changes to ongoing costs that have not been approved by the governing board. Any increases in spending or decreases in revenue will significantly affect the ending fund balance.

### **Multiyear Forecast Assumptions**

California school districts and county offices of education use many different methods and software products to prepare MYFPs. FCMAT's MYFP for the district's general fund was prepared using FCMAT's Budget Explorer multiyear projection software, a Web-based forecasting tool that is free to all California school districts. FCMAT also utilizes spreadsheets when considering account expenditures and other trends from prior years. The information in both applications was used to forecast the 2008-09 and 2009-10 fiscal years as well as known assumptions. The final Budget Explorer projection is part of this report.

Limitations are inherent to any forecast of financial data because forecasts are based on certain criteria and assumptions rather than on exact calculations. Limitations include issues such as the accuracy of baseline data, unpredictable timing of negotiations, unanticipated changes in enrollment trends, and changing state, federal and local economic conditions. *Therefore, the budget forecasting model should be evaluated as a trend based on certain criteria and assumptions rather than a prediction of exact numbers. To maintain the most accurate and meaningful data, the projection should be updated at least at each interim financial reporting period and before settling negotiations.*



When evaluating the MYFP, much attention is focused on the bottom line, which indicates the district's undesignated, unappropriated fund balance. If the bottom line shows a positive unappropriated fund balance, this amount may be used by the governing board and/or superintendent to improve educational programs, increase employee compensation or spend in other categories. However, if the unappropriated fund balance is negative, the deficit is the amount by which the budget must be reduced to sustain the recommended reserve levels under AB 1200 guidelines. The projection must be viewed comprehensively, and the district must determine what compounding effects using any or all of the unappropriated fund balance will have on the projection in the current and future years. The unappropriated balance and the corresponding compound effect can be clearly determined as the years proceed.

FCMAT reviewed district records, interviewed staff members and examined financial reports to gather the information needed for the MYFP. The review included a summary assessment of the district's 2007-08 second interim and estimated actuals, 2008-09 adopted budget, and other financial reports. The district has made a significant budget revision since second interim, as well as a negotiated agreement with the certificated bargaining unit, and that data was reviewed as well. The review also included a fiscal analysis of the projected revenues, expenditures, transfers and components of the ending fund balance for the general fund. The 2007-08 district budget that FCMAT produced is used as the base year for the attached MYFP. When determining the budget to use for 2007-08 and future years, FCMAT reviewed the district's various budget assumptions as well as additional requested clarification to validate the 2007-08 adopted budget, second interim report as well as multiyear financial projections for the two subsequent years.

FCMAT used the district's 2007-08 budget that was updated after the second interim report with the modifications listed previously in this report as the baseline for the enclosed MYFP, as well as other district-provided data that FCMAT did not verify or audit extensively. Some of the additional documents used in the review process and in developing the MYFP include the following:

- Financial system budget reports that correspond to amounts in the 2007-08 working budget.
- Revenue limit worksheets, including all schedules, for fiscal years 2005-06 through 2007-08.
- Independent audit reports for 2004-05 through 2006-07.
- Long-term debt schedule.
- Any district 2007-08 multiyear projections outside of the SACS multiyear format.
- Information on supplemental revenue sources such as parcel taxes, foundations, redevelopment funds and local grants.
- 2006-07 actuals and 2007-08 projected general fund cash flow statements.
- The AB 1200 impact of salary settlement disclosure for all groups.
- Salary schedules and the scatter gram for all employee groups for 2006-07 and

2007-08.

- Position control spreadsheet, districtwide summary by fund, identifying full-time equivalent (FTE) positions, and formatted by fund, resource and object, and by unrestricted and restricted totals, if available.
- District and department organizational charts.
- Historical and current enrollment by school and grade level
- Enrollment projections for the next five years.
- Current fiscal year California Basic Educational Data System (CBEDS) enrollment by school and grade level.
- P-2 and annual ADA reports for 2004-05 through 2007-08
- Historical and current enrollment, by grade level.
- Enrollment projections for the next five years.
- 2006-07 unaudited actuals filed with the California Department of Education (CDE) using the Standardized Account Code Structure (SACS) form.
- Actuarial report for health and welfare benefits.

The budget assumptions used by FCMAT depict conservative economic factors and estimates addressed in the Governor's May revise proposal and outlined by School Services of California in its financial dashboard. A complete, detailed, multiyear financial projection is attached as Appendix B to this report.

### **2007-08 General Fund**

The following table shows the unrestricted general fund projection with the assumptions listed below.

### Multiyear Financial Projection Summary for Unrestricted Resources

Description	Object Code	Base Year 2007 - 08	Year 1 2008 - 09	Year 2 2009 - 10	Year 3 2010 - 11
<b>Revenues</b>					
Revenue Limit Sources	8010 - 8099	\$5,384,490	\$5,338,542	\$5,341,833	\$5,399,990
Federal Revenues	8100 - 8299	\$0	\$0	\$0	\$0
Other State Revenues	8300 - 8599	\$370,192	\$344,125	\$350,995	\$354,815
Other Local Revenues	8600 - 8799	\$1,644,725	\$1,499,725	\$1,499,725	\$1,499,725
<b>Total Revenues</b>		<b>\$7,399,407</b>	<b>\$7,182,391</b>	<b>\$7,192,553</b>	<b>\$7,254,530</b>
<b>Expenditures</b>					
Certificated Salaries	1000 - 1999	\$3,167,522	\$3,325,723	\$3,411,949	\$3,492,525
Classified Salaries	2000 - 2999	\$1,094,954	\$1,002,261	\$1,010,701	\$1,019,203
Employee Benefits	3000 - 3999	\$1,271,839	\$1,243,552	\$1,256,156	\$1,268,124
Books and Supplies	4000 - 4999	\$294,446	\$190,512	\$192,117	\$195,508
Services and Other Operating Expenditures	5000 - 5999	\$886,218	\$814,616	\$833,294	\$854,520
Capital Outlay	6000 - 6900	\$0	\$0	\$0	\$0
Other Outgo	7000 - 7299	\$0	\$0	\$0	\$0
Direct Support/Indirect Cost	7300 - 7399	(\$20,656)	(\$16,650)	(\$16,650)	(\$16,650)
Debt Service	7430 - 7439	\$97,273	\$97,273	\$97,273	\$97,273
<b>Total Expenditures</b>		<b>\$6,791,596</b>	<b>\$6,657,287</b>	<b>\$6,784,839</b>	<b>\$6,910,503</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>		<b>\$607,811</b>	<b>\$525,104</b>	<b>\$407,714</b>	<b>\$344,027</b>
<b>Other Financing Sources\Uses</b>					
Interfund Transfers In	8910 - 8929	\$16,500	\$16,500	\$16,500	\$16,500
Interfund Transfers Out	7600 - 7629	\$135,456	\$141,192	\$144,239	\$147,365
All Other Financing Sources	8930 - 8979	\$0	\$0	\$0	\$0
All Other Financing Uses	7630 - 7699	\$0	\$0	\$0	\$0
Contributions	8980 - 8999	(\$688,097)	(\$643,387)	(\$784,543)	(\$820,368)
<b>Total Other Financing Sources\Uses</b>		<b>(\$807,053)</b>	<b>(\$768,079)</b>	<b>(\$912,282)</b>	<b>(\$951,234)</b>
<b>Net Increase (Decrease) in Fund Balance</b>		<b>(\$199,242)</b>	<b>(\$242,975)</b>	<b>(\$504,568)</b>	<b>(\$607,206)</b>
<b>Fund Balance</b>					
Beginning Fund Balance	9791	\$1,860,079	\$1,660,837	\$1,417,862	\$913,294
Audit Adjustments	9793	\$0	\$0	\$0	\$0
Other Restatements	9795	\$0	\$0	\$0	\$0
<b>Adjusted Beginning Fund Balance</b>		<b>\$1,860,079</b>	<b>\$1,660,837</b>	<b>\$1,417,862</b>	<b>\$913,294</b>
<b>Ending Fund Balance</b>		<b>\$1,660,837</b>	<b>\$1,417,862</b>	<b>\$913,294</b>	<b>\$306,088</b>
<b>Components of Ending Fund Balance</b>					
Reserved Balances	9700	\$0	\$0	\$0	\$0
Revolving Cash	9711	\$11,538	\$11,538	\$11,538	\$11,538
Stores	9712	\$29,959	\$29,959	\$29,959	\$29,959
Prepaid Expenditures	9713	\$0	\$0	\$0	\$0
Other Prepay	9719	\$0	\$0	\$0	\$0
General Reserve	9730	\$0	\$0	\$0	\$0
Legally Restricted Balance	9740 - 9759	\$0	\$0	\$0	\$0
Economic Uncertainties Percentage		\$0	\$0	\$0	\$0
Designated for Economic Uncertainties	9770	\$449,273	\$416,220	\$412,045	\$419,818
Designated for the Unrealized Gains of Investments and Cash in County Treasury	9775	\$0	\$0	\$0	\$0
Other Designated	9780	\$409,005	\$349,989	\$150,000	\$150,000
Undesignated/Unappropriated	9790	\$761,062	\$610,156	\$309,752	\$0
Negative Shortfall	9790	\$0	\$0	\$0	(\$305,227)

## Deficit Spending

Deficit spending is a budgetary condition characterized by an excess of expenditures over revenues. Deficit spending can result from, or be worsened by, the allocation of restricted carryover funds, but it can also indicate a structural imbalance in the budget. Left unchecked, deficit spending will erode fund balances and eventually lead to fiscal insolvency.

The above multiyear financial projection summary projects a deficit spending pattern in the district. The “net increase (decrease)” line reflects a deficit of \$199,242 that grows to \$607,206 by 2010-11. Of particular concern is that this table represents only the unrestricted general fund, and thus the deficit spending pattern is not artificially inflated by allocation of restricted carryover funds.

The projection indicates the district will be able to absorb these deficits in the earlier years because it has a substantial beginning fund balance of \$1,860,079 or approximately \$2,200 per pupil in 2007-08. However, the deficit spending pattern reduces this balance to \$306,088 by the end of the 2010-11 fiscal year. This 84% decrease in fund balance would prevent the district from meeting its required 4% reserve for economic uncertainties that year.

As stated earlier in this report, FCMAT utilized conservative assumptions in developing the multiyear financial projection because of the absence of a state budget. Nonetheless, the district should carefully monitor its budget and address any deficit spending by implementing budget reductions before it results in fiscal insolvency.

## Multiyear Forecast Assumptions

FCMAT has focused attention on the unrestricted portion of the district’s general fund budget, including the effect of general fund contributions to special education and transportation.

FCMAT’s projection expends the district’s restricted ending fund balance where appropriate in the future years and reduces supplies, services and equipment if appropriate to limit the amount of general contribution needed.

**Revenue Limit Sources** - Revenue limit funding makes up the majority of the district’s total general fund budgeted revenues. The revenue limit calculation is based on ADA, COLA and deficit adjustments, and qualifying added or deducted amounts such as unemployment insurance, necessary small school funding for the high school, PERS revenue limit adjustments and longer day or longer year amounts. Enrollment and ADA projections are based on district projections and ADA ratios. FCMAT calculated the district’s revenue limit for 2007-08 using the state budget information from the May Revise, with a COLA of 4.53%. The statutory COLA of 5.66% was used for 2008-09, and a COLA of 4.83% was used for 2009-10, with a deficit of 5.36% against those COLAs in both years. This results in a net funded revenue limit change of 0% in 2008-09.

The enrollment projections were prepared by the district staff. FCMAT ordinarily utilizes the cohort survival technique to project student enrollment, but circumstances at Emery Unified would make that method ineffective for the following reasons:

A significant portion of the district's student enrollment is interdistrict, meaning the student attends school in the district, but resides outside district boundaries. The Education Code allows the district to limit this type of enrollment on a space-available basis. Since the district's modernization and construction plans anticipate a small reduction in capacity in the next few years, the staff capped projected enrollment at 60 students throughout all grade levels, with all grade levels limited to 60 by the 2010-11 year. FCMAT utilized these projections in its MYFP analysis since the district has the discretion to make this determination.

Capping projected enrollment resulted in a decreased projected ADA at the high school, reducing the district's necessary small school funding eligibility by one tier beginning with the 2009-10 fiscal year. This reduced funding level was utilized by FCMAT in its projections.

**Federal Revenues** –Restricted federal revenues were decreased in future years by the 2007-08 carryover balances included in the 2007-08 revenue, but were otherwise budgeted at the same amount as in 2007-08.

**State Revenues** – State revenues, with the exception of special education, have been adjusted by a (6.5%) deficit in 2008-09 and a 4.83% COLA in 2009-10. Special education revenues from state and local sources are budgeted at a 0% COLA in 2008-09 and a 4.83% COLA in 2009-10. FCMAT did not budget for mandated cost reimbursement claim funding because these revenues have not been included in the state's proposed budget or in the projection years. The May Revise was used for lottery rates in the current and projection years. Restricted state revenues were decreased in future years by the 2007-08 carryover balances included in the 2007-08 revenue accounts.

All 2007-08 one-time restricted revenues were eliminated from the projection years, and all other ongoing state revenues were increased by the anticipated COLA.

**Local Revenues** – Unrestricted interest was estimated at 2008-09 levels for the entire projection period.

## **Expenditures**

State and federal restricted expenditures were adjusted for the consumer price index (CPI) and changes in student enrollment, and were reduced for restricted ending balances and/or carryover included in the 2007-08 base year totals.

**Certificated Salaries** – Certificated salaries are projected with an annual 2.25% step-and-column adjustment as well as the recently settled negotiated amounts of 3% in 2007-08 (effective April 1, 2008), 2.50% in 2008-09 and 2.50% in 2009-10. The settlement amounts for 2008-09 and 2009-10 are considered total compensation amounts. Since there is no means to project how much of the increase will ultimately be allocated to salary and to health benefits (see “Employee Benefits” below), the entire cost was included in the salary category. The projection years show the ongoing cost of the current contract.

**Classified Salaries** – Classified salaries have been projected with an annual .75% step-and-column adjustment as well as recently settled negotiations of 1.0% in 2007-08 (effective April 1, 2008) and 2.50% in 2008-09. The same should be noted here as above with the certificated units settlement regarding the total compensation aspect of the settlement. The projection years show the ongoing cost of the current contract.

**Employee Benefits** – Employee benefits are the most difficult area of budgets to project. Double-digit inflation levels for both active and retiree health benefits are the norm across the state, but since the district is responsible for a capped amount, FCMAT made no increase to the current level of employer-paid health and welfare contributions in the projection years because any changes would be determined by local negotiations. The projection years included increases in other statutory benefit categories such as the state teachers’ retirement system (STRS), public employees’ retirement system (PERS), Social Security, Medicare, state unemployment insurance (SUI) and Workers’ Compensation, in proportion to certificated and classified salary changes.

**Books and Supplies** – FCMAT adjusted the budget for materials and supplies using the CPI inflation factor from the May Revise.

**Services and other Operating Expenditures** – Outside contracts and utilities were increased by the projected CPI.

**Capital Outlay, Other Outgo** – The district does not maintain a budget for these items, and this was assumed through the entire MYFP period.

**Direct Support/Indirect Costs** – FCMAT used the district’s 2007-08 indirect cost rate in the MYFP subsequent years.

## Other Financing Sources/Uses

**Contributions to Restricted Programs** – The district is expected to increase its contribution to the following restricted resources in the current and subsequent years:

Name	Resource Code	Base Year 2007 - 08	Year 1 2008 - 09	Year 2 2009 - 10	Year 3 2010 - 11
NCLB-Title I, Part A, Basic Grants Low Income and Neglected	3010	\$14,603	\$22,077	\$22,077	\$22,077
Special Ed: IDEA Basic Local Assistance Entitlement, Part B, Sec 611 (formerly P	3310	\$97,211	\$100,217	\$101,521	\$102,834
National Board Certification Teacher Incentive Grant	6267	\$179	\$0	\$0	\$0
Special Education	6500	\$368,428	\$292,376	\$310,541	\$322,789
Arts and Music Block Grant	6760	\$651	\$0	\$0	\$0
Transportation: Special Education (Severely Disabled/ Orthopedically Impaired)	7240	\$29,003	\$17,379	\$17,918	\$18,912
Certificated Staff Mentoring Program	7276	\$972	\$0	\$0	\$0
Fiscal Solvency Plan	7386	(\$15,000)	\$0	\$0	\$0
Ongoing & Major Maintenance Account (RMA: Education Code Section 17070.75)	8150	\$189,077	\$181,570	\$184,241	\$187,021
Other Local	9100	\$2,973	\$23,791	\$61,532	\$80,366

The following resources will also require contributions in the projection years because of the rising cost of salaries and associated benefits, or costs that will continue beyond their underlying funding source:

Name	Resource Code	Base Year 2007 - 08	Year 1 2008 - 09	Year 2 2009 - 10	Year 3 2010 - 11
NCLB: Title II, Part D, Enhancing Education Through Technology, Formula Grants	4045	\$0	\$55	\$55	\$55
Supplemental School Counseling Program	7080	\$0	\$1,914	\$1,902	\$1,761
California Peer Assistance & Review Program for Teacher (CPARP)	7271	\$0	\$26	\$6	\$0
Staff Development: Mathematics and Reading (AB 466)	7294	\$0	\$2,626	\$2,722	\$2,748
Pupil Retention Block Grant	7390	\$0	\$556	\$570	\$567
Professional Development Block Grant	7393	\$0	\$799	\$745	\$525
Stuart Foundation	9017	\$0	\$0	\$80,714	\$80,714

Contributions will occur unless the certificated or classified positions currently funded by these resources are reduced, eliminated or charged elsewhere. This is because other categories, such as books and supplies, and services/other operating expense, were already decreased prior to adding the contribution.

**Restricted Programs** – Where possible, restricted programs were reduced as needed to maintain expenses at the expected revenue levels. Reductions were made in the following categories: books and supplies, services/other operating expense, and capital outlay.

**Reserve Level** - The FCMAT projection indicates that the district will be able to maintain the 4% minimum required reserve in fiscal years 2007-08 through 2009-10, but will be unable to do so in 2010-11. The assumptions included in FCMAT's MYFP include the following:

### 2007-08

Funded ADA	517.40 regular, 254.79 necessary small high school
Necessary small high school funding schedule:	15 or more certificated employees, 249 or more ADA
Revenue limit COLA	4.53%.
Revenue limit deficit	0%
California CPI	3.2%.
Deferred revenue and restricted resource carryover from 2006-07	\$357,232
State categorical revenues increase for COLA	4.53%
Transfer from the developer fee fund for administrative costs	3%
Continued reserve	4%
Unrestricted lottery per ADA	\$121.00
Restricted lottery per ADA	\$22
Interest rate	4.1%.
Step-and-column movement	2.25% for certificated employees, .75% for classified employees
<i>The state's 2007-08 state-approved indirect cost rate was used.</i>	

### 2008-09

Funded ADA	517.40 regular, 253.16 necessary small high school
Necessary small high school funding schedule	15 or more certificated employees, 249 or more ADA
Revenue limit COLA	5.66%.
Revenue limit deficit	5.36%
California CPI	2.8%.
Restricted lottery per ADA	\$22.50
Unrestricted lottery per ADA	\$121
Interest rate	3.46%.
Deferred revenue and restricted resource carryover from 2007-08	19,392
State categorical revenues decrease for COLA (with the exception of special education at 0% COLA)	(6.5%)
Transfer from the developer fee fund for administrative costs	3%
Continued reserve	4%
Step-and column-movement	2.25% % for certificated employees and .75% for classified employees
Books and supplies (4000 objects) and services/operating (5000 objects) increase	CPI percentage
<i>The 2007-08 state-approved indirect cost rate was used.</i>	
<i>Contributions to special education and transportation will continue to increase each year due to increasing expenditures within the programs.</i>	
<i>There was no budget for mandated costs or Medi-Cal administrative activities (MAA).</i>	



**2009-10**

Funded ADA	500.01 regular, 239.15 necessary small high school
Necessary small high school funding schedule	15 or more certificated employees, 211-248 ADA
Revenue limit COLA	4.83%
Revenue limit deficit	5.36%
California CPI	2.6%
Restricted lottery per ADA	\$22.50
Unrestricted lottery per ADA	\$121
Interest rate	4.39%
Step-and-column movement	2.25% for certificated employees and .75% for classified employees
Books and supplies (4000 objects) and services/operating (5000 objects) increase	CPI percentage
State categorical revenues increase for COLA	4.83%
Transfer from the developer fee fund for administrative costs	3%
Continued reserve	4%
<p><i>The 2007-08 state-approved indirect cost rate was used.</i></p> <p><i>Contributions to special education and transportation will continue to increase each year due to increasing expenditures within the programs.</i></p> <p><i>No budget for mandated costs or MAA was included.</i></p>	

**2010-11**

Funded ADA	490.68 regular, 255.56 necessary small high school
Necessary small high school funding schedule	15 or more certificated employees, 211-248 ADA
Revenue limit COLA	2.60%
Revenue limit deficit	5.36%
California CPI	2.6%
Restricted lottery per ADA	\$23
Unrestricted lottery per ADA	\$121
Interest rate	5.36%
Step-and-column movement	2.25% for certificated employees and .75% for classified employees
Books and supplies (4000 objects) and services/operating (5000 objects) increase	CPI percentage
State categorical revenues increase for COLA	2.70%
Transfer from the developer fee fund for administrative costs	3%
Continued reserve	4%
<p><i>The 2007-08 state-approved indirect cost rate was used.</i></p> <p><i>Contributions to special education and transportation will continue to increase each year due to increasing expenditures within the programs.</i></p> <p><i>There was no budget for mandated costs or MAA.</i></p>	

FCMAT projects revenue and expenditures based on trend data that includes a three-year average of district expenditures, including carryover. The district projects that all incoming revenue will be spent in the year it is received and therefore does not include carryover and deferred revenue in the subsequent year with the exception of any program that the district projects will maintain continued carryover. The district's assumption that generally all budgeted expenditures will be spent is appropriate; however, this has not occurred in past years. The district's final actual expenditures in past years are less than the budget has shown during the year.

FCMAT's MYFP assumes that the district will continue with its current ongoing costs, including the cost of step-and-column adjustments, utilities and other ongoing expenditures such as contributions to special education and transportation. The projection also assumes that the district will continue to carry over significant balances in some categorical programs. The district staff provided FCMAT changes to the budget between 2007-08 and 2008-09 due to board-approved budget cuts and additions. FCMAT also included those changes in the projection, and they can be found in the projection details included in the appendix section of this report.

The governor's current 2008-09 budget proposal includes significant cuts to various categorical programs, which may cause additional contributions from the unrestricted funds in future years unless contingency plans are made to decrease expenditures in those programs as well.

FCMAT's MYFP indicates that the district is able to maintain the 4% required reserve in 2007-08 through 2009-10, but will not be able to do so in 2010-11, based on the governor's 2008-09 budget proposal, without implementing a plan to reduce expenditures or increase revenues.

## Recommendations

*The district should:*

1. Include more detail with multiyear projections so that individual resources can be reviewed.
2. Provide multiyear projections to the Governing Board at budget adoption, at each interim report, during collective bargaining and after bargaining concludes.
3. Prepare multiyear projections to provide sound data for use in the decision-making process, especially when a significant multiyear expenditure commitment is contemplated.
4. Ensure that budget spending plans show what will occur rather than what should occur.

5. Discuss the issue of restricted carryover and deferred revenue balances and develop a plan to ensure these funds are spent in a timely manner.
6. Develop and approve a recovery plan to reduce expenditures or increase revenues so that the required 4% reserve can be maintained in future years.



## Budget Revision Processes

The district adopts its annual budget within the statutory time lines established by Education Code Section 42103. These provisions require the Governing Board to hold a public hearing on or before July 1 for the budget to be adopted for the subsequent fiscal year. At least five days after that adoption or by July 1, whichever occurs first, the Governing Board is required to file the budget with the Alameda County Superintendent of Schools.

Revisions to expenditures based on the state budget are considered and adopted by the Governing Board. No later than 45 days after the Governor signs the annual Budget Act, the district is required to make available for public review any revisions in revenues and expenditures made to its budget to reflect funding available by that Budget Act. The law requires the amounts budgeted in each major expenditure category to be the maximum amount that can be expended under each of these classifications. During the fiscal year, budgets should be monitored to ensure that appropriations are not overspent and that revenues received or expenditures made are not materially different than expected. Revisions to major expenditure classifications are subject to board approval according to Education Code Section 42600.

Some districts submit budget revisions to the board with interim reports, and some present revisions more frequently, such as monthly. This is especially important for adjustments that significantly affect the ending fund balance or other key aspects of the budget. Individual governing boards can establish policy on how often revisions are submitted and approved.

Many budget revisions are made during the fiscal year as additional information develops and is validated. Budget revisions normally fall into the following three main categories:

- Increases to both estimated income and appropriations because of the receipt of new grant awards or donations
- Budgeting of carryover balances from prior years
- Increases in expenditure appropriations to prevent budget overruns

Emery Unified Board Policy 3100, approved November 1, 2004 titled “Budget,” states the following:

Whenever revenues and expenditures change significantly throughout the year, the Superintendent or designee shall recommend budget amendments to ensure accurate projections of the district’s net ending balance. Budget amendments may be submitted for Board approval when final figures for the previous year budget are available, collective bargaining agreements are made, expenditures or reserves must be decreased due to a decline in district income, increased revenue or unanticipated savings are made available to the district, program proposals are significantly different from those approved during budget adoption, and/or other significant changes occur that impact budget projections.

Although budget revisions are submitted to the Governing Board at specific times during the year, the accompanying narrative includes little detail and does not conform to acceptable standards. Specifically, the narrative lacks an explanation of the changes made and why they occurred. Many school boards establish policy specifying how often budget revisions should occur and the level of detail required. Board Policy 3100 leaves the number of budget revisions open, stating that they should occur “whenever revenues and expenditures change significantly...” The current board may wish to be more specific.

A review of district records and items submitted to the board for approval found that specific budget revisions are not included with board agendas throughout the year. A 45-day revision was found for most years, showing that the budget was updated within 45 days of the Governor approving the state budget. However, there are differences between the adopted and the 45-day versions by major object category that do not have clear explanations at the object or resource level. Additional information should be included to explain why the adjustments were necessary, especially since many are significant. The projected budget, which is Column D of the interim report, apparently served as a budget revision for the first and second interim reports even though the board report does not specifically indicate this occurred. In these instances, the board report should specifically state that the interim report functioned as a budget revision, and additional detail should be provided to explain why adjustments were necessary.

Although it is acceptable and common to schedule revisions during 45-day and interim reporting periods is, the lack of detail is not. The district’s board policies do not indicate how often revisions should be presented or their level of detail. Current board policy should be revised to include those specifications.

To inform the board and other affected parties of the budget’s status, the district should consider submitting budget revisions to the board at the following times:

- Forty-five days after the Governor signs the state budget
- When carryover and deferred revenue are added, no later than October 1
- During first interim (December)
- During second interim (March)
- In May in preparation for closing
- In June to assess what the projected ending balance will be
- When the ending fund balance is affected
- When transfers between funds occur
- When negotiations conclude

The board should indicate in policy whether budget revisions will be ratified as part of the consent calendar or through board action.

The following is a recommended format/detail for budget revisions that are submitted to the board:

### **Fund Description and Budget Update**

This includes a narrative describing each fund's legal use, with additional information specific to the district relating to that fund. Information is also included on when the budget was last revised and on any increases or decreases to the fund that have occurred since the last board-approved budget revision.

### **Budget Status**

For each fund, the following is provided:

- The summary by major object code of the adopted budget
- The revised operating budget, including all changes since the budget was adopted
- Financial information to date, including all revenues received, bills paid, or transfers made through the current reporting period
- The encumbered transactions, which are purchase commitments based on approved purchase requisitions, purchase orders or contracts
- The balance of the revised operating budget, with the available balance after deducting the actual and encumbered transactions from the operating budget
- The percentage of the operating budget used through the current reporting period

### **Budget Revisions**

Information is provided by resource, identifying any material changes to the budget since the last budget revision.

During the months that the actual budget revisions are not submitted for approval, the Governing Board should be provided with budget transfer reports, including explanations of changes between major object codes. This will help inform the board of the district's budget and financial status.

### **Recommendations**

*The district should:*

1. Prevent the financial system from processing a purchase requisition, purchase order or vendor payment when adequate funds are not available or the budget code is not valid until a budget revision occurs.
2. Revise current board policy to specify how often budget revisions should be submitted to the board for approval.

3. Revise current board policy to include mandatory detail in budget revisions submitted to the board for approval.
4. Provide the board with monthly budget reports explaining changes in major object codes in the months that budget revisions are not submitted for approval.



## Position Control

Employee salaries and benefits are the largest component of any district’s operating budget. Calculating and projecting these costs accurately is the most important element in any financial projection.

The component of the budget for employee compensation continues to increase as a percentage of the school district unrestricted budget. Most expenditures of school districts are for the payment of salaries and benefits for the employees and retirees of the district. In California, approximately 92% of an average school district’s unrestricted general fund expenditures are for the services of district employees.

Based on the latest 2004-05 California Department of Education (CDE) certified school district financial data, the percentage of an average school district’s unrestricted budget allocated to employees continues to rise. Note the following:

Salary and Benefit Expenses (Unrestricted Average)	% of Total Expense	% of Total Expense Transfers and Other Uses
Unified Average 2003-04	91.26%	90.16%
Unified Average 2004-05	<u>92.03%</u>	<u>91.06%</u>
Increase in Percentage of Budget	0.77%	0.90%
Elementary Average 2003-04	89.84%	88.20%
Elementary Average 2004-05	<u>90.30%</u>	<u>89.02%</u>
Increase in Percentage of Budget	0.46%	0.82%
High School Average 2003-04	88.30%	86.64%
High School Average 2004-05	<u>88.64%</u>	<u>86.91%</u>
Increase in Percentage of Budget	0.34%	0.27%

Source: CDE Certified 2004-05 SACS Data

*At Emery Unified, 81% of the unrestricted general fund budget is committed to salaries and benefits.*

Expenditures for employee salaries are divided into separate line items for certificated, classified and management employees. Certificated employees include teachers, nurses, librarians, psychologists and others who provide services that require credentials from the state. Management employees include principals, vice principals, instructional leaders, district superintendents and assistant superintendents. Classified employees include all the support personnel in the district such as secretaries, accountants, bus drivers, mechanics, painters and custodial personnel. Employee benefits include expenses for state retirement systems; Medicare and OASDI; medical, dental and life insurance plans; and workers’

compensation and unemployment insurance benefits. Also included are the costs of health insurance for retired employees.

Emery Unified's budget is in a constant state of flux partly because of periods of declining or flat enrollment. To remain fiscally solvent, the district has had to make expenditure reductions while incurring expenditure increases in some areas of the budget. The district's overall expenditure budget has grown, and increases in employee salaries and benefits have outpaced increases in the other budget areas. In particular, increases in health benefit costs have contributed significantly to the rise in personnel expenditures.

The trend of increasing personnel expenditures reinforces how important it is for the district to manage its expenditures for personnel-related items to remain fiscally solvent and why districts that make expenditure reductions find it difficult to avoid affecting personnel.

A reliable position control system classifies employee salary expenditures correctly as well as establishes positions by site or department and prevents overstaffing by ensuring that staffing levels conform to district formulas and standards. For effective position control, the system must be fully integrated with the other financial modules such as budget development and payroll.

The district has made significant efforts in working with the Escape financial system to develop a position control database that integrates with the budget and payroll modules. FCMAT has recommended use of the position control module for some time, and this was implemented during the second half of the 2007-08 fiscal year. In the past, the district has not had a reliable, automated and integrated position control system, relying on Excel spreadsheets that sometimes did not represent the same information as the financial system budgets. Defined checks and balances that ensured proper internal controls were lacking.

The district implemented the new position control system in time for 2008-09 budget development. A fully functional position control system will help the district maintain accurate budget projections, employee demographic data, and salary and benefit information. It is important to keep this new system current and adhere to all the related controls. FCMAT did not audit or review the data in position control to verify accuracy, but it is critical for the staff to ensure it is accurate on an ongoing basis.

For effective position control, all authorized positions for the current fiscal year should be transferred to the upcoming budget year in January or February. This provides a starting point for budget development. Positions should then be evaluated utilizing the zero-based budget model. The district should also make any other adjustments that will affect the final calculation of budgeted salaries and benefits. This will help ensure checks and balances on employee costs are in place.

An effective position control system is integrated with other financial modules such as budget development and payroll. However, separation of duties is critical. Position control functions should be divided between the Business and Human Resources departments to ensure effective checks and balances regarding personnel decisions and budgeted appropriations. These controls must allow only board-authorized positions to be entered into the system, ensure the Human Resources staff hires employees only for these authorized positions, and make certain that Payroll pays employees hired only for those positions.

After the annual budget has been adopted, the position control system and the budget should be updated using the same data, and the payroll should be compared with this information. The district’s position control module drives payroll and encumbers salary and benefits, which is an effective process. Encumbering salary and benefits throughout the year allows a district to ensure that existing budgets are adequate without continually performing additional analysis. This method also provides effective internal control and extra assurance that payroll information is correct, including amounts and resource codes.

Responsibilities and duties are normally segregated between the Business and Human Resources departments. Internal controls help ensure efficient operations, reliable financial information and legal compliance. They also protect the district from material weaknesses, serious errors and fraud.

The following table provides a sample of how duties might be segregated between the Business and Human Resources departments to establish the necessary internal control structure.

Sample Distribution of Labor for Internal Control

Task	Responsibility
Approve or authorize position	Governing Board
Enter approved position into position control with estimated salary/budget. Give each position a unique number.	Business Department
Enter demographic data into the main demographic screen, including employee name, address, Social Security number, credential, classification, salary schedule placement and annual review of employee assignments	Human Resources Department
Update employee benefits, review and update employee work calendars, annually review and update salary schedules	Business Department
Handle, account codes, budget development, budget projections, multiyear projections, salary projections	Business Department

The district appears to have strong internal controls in this area with the exception of the extended work calendars used for stipend work and extra duty pay. These documents allow site administrators to authorize employees to work for an extended period of time or perform extra duty assignments that are not part of their normal contracted pay and may not be budgeted. However, when time sheets are submitted to the district office for stipend and extra duty pay, employees often learn that this extended work does

not coincide with an approved extended work calendar. Additional time and effort are then necessary to seek approval for these hours, which often delays payroll and causes frustration for payroll employees as well as those who need to be paid for the extra work.

The Human Resources Department should approve all extended-work calendars before the employee performs the work instead of relying on site or department administrators to do so. Site or department administrators should not authorize work that exceeds the initial contract amount without this approval. This process will ensure that a sufficient budget amount is available and that the appropriate paperwork is on file. Human Resources should approve extended-work contracts just as the department approves employee contracts. With this approach, employees receiving the time sheets could work directly with Human Resources regarding work calendars and assignments instead of attempting to obtain the proper paperwork from site administrators. This would also strengthen internal controls.

## Recommendations

*The district should:*

1. Develop staffing formulas for all positions and ensure that ratios comply with employee contract guidelines, meet student needs and coincide with approved district goals and objectives, including maintaining fiscal solvency.
2. Continue updating and using the Escape position control system and integrating the module with other financial modules such as budget development and payroll.
3. Encumber salary and benefits throughout the year to ensure that existing budgets are adequate without continually performing additional analysis.
4. Review the distribution of position control responsibilities between the Business and Human Resources departments to ensure that proper segregation of duties exists and that adequate internal controls and a reliable position control system are in place.
5. Ensure that the budget is updated whenever position control updates are made.
6. Adopt a process that periodically compares the budget and position control to ensure that they agree with actual payroll records at specific points in time, including budget adoption and the first and second interim reporting periods.

7. Develop a system to adequately budget the cost of extra duty assignments, overtime, extra time and substitutes.
8. Transfer the responsibility of approving and maintaining extended work calendars to the Director of Human Resources for better monitoring and control.



## Cash Flow Issues

The Governor's 2008-09 budget proposal and subsequent May Revision includes severe decreases to education, and these proposed cuts have been included in the multiyear projection FCMAT developed as part of this review. As the proposed budget continues to be developed and revised, the district should continue to prepare updated projections. A conservative approach would be to assume that severe cuts will happen so that the district can plan for the worst instead of being overly optimistic.

California school districts obtain most of their funding from the state revenue limit, which consists of state aid and local property taxes. The major expenditure is employee compensation, including salary and benefits. State revenue limits are distributed to school districts monthly throughout the fiscal year. However, most property taxes are received in December and April. Payrolls for most districts start in July and increase significantly in September, when teachers return to school. As a result, fluctuations in cash flow occur in November, December, March and April because of the unequal distribution of property taxes throughout the fiscal year.

Two major issues make planning for the budget and two subsequent years more difficult than usual. First, the estimated 6.5% reduction in categorical programs for 2008-09 will cause the district to lose funds that pay for permanent staff members. If these positions are not reduced in the affected categorical programs, encroachment will either increase or begin in additional programs. Another alternative is transferring some of these positions to unrestricted funding, causing additional deficits in unrestricted funds. Secondly, the state has deferred revenue limit payments to districts according to ABX3-4. For 2008-09 only, the measure shifts most of the \$1.1 billion July advance apportionment to September 2008. Additional cash flow deferrals are being considered with categorical programs, and the details are unclear, but must be anticipated as much as possible. The district must be aware that any delay of payments could cause cash flow problems and the need to borrow to pay expenditures through July and August at a minimum.

Low cash periods can be managed through cash-flow analysis and utilizing alternative cash resources, such as borrowing funds. Options for borrowing include the following:

- **Internal borrowing between funds as authorized by Education Code Section 42603.** This code allows LEAs to temporarily borrow between funds to address cash flow shortages. This is the most common method utilized by school districts, but only works if cash is available in other funds. There are specific limitations with this type of borrowing regarding amount and timing of repayment. The limitations stipulate that no more than 75% of the money held in any fund during the current fiscal year may be transferred. In addition, funds must be repaid in the same fiscal year (that is, by June 30) if the transfer is completed prior to the last 120 days of the fiscal year. If funds are transferred within the last 120 days of the fiscal year, repayment must be made prior to June 30 of the subsequent year.

- **Borrow from the county office of education in accordance with Education Code Sections 42621 and 42622.** This option depends on the county office's willingness and ability to provide funds. Based on the current economic outlook, this may not be a viable option because county offices are closely monitoring their own cash for the future. However, if this approach is considered, a discussion with the county office should take place early in the cash planning process.
- **Education Code Section 42620 also allows districts to borrow from the county treasurer.** Under Article XVI, Section 6, of the California Constitution, the county treasurer must provide funds to an LEA that is unable to meet its obligations. However, the county treasurer cannot loan districts money after the last Monday in April of the current fiscal year, so this option is no longer available. In addition, the governing board's approval by formal resolution is required. The loan cannot exceed 85% of direct taxes levied on behalf of the school district. The advantage of this approach is that the treasurer can take repayment directly from property tax receipts before distribution to the LEA. Repayment must be made from the first monies received by the school district before any other obligation is paid.
- **The most common external borrowing mechanism is Tax and Revenue Anticipation Notes (TRANs).** This is a form of short-term borrowing that LEAs have used for many years. It is imperative to meet federal tax law requirements regarding this financial instrument to maintain nontaxable status. The LEA must determine cash flow needs to decide on the appropriate size of the TRANs. If an LEA is issued a TRANs but cannot demonstrate a cash shortage in the current year, it could be subject to arbitrage rebate. Determining the appropriate size will minimize the risk of additional penalties levied by the Internal Revenue Service. It would be prudent for districts to work with an outside financial consultant to avoid potential problems. The goal is to meet the cash shortage in the short term.

As the state continues to evaluate the scope of the current fiscal crisis and how it will be managed, cash will continue to be a significant issue.

Emery Unified may not have apparent cash-flow issues during the July to September 2008 apportionment deferral because of its available unappropriated general fund balance and cash balances in other district funds. These resources could temporarily assist with cash shortages in the general fund. However, it is prudent to understand the available options should unexpected obligations arise other than the deferral. For example, the district is entering into large construction contracts, and contractors may request payment before the district receives state facility funding apportionments for the projects. If cash from the undesignated general fund balance and/or other funds is being used to compensate for the apportionment delay, the amount available may be insufficient to cover obligations



for these construction contracts. The district should plan for the worst-case scenario by monitoring its cash as well as evaluating strategies to deal with any shortages.

Emery Unified staff members indicated they are concerned about funding and cash flow for planned construction concerning the Anna Yates Growth Project. Contracts for related project construction were signed before approval of state funding and preparation of a detailed budget and/or cash flow projections. Despite these omissions, construction was scheduled to begin in the summer of 2008. It is important for budgets, cash projections and other financial disclosures and analyses to be prepared well in advance of construction and planning. Since state approval and reception of funds frequently takes longer than originally planned, districts should have contingency plans in place to deal with any shortages and delays. No project documents were available to demonstrate that a detailed contingency plan was developed.

The district has subsequently entered into an agreement with the Emeryville Redevelopment Agency (RDA) for a loan of \$975,000 to cover any cash flow shortages and/or a failure to receive state funds. Because of this agreement, it appears that the potential cash-flow issues have been remedied based on the information provided. This is fortunate since arrangements with redevelopment agencies are neither mandated nor certain.

## Recommendations

*The district should:*

1. Continue to develop cash flow projections throughout the year to ensure adequate cash is available for all obligations.
2. Thoroughly understand the legal aspects involved in borrowing for cash flow shortages and be prepared to use them if shortages actually occur.
3. Plan for the worst regarding state facility projects, and ensure that cash is monitored.
4. Ensure that cash projections and other financial disclosures and analysis are prepared well in advance of construction and planning so that everyone understands the source of funding, the full cost of the project, and the overall timing of revenues and expenditures.



## *Center for Community Life*

For several years, the city of Emeryville has had plans to develop a community center referred to as the Emeryville Center for Community Life (ECCL) in cooperation with the school district. This center will provide a single location where community members can access vital government services, including social as well as educational services.

Following are excerpts from the city of Emeryville’s “Opportunities and Challenges Report” prepared in 2005 to assist the city in the process of updating its general plan:

### **7.4 Center for Community Life**

The concept of a Center for Community Life (ECCL) is central to the city’s focus on building and supporting a community in Emeryville. In short, the ECCL is intended to provide an environment for community learning and activities for all ages. Within a single campus it will be used for arts, performance, meetings, community programs and services, recreation (indoor and outdoor), and administration. In addition, it will behave as a resource center and a welcoming point for the community.

The goals for the ECCL include improving quality of life within Emeryville’s dense urban setting, providing a social and community resource for the San Pablo corridor, turning the city’s public schools into the center of the community through physical and social integration, and providing a place for the mixing of all the lifestyles, ages, and races that make up the Emeryville community. Through several years of public meetings, the Emeryville community has also identified several themes to incorporate into the ECCL: connections to the community, access to facilities and programs and active engagement of the community in them, and the expression of an identity for Emeryville.

A key component of meeting these goals within the identified themes is the cross-use of facilities by the public schools and the community. The community would use new and existing school facilities after school hours, including weekends and the summer. This approach may create enough demand for certain services to enable the staffing of public positions, like a public health nurse, that can serve both school children and the public. Current school and community facilities are too small to support these types of services.

### **Location and Design**

The main site under consideration for the ECCL is a ten acre parcel across 47th Street from Emery Secondary School, bounded by San Pablo Avenue and 45th Streets. This site is mostly owned by AC Transit, which uses it as a bus facility. The block is also occupied by two small businesses—Armstrong Paint and a Kentucky Fried Chicken franchise. The appeal of this site is its location, which would allow consolidation of Emeryville’s public schools and their physical

integration into the community center, and its large size. Acquisition of this site would also allow the City to transform it into a land use more compatible with Emery Secondary School. This, however, would require the city to provide an adequate relocation site for AC Transit; a memorandum of understanding was signed by these parties in spring 2004 to establish a cooperative relation toward this goal.

The initial designs for the ECCL focus on the AC transit site. Both of the two main development ECCL scenarios available at the June 28, 2005 meeting of the GPUSC included:

- Up to two new K-8 primary schools, including an expanded school library;
- A Professional Development Center and a Community Resource Center;
- A large multipurpose room to be used for meetings, performances, and cafeteria services;
- An administration building to be shared by the Emery Unified School District and City Community Services;
- A new gymnasium and a new recreation field and/or public open space;
- A new police station;
- A new commercial structure on San Pablo Avenue next to the existing Emery Secondary School recreation fields; and
- Parking for 300 cars and 10 vans/trucks.

One proposal also envisions the construction of a community theater building. Both scenarios attempt to retain the Armstrong Paint business, either in its current location or in the new commercial structure. Depending on the available funding, the ECCL may rely on less new construction and more reuse of existing buildings.

Until the AC Transit site is secured, at least two alternative locations remain under consideration. One is the Anna Yates Elementary School and the other is the former middle school building. No designs have been proposed for these sites.

### **Funding and Next Steps**

The ECCL will be administered by the city's Education and Youth Services Advisory Committee, with planning and design responsibilities shared by the City and the EUSD. The budget for the initial ECCL design is around \$150 million. As of July 2005, the City had set aside \$25 million for the relocation of AC Transit facilities, \$15 million for the construction of a new police facility, and \$5.5 million for the building of a community/recreation center. If the AC Transit site is used, then the sale of the School District's elementary and middle school properties may help to finance the ECCL. Lobbying has also begun for the acquisition of state and federal funds, as well as money from private foundations.

*Development of the ECCL will take place in phases. Phase I involves site acquisition and environmental remediation and should be completed by the end of 2007. Phase II involves construction of the community facilities and the new school, anticipated for completion in 2010 or 2011 (emphasis added).*

## **7.1 Schools and Education**

### **Planned Improvements**

The future of the EUSD's facilities is tied to the development of the Emeryville Center for Community Life (ECCL). As of July 2005, the city's preferred location for the ECCL is the AC Transit site across 47th Street from Emery Secondary School. Within this large site, and given adequate funding, up to two schools serving K-8 students would be included in the ECCL, allowing Emeryville's public schools to be consolidated in one area and better integrated with community activities. In this single campus, the EUSD is anticipating serving approximately 1,800 students from infants to age 18. (Written correspondence from EUSD Superintendent Anthony Smith, 29 September 2005.) The new school would be used outside of school hours for community events. Funding for this plan would likely require the sale of both the Anna Yates and former middle school properties.

If the AC Transit site does not become available, then either Anna Yates or the middle school site may host the ECCL. In that case, the remaining school site would likely be used for primary education.

### **7.2 Libraries**

There are no public libraries in Emeryville. The Oakland Public Library's Golden Gate Branch, located just outside the city limits on San Pablo Avenue near Stanford Avenue, serves as the main circulation library for Emeryville residents.

The Emeryville Secondary School and Anna Yates Elementary School both include a library for use by students. The Emeryville Center for Community Life may include a library, although it would likely focus on serving public school students and would not replace the Golden Gate Branch as the city's main library facility.

Project planning continues, and although full funding for the project has not been secured, the staffs of both entities are working diligently to identify opportunities to provide for the projected \$150 million cost.

This project is a very significant undertaking, and will demand increasing allocations of both staff time and district financial resources. It will require substantial attention from the district's CBO, which in turn will require some level of added coverage to ensure the district's routine finances and operations are managed without a loss of continuity.

When the project is complete, great care should be exercised to ensure that the operating costs of the ECCL do not encroach on the district's general fund. The project should not come at the expense of improving student instruction, the primary goal of any public school district.

FCMAT strongly recommends that the staff and the school board proceed with this project while continuing to maintain improved student performance and protection of the district's fiscal integrity as the continued priorities.

## Recommendations

*The district should:*

1. Ensure that full funding is certain prior to undertaking construction of the Center for Community Life.
2. Allocate additional staff time and district financial resources for this project while ensuring that routine finances and operations are managed without a loss of continuity.
3. Exercise great care to ensure that the ECCL's operating costs do not encroach on the district's general fund.
4. Proceed with this project while maintaining improved student performance and protection of the district's fiscal integrity as the continued priorities.

## Post-Employment Benefits and GASB 45

Funding retiree health and welfare benefits has been a major issue for many employers in both the private and public sectors. Accounting principles have long held that the cost of retiree benefits should be accrued over the employees' working lifetime, but since few employers can fund these benefits in advance, they typically use the pay-as-you-go method.

The Governmental Accounting Standards Board (GASB) has issued Accounting Standards 43 and 45. These standards affect the way all governmental employers, including local educational agencies, account for and record the costs and obligations of post-employment benefits other than pension benefits (OPEB). Until the new GASB standards take effect, GASB requires public employers to disclose the existence and/or cost of retiree benefits (those requirements are contained in GASB 12). The term "post-employment benefits" refers to those earned during employment, but used after employment ends. Other than pensions, the most common example of post-employment benefits is retiree health benefits.

GASB is a not-for-profit agency that develops and issues financial and accounting standards for state and local governmental agencies. These standards are consistent with standards established by the Generally Accepted Accounting Principles (GAAP), which cover nonstate and local government agencies.

Because Emery Unified's bargaining agreements offer retiree benefits, adherence and compliance with these statements is required. These GASB requirements apply to financial statements, but not prefunding retiree health care plans as many agencies initially believed. The standard applies only to the expense to be charged to the agency's income statement.

Even though agencies are not required to contribute the full annual contribution on a cash basis each year, they should do so for several reasons. Districts that fail to fund the new GASB requirement could experience reduced bond ratings when rating agencies review their financial statements since these statements account for any unfunded liabilities. Reduced bond ratings will result in higher issuance costs and interest rates, and financial statements will weaken over time unless the liability is reduced. A district's ability to borrow and incur additional debt also could be affected. Failure to implement GASB 45 could result in an adverse opinion by a district auditor. Although the pay-as-you-go method is permissible, using it means that the growing liability will be unmatched by a reserve of equal value. While professional accounting standards do not require public agencies to set aside the funding, failure to do so will have fiscal and reporting consequences.

GASB 43, Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans, provides financial reporting procedures (in the district's annual audit report)

for these benefits. GASB 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits, establishes the standard and accounting procedures for governmental employers to measure and report their costs and obligation relating to post-employment benefits other than pensions. The two statements are closely related and are considered together in this report. The two standards are phased in over three years, based on the governmental unit's amount of revenue in 1998-99. This is similar to the implementation used for GASB 34, which established new financial reporting requirements for LEAs and was also implemented in three phases. The district is part of phase 3, which is for districts with revenues of less than \$10 million based on the June 1999 audit report. GASB 43 takes effect in 2008-09, and GASB 45 in 2009-10. The reporting standard is implemented before the accounting standard, so financial statement footnote disclosure will occur one year before the actual accounting changes are necessary. As with many new accounting standards, early implementation is encouraged.

The new reporting and accounting requirements were created to help districts realize how past negotiated retiree benefit commitments affect current and future budgets. The requirements also help districts accurately reflect the cost of those commitments in the years the costs are incurred, which are the years the employees work for the district. GASB 45 requires OPEB to be recognized as an expense and obligation, if applicable, on the LEA's financial statements reported on the full accrual basis of accounting. This is for districts with any benefit structure for retirees, whether for a lifetime or a shorter time frame. From an actuarial perspective, the costs of the OPEB should be recognized during the periods in which the benefits were earned instead of when the benefits are provided. This means recognition during employment rather than at retirement.

OPEB includes any post-employment medical, dental, vision and prescription benefits. It also includes other nonpension and nonhealth-care post-employment benefits that are administered outside of a pension plan, such as life insurance, disability, long-term care, and legal services. OPEB refers to benefits for any former employees, not just for retirees, including former employees on permanent disability. OPEB does not include pension or other nonhealth-care post-employment benefits that are administered through a pension plan or termination benefits such as retirement incentives.

Future benefits result in a liability. Most educational agencies, like Emery Unified, have funded this liability on a pay-as-you-go basis, which means that the cost is recorded and expenses are funded based on the amount actually paid out for retiree benefits in the current year. Therefore, the new GASB reporting and accounting requirements will substantially affect financial statements. One requirement of these new standards is an actuarial determination of the liability and expense, which will be reflected in the district's financial statements. This will result in large increases in the district's retiree benefit expenses, since the pay-as-you-go method recognizes only amounts paid out in the current year, not the future liability of benefits for many retired employees.



The new standards also require an amortization of the existing unfunded retiree benefit liability over the employee's years of service similarly to pensions. This unfunded liability does not have to be recorded in the first year of implementation. The amortization can occur over a period of time of up to 30 years. Statement 45 also establishes disclosure requirements for information about the plans an employer participates in, the funding policy that is followed, the actuarial valuation process and assumptions, and for certain employers, the extent to which the plan has been funded over time.

The actuarial valuation involves using the following components to make certain calculations related to the plan:

- Actuarial cost method – Several acceptable actuarial cost methods are available. The district will need to discuss these with its actuary to determine whether there are inherent advantages or disadvantages in the method used.
- Actuarial assumptions – These include demographic information such as employee life spans, marriage status and termination status and economic data such as current and future investment returns and cost trends.
- Plan assets – These must be transferred to an irrevocable trust to be counted as part of the funding available to pay the plan liability. Plan assets are reported based on market values either at a specific date, or an average over the reporting period.
- Employer census data – Demographic data related to eligible plan members.
- The actuarial report will result in the district's annual required contribution (ARC), which is the district's accrued expense and related liability in its current year financial statements. Although labeled as a contribution, the district may choose not to fund the ARC, resulting in an unfunded liability. The ARC has two components:
  - ✓ The normal cost, which is the current actuarial cost of the retiree benefits earned by employees in the current year.
  - ✓ The amortization of the prior unfunded employee benefits liability for a period of up to 30 years.

After the prior unfunded liability is totally recognized, the ARC will consist of only the current year's actuarially determined costs of the benefits. Contributions to the annual cost are made through premiums paid to the insuring agency and through contributions to an irrevocable trust (Fund 71), whose assets are held for future premium payments. One advantage of establishing an irrevocable trust is that the annual actual costs

(normal costs) of the retiree benefits can be charged equitably to all programs, including categorical programs. Under the pay-as-you-go funding method, the unfunded liability unfairly burdens the unrestricted general fund. This method also drastically understates the actual cost of each district employee. The cost lags considerably because expenses are not recognized until the employee retires. All other employee costs are expensed during the employment lifetime.

The district offers retiree health benefits of medical, dental and vision coverage to age 65 for eligible certificated staff members, classified and management employees. To receive benefits, certificated must have five years of service, classified employees must have 20 years of service, and management must have five years. The minimum age for all classifications is 55 years. Certificated and management employees can receive 50% of retiree coverage in addition to 50% of dependent coverage paid by the district. Classified employees are not eligible for this dependent coverage.

As a result of the new GASB accounting standards, the district will need to make several decisions and take the appropriate actions as follows:

- Discuss the various actuarial methods with its actuary to determine which will best meet the district's needs.
- Determine whether categorical funds will be charged the amortization of the prior unfunded liability in addition to an equitable portion of the ongoing cost.
- Review the current unfunded OPEB liability and determine the period of amortization. Employers can select an amortization period of one to 30 years. The amortized liability and expense will be reflected in the entitywide audited financial statements and will reduce net assets.
- Determine the actual funding level of the ARC. The current method will result in a cumulatively larger unfunded liability. This is an important cash flow issue, but it will not affect the actual expenditure level.
- Establish an irrevocable trust if it is decided that funding levels will be established at least partially to address the annual cost exceeding the annual premiums. If an irrevocable trust is not established, any amounts set aside to fund the liability will not reduce the reported liability.
- Communicate the results of these new standards to interested parties, including board members, the public, financing institutions, employees, and unions.
- Determine whether the district can afford retiree benefits at the current level. Although any changes must be negotiated with employee unions, the discussion

must occur at some point because of the significant effect on the district. LEAs should obtain a valuation of their OPEB obligation every two or three years, depending on the size of the plan. If it includes 200 or more members, a valuation is required every two years. If there are fewer than 200 as in Emery Unified's case, it is required every three years.

The district had an actuarial valuation for its retiree health insurance program as of February 1, 2007. The valuation is dated April 27, 2007. For current employees, the value of benefits accrued in the year beginning February 1, 2007 is \$69,283. If Emery Unified began accruing retiree health benefits when each current employee and retiree was hired, a substantial liability of approximately of \$613,484 would have accumulated. The annual cost to amortize the unfunded actuarial accrued liability using a 5% discount rate over a 30-year amortization period was calculated at \$27,173. This amortization payment would increase each year based on covered payroll. Amortization payments would end after 30 years. Combining the normal cost and the amortization cost in the first year produces a total first year annual required contribution of \$96,456 (annual required contribution-ARC). Since the pay-as-you-go cost of providing retiree health benefits for the same year is \$63,257, the additional annual cost of complying with GASB 43 and 45 is \$33,199.

There are various ways to approach prefunding retiree health care benefits. The actual expense amount calculated annually will fluctuate from year to year based on the asset performance and on the population. The expense will reach zero when the last eligible retiree dies. The GASB 45 expense has no direct correlation to amounts the district may set aside to prefund health care benefits.

Early prefunding has a huge effect on the amount the district will eventually have to pay. Because of investment earnings on fund assets, the earlier the contributions are made, the less the district will have to pay in the long run. Districts must compare the advantages of prefunding with other uses of money.

According to the Office of Management and Budget, Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, post-retirement health benefits may be equitably charged to federal categorical funds using either the pay-as-you-go method or the actuarially determined GAAP compliant expense as long as an irrevocable trust is in place. Specifically, the circular states that to be allowable in the current year, the PRHB (post-retirement health benefit) costs must be paid to one of the following:

1. An insurer or other benefit provider as current year costs or premiums, or
2. An insurer or trustee to maintain a trust fund or reserve for the sole purpose of providing post retirement benefits to retirees and other beneficiaries.

This circular goes on to state that an equitable portion of the prior unfunded liability also may be charged to federal funds as follows:

When a governmental unit converts to an acceptable actuarial cost method and funds PRHB costs in accordance with this method, the initial unfunded liability attributable to prior years shall be allowable if amortized over a period of years in accordance with GAAP, or, if no such GAAP period exists, over a period negotiated with the cognizant agency.

Therefore, the district could charge a pro-rata share of the cost of these benefits, including amortization of the prior unfunded liability, to categorical programs as long as all amounts that exceed the pay-as-you-go level are deposited in an irrevocable trust. Although similar guidance does not exist for state categorical funds, the state often follows the guidelines for federal grants.

The circular does not provide specific details on how categorical programs can be charged for retiree liabilities, so the district may generate its own method. The most acceptable method found throughout the state is basing the rate on all relevant salaries. Based on GASB 45, it seems permissible to charge a rate on current costs as well as a phase-in (amortization) of the prior liability, which will probably be amortized over 30 years by most districts. The amortized liability and expense will be reflected in the entitywide audited financial statements and may reduce net assets.

The chosen method should be fair and equitable to both categorical and unrestricted funds and should be consistently and uniformly applied to all district operations. It will be charged similarly to other payroll costs based on a rate on relevant payroll. For example, lifetime benefits should be based only on teachers' salaries if only teachers have lifetime benefits. Whatever method the district chooses, it should be fully documented and the records retained indefinitely. In addition, the rate should be recalculated each time a new actuarial report is received. Documentation is crucial because these new requirements will receive much attention in the near future. As more districts implement the new standards, it will be possible to see the different methods they use.

Emery Unified's strategy for addressing retiree benefit obligations is to fund the pay-as-you go amount and an amount up to the annual required contribution (ARC), determined to be \$96,456 in 2007-08. This strategy should continue to be evaluated and discussed. The district should communicate the full cost of post-employment benefits to employees and include employees in the discussions of options to control the costs.

On April 27, 2007, the Governing Board approved a management plan to identify how post-employment benefits would be addressed and financed in the future. The district's financing strategy for addressing the OPEB obligations is to fully fund the ARC through contributions to fund 20. Fund 20 is an optional fund that can be used according to Education Code Section 42840 to account for amounts the district has designated for the

future cost of post-employment benefits, but has not contributed irrevocably to a separate trust for the post-employment benefit plan. Amounts accumulated into fund 20 must be transferred back to the general fund when expended for post-employment benefits. If a local educational agency (LEA) pays for its post-employment benefit costs entirely on a pay-as-you-go basis, fund 20 is not needed. Since the district is fully funding the ARC on an annual basis, fund 20 is appropriate until an irrevocable trust is established, which would be fund 71.

Fund 71 exists to account separately for amounts held in trust from salary reduction agreements and other irrevocable contributions for employees' retirement benefit payments. This fund can exist only if a formal trust exists, which the board would formally establish. Monies contributed to this fund by periodic expense charges can be used for existing and future obligation requirements. By funding retiree benefits through an irrevocable trust with interest, the district should have adequate funds available to fund all retiree health benefits without the need for any post-retirement district contributions. Payments may be made directly from this fund for insurance, annuities, administrative costs, or any other authorized purpose per Education Code Section 42850.

### **Fiscal Solvency Plans**

Emery Unified has applied for a Fiscal Solvency Grant from the California Department of Education (CDE). The outcome of that application is unknown. Assembly Bill 1802 (Chapter 79, Statutes of 2006), as modified by Senate Bill 1131 (Chapter 371, Statutes of 2006), provides funding of up to \$15,000 per LEA for school districts and charter schools that have completed plans to meet their outstanding long-term fiscal obligations for other post-employment benefits (OPEB).

To receive Fiscal Solvency Plan funds, districts and charter schools must develop a plan for meeting their annual OPEB obligations. The management plan must be approved by the governing board of the school district or charter school. School districts must submit their management plans to their county superintendents for review. Districts and charter schools with approved plans will be reimbursed for their actual costs, up to \$15,000, for activities related to developing a plan for meeting their OPEB if their plan is approved. Reimbursable costs may include the following:

1. The collection of information for the actuary
2. The costs of bidding or issuing a request for proposal for the actuarial services
3. The costs of hiring a vendor to oversee this process for the LEA
4. The cost of the actuarial valuation and any presentations of the results of the valuation to employee groups, board members, etc.

5. Staff time related to the evaluation of options and development of a long-term plan for meeting the annual OPEB obligations
6. Preparation and board approval of the Management Plan for Financing Other Post-Employment Benefits
7. Direct and indirect costs.

Districts may be reimbursed for the costs incurred of actuarial valuations if the associated management plan is current and the valuation date was not earlier than 24 months before the first year covered by the management plan (i.e., not earlier than July 1, 2006, if used for the period beginning July 1, 2008.) Consistent with the CDE's existing indirect cost rate guidance, the fiscal solvency plan funds may be charged for indirect costs if the amount charged does not exceed the LEA's approved indirect cost rate.

## Recommendations

*The district should:*

1. Discuss the various actuarial methods with the actuary to determine which will best meet the district's needs.
2. Adjust the pay-as-you-go amount for current active employees in the current and two subsequent year budgets so that the multiyear projection contains realistic expenditure estimates in accordance with AB 1200.
3. Consider establishing an irrevocable trust so that the annual actual costs (normal costs) of the retiree benefits can be charged equitably to all programs, including categorical programs.
4. Determine whether categorical funds will be charged the amortization of the prior unfunded liability in addition to an equitable portion of the ongoing cost.
5. Determine a fair and equitable charge to both unrestricted and categorical funds for amortizing the prior unfunded liability if the district decides to charge the liability to categorical funds. The district should ensure that whatever method is chosen, the costs to all programs are fully documented for future reference and discussion in an audit.
6. Review the current unfunded retiree benefit liability and determine the period of time to be used for its amortization, up to 30 years.
7. Determine the funding level of the annual required contribution.

8. Continue to communicate the results of the new GASB standards to interested parties, including board members, the public, financing institutions, employees and the collective bargaining units.
9. Discuss the full cost of retiree benefit obligation during negotiations so that the unions understand the importance of setting aside dollars for the future cost as well as understand the benefit to all employees. Employees should be included in the discussions of options to control the costs.
10. Maintain complete records of expenditures that can be reimbursed from the Fiscal Solvency Grant, if received.





## Organizational Structure

### **Business and Operations**

At Emery Unified, food services and facility staff members and functions report to the Superintendent instead of the Assistant Superintendent of Business. Although this type of structure was developed at the wishes of the prior superintendent, it is not the industry standard. The Assistant Superintendent of Business would normally be responsible for these operational areas. A management team should be formed to help these operational divisions communicate and work together.

The Assistant Superintendent of Business should also take a more active day-to-day role in the Center for Community Living and other upcoming construction and facility projects. The current structure calls for the Assistant Superintendent to function as the day-to-day budget and fiscal administrator as well as overseeing other operational divisions mentioned above, but Emery Unified has a significant number of unique issues and projects. Dividing the responsibility for business functions may work more efficiently and improve accountability.

By changing the Budget Analyst's title to Director or something similar, this position could take a more active role in monitoring the budget and other financial areas. These could include functioning as the main contact with the site and department administrators regarding their respective budgets. In addition, the AP/Payroll Clerk would report to the Director/Budget Analyst. The Director/Budget Analyst would continue to report to and be evaluated by the Assistant Superintendent, with the Assistant Superintendent having final approval and responsibility for the budget and fiscal matters.

The Assistant Superintendent and the Budget Analyst share an office. This creates an environment that is difficult to work in and makes it nearly impossible to concentrate on critical technical matters. Sharing a single workspace can reduce overall productivity.

### **Grant Writer**

Most public school districts in California, including Emery Unified, benefit from a variety of programs funded via grants. Various instructional and student support programs are operated on the contingency of continued grant funding, benefitting students and the community in a variety of ways.

Emery Unified receives nearly 10% of its general fund budget from a variety of grants and other external funding, making this area even more important. The Superintendent indicated that the district wants to continue its tradition of accessing grant funding but needs assistance since grant writing is time consuming and demands expertise to maximize success.

Working to improve relatively low test scores, the district has focused on obtaining categorical funding for low-achieving students. Various additional opportunities exist to apply for outside local funding, but the district has insufficient time and resources to accomplish this. For this reason, the district should consider adding a Grant Writer position. The addition of a Grant Writer is essential to the district's ability to seek and acquire grant funding. This position will ensure that current underlying services, as well as the possibility of new and expanded services, will continue to be part of Emery Unified's programs and prevent them from becoming a financial burden on general fund.

The cost for this position can be significant, particularly considering the fiscal challenges the district continues to experience. However, the cost to district students and programs and to the district's financial position may be even greater without the grants that can be accessed by the Grant Writer. The Valley Foundation indicated it would be willing to pay for the full cost of this position. This option is not yet in writing, but if it becomes a more firm commitment, the district should strongly consider this opportunity.

The first year of the Grant Writer position could be funded from a one-time allocation of district unrestricted reserves if Valley Foundation chooses not to fund the position. Future year funding could be provided from any grant funds the writer acquires. If it is not evident that the Grant Writer position is funded entirely from the underlying grants after the first year the position could be eliminated. This strategy could also be applied annually to determine the continued status of the position.

FCMAT did not incorporate this recommendation into its multiyear financial projection since creating the position requires board approval.

## Recommendations

*The district should:*

1. Assign the Assistant Superintendent of Business to supervise and oversee the technology, food services and facility functions. A management team should be formed and meet regularly to help these operational divisions communicate and work together to ensure cost effectiveness and efficiency.
2. Reconfigure the Assistant Superintendent of Business position to take a more active role and assume a day-to-day responsibility for the Center for Community Living and other facility projects.
3. Work within the collective bargaining process to modify the title of the Budget Analyst and assign this position a more active role for the details associated with the budget. This position should also work with the administrators on their respective budgets.

4. Change the reporting structure so that the AP/Payroll Clerk reports to the Budget Analyst.
5. Assign different office spaces to the Assistant Superintendent and the Budget Analyst since sharing a single workspace can reduce overall productivity.
6. Consider adding a Grant Writer position.
7. Fund the first full year of the Grant Writer position from a one-time allocation of district unrestricted reserves or from the Valley Foundation while funding future years from grant funds acquired by the Grant Writer and apply this funding strategy annually to determine the continued status of the position.
8. Eliminate the Grant Writer position after the first year if it is not evident that the position is being funded entirely from grants accessed by the position.
9. Focus additional attention on ensuring that both local and categorical funding for low-achieving districts and students is applied for, received and monitored.



## Comparable Staffing and Job Descriptions

FCMAT utilized the Ed-Data Partnership Web site at [www.ed-data.k12.ca.us](http://www.ed-data.k12.ca.us) to identify various unified school districts with enrollment comparable to Emery Unified. The information contained in Ed-Data is based on various data collected by the California Department of Education. FCMAT recognizes the complexity of school districts and how they vary in demographics, resources and organizational structure, so careful evaluation is recommended when performing comparisons. Generalizations based on one or two criteria can be misleading because they often fail to consider other significant circumstances that are not included in Ed-Data. Therefore, these staffing comparisons are only for informational purposes and should not be considered staffing standards.

FCMAT compared Emery Unified's district office staffing with four districts and found that the district's staffing level is equal to or greater than the comparison districts. The Business and Human Resources divisions were combined for the comparison since duties were widely distributed among all district office staff members because of the small size of the districts. The comparison data is shown in the table below.

No two districts are staffed identically, and many of the comparison districts have different segregated duties and position titles. Job descriptions from the comparison districts will be provided to the district's Assistant Superintendent of Business under separate cover for analysis and consideration.

### District Business Office Staffing Comparison

Coast USD	Southern Humboldt Joint USD	Biggs USD	Laton USD	Emery USD
Enrollment: 862	Enrollment: 842	Enrollment: 770	Enrollment: 764	Enrollment 802
Business Manager (1.0 FTE)	Superintendent also does Business Manager duties (.50 FTE)	Financial Officer/ Administrative Services Advisor (1.0 FTE)	Director of Finance (1.0 FTE)	Assistant Superintendent of Business (1.0 FTE)
Accounting Technician (1.0 FTE)	Business Officer Manager (1.0 FTE)*	Financial Assistant/Payroll (.875 FTE)		Budget Analyst (1.0 FTE)
Account Clerk 2 (1.0 FTE)	Accounting Officer(1.0 FTE)	Financial Assistant/Account Payable Clerk (.625 FTE)	Accounts Payable Clerk (1.0 FTE)	Fiscal Services Specialist (Accounts Payable/ASB/ Payroll) (1.0 FTE)
Account Clerk 3 (1.0 FTE)	Account Clerk(.75 FTE)		Administrative Secretary (1.0 FTE)	County Office support- Payroll (.50 FTE)
			Student Body Fund Accountant (.50 FTE)	
Human Resources is done by an employee who also is the Administrative Assistant for the Superintendent, so it is considered a .50 FTE position in this comparison (.50 FTE)	Human Resources is done by Business Office Manager (0 FTE)*	Human Resources is done by an employee who also is the Administrative Assistant for the Superintendent, so it is considered a .50 FTE position in this comparison (.50 FTE)	Director of Human Resources (.75 FTE)	Director of Human Resources (1.0 FTE)
4.5 FTE	3.25 FTE	3.0 FTE	4.25 FTE	4.5 FTE

All comparison districts had an administrative-level position supporting the superintendent, but in many cases, that position also performs human resources tasks. This administrative position was included in the above table only if a portion performs human resources functions. Unlike the other districts, Emery Unified also has a Public Information Exchange Officer, as well as a half-time support position in the district office to assist the Curriculum/ Instruction Administrator. This 1.5 FTE is not included in the above table since it is not related to business or human resources functions.

Based on this data, the district is staffed at a level that is higher than or equal to that of the comparative districts even without considering the additional 1.5 FTE. It is commendable that the district places such a high priority on customer service, however, there is a cost associated with that decision. District staff members indicated that there is additional need for support in the business office. Although adding personnel may be helpful, the district should instead consider redistributing duties among district office staff members because of high current staffing levels.

Job descriptions for the business office staff are dated or nonexistent. Job descriptions should be developed or revised for each board-approved position to reflect the work employees actually perform. Because these job descriptions were unavailable, employees described their duties so that they could be compared with employee duties in comparative districts.

### **Mailing Payments to Vendors**

The Fiscal Service Specialist processes all purchase order requisitions from the school sites and departments, ensures there is adequate budget for the requisition, obtains appropriate approvals and converts the purchase requisition to a purchase order. The position also makes payment on vendor invoices for items received and/or services performed.

The Fiscal Service Specialist performs many functions related to vendor payments, including those listed above regarding purchase orders. Therefore, internal controls could be improved by ensuring that this position does not mail warrants to the vendor once they are received from the county office. Another district office position should obtain these checks and mail them to vendors.

### **Associated Student Body**

Some discussion has occurred about transferring the responsibility of processing ASB payments and deposits from the Fiscal Service Specialist to site personnel. If this change occurs, the district office should ensure there is adequate and appropriate oversight of ASB activities. Regardless of who provides it, district office oversight should include the following:

- Providing annual ASB training for all site and district level employees who work with ASB activities.
- Periodically (at least annually) visiting each school site to provide support and to review the ASB procedures used at the site.
- Taking immediate action to correct findings related to ASB activities that are noted in the annual audit. The district should also ensure that the school sites are involved in developing action plans to avoid findings.
- Ensuring that all proposed fund-raising events are approved by the Governing Board or its designee at the beginning of each school year, keeping the list updated throughout the year.
- Reporting the sales and use tax for the student store and other purchases on its sales tax report.

- Issuing 1099s for all independent contractors paid with ASB funds.
- Developing standard forms, processes and systems for ASB operations.
- Receiving and reviewing periodic financial statements from the ASB organizations.
- Reviewing the monthly bank reconciliations from the site ASBs.

### **Employee Leave/Substitute Payments**

Substitute employee time sheets are processed in the district office and sent to the county office for processing of the actual payment. There is no process to ensure that the substitute payments are matched to an employee leave request for vacation, sickness or personal necessity. Substitutes should be paid only if they are matched with an employee on leave.

The district must establish policies and procedures covering employee leave. These should include an outline of employee responsibilities for requesting and reporting all types of leave and identification of the forms that must be processed. In addition, the procedures should require Human Resources to perform a monthly audit to ensure the accuracy of submitted information.

The district should also establish formal written policies regarding the responsibilities of Human Resources and the procedures for reconciling absence requests and the absence log. Substitute time sheets should be expanded to include additional detail and clarification. Strong internal controls require leave records to be correctly maintained and verified with substitute payments. The district should be able to reconcile the employee's leave time with the substitute pay event.

### **Extended Work Calendars**

Employees submit time sheets to the Fiscal Service Specialist for work performed over and above their normal contract. There should be an approved extended work calendar for these time sheets, but in most cases, there is none. The district's process is for the site administrator to approve extended work calendars for stipends, extra pay and overtime and submit the calendar to the Fiscal Service Specialist in the district office, where the sheets are matched to the appropriate extended work calendar. Because the district has no approved extended work calendar, the Fiscal Service Specialist works with the site administrators to complete the document so the employee can be paid on time.

The practice should be changed so that all extended work calendars are processed through the Director of Human Resources similarly to any other employee contracts. Employees should not be allowed to work time over and above their contact without an extended work calendar that is approved and filed in Human Resources. Employees



should not submit time sheets for work that has not been approved in this manner. Site administrators should be held responsible for ensuring that they do not assign work to employees without approved calendars.

### **Accounts Payable for Construction Projects**

The district will soon implement significant facilities construction and modernization projects, creating additional demands on the accounts payable function. These include construction contractor payment requests, which by law must be processed more quickly than the existing district practice.

By industry standards, the district's staffing levels are adequate for the routine accounts payable functions and the number of transactions that occur for these functions. However, the additional volume that will be created by the construction and modernization program will exceed the staff's capacity to process all payments on time.

Adding an Accounts Payable Clerk would be beneficial once construction begins for modernizing the elementary school and building the Center for Community Living. The existing accounts payable position will not be able to handle all the additional invoices, purchase orders and other reporting responsibilities for construction projects of this size.

The existing accounts payable employee has the training and experience that will allow the facilities construction and modernization project to run smoothly with the required expertise. The district should consider moving the experienced employee to the new position, and hire a new employee for the existing position.

## **Recommendations**

*The district should:*

1. Consider distributing work differently among district office staff members if the need for additional assistance continues.
2. Create a schedule to review and update all job descriptions for positions in the district office as soon as possible so that they reflect current duties and responsibilities. A standard format should be utilized that includes minimum qualifications for each job.
3. Ensure that the employee who processes payments to vendors does not also mail warrants to vendors.
4. Ensure there is adequate and appropriate oversight of ASB activities since the district office is responsible for this area regardless of where the payments are processed.

5. Establish formal written policies on the responsibilities of human resources and procedures for reconciling absence requests and the absence log.
6. Expand substitute time sheets to include additional detail and clarification so that these documents are easier to maintain and verify with substitute payments. The district should also reconcile the employee's leave time with the substitute pay event.
7. Direct the Human Resources Department to process all action data forms, including extended work calendars.
8. Consider adding a position to the facilities office to manage the accounts payable process and fund the increased cost from the facility proceeds subject to review and approval of the district's Governing Board.

## Internal Controls

Internal controls are the foundation of sound financial management and allow districts to fulfill their educational mission while ensuring a solid financial structure and credible financial information. Strong internal controls help ensure that resources are used appropriately, transactions are processed on time and financial information is reported accurately. A well planned financial system provides procedures that produce accurate and reliable financial statements while safeguarding assets, financial resources and the integrity of all employees who handle money or property. Internal controls include processes designed to provide reasonable assurance that district operations are effective and efficient, the financial information produced is reliable, and the district operates in compliance with all applicable laws and regulations. The internal control structure includes the policies and procedures used by district staff, accounting and information systems, the work environment and the professionalism of employees while conducting district work.

Ideally, all employees' work would be verified by the work of another employee, with each employee working separately and independently. Internal controls include segregating duties according to employees' functions so that one person does not handle a transaction from beginning to end. Functions that need to be segregated include initiating or authorizing transactions, executing the transactions, and assuming responsibility for the item resulting from the transaction.

To help ensure adequate internal controls, school districts should do the following:

1. Prevent internal controls from being overridden by management
2. Ensure ongoing state and federal compliance
3. Provide assurance to management that the internal control system is sound
4. Help identify and correct inefficient processes
5. Ensure that employees are aware of the proper internal accounting control expectations

Implementing adequate internal accounting procedures and making the necessary changes to segregate job duties can help protect the district's assets. Different employees should participate in the transactions at various stages so that each will arrive at the same results independently and verify the accuracy of the other's work. Proper internal controls do not eliminate the chance of error or fraud, but they reduce the risk to an acceptable level. Very few entities have perfect internal controls, so it is imperative that management develop techniques to offset any weaknesses.

Applying the following concepts and procedures to transactions and reporting is a necessary step for any district that seeks to build an internal control structure:

**System of checks and balances.** Formal procedures should be implemented to initiate, approve, execute, record, and reconcile transactions. The procedures should identify the employee responsible for each step and the time period for completion. Key areas in need of checks and balances include payroll, purchasing, accounts payable, and cash receipts.

**Segregation of duties.** No single employee or group of employees should be in a position to handle a transaction from initiation to reconciliation, and no single employee should have custody of an asset (such as cash or inventory) and maintain the records of related transactions. Adequate segregation of duties reduces the likelihood that errors will remain undetected, whether intentional or unintentional.

**Staff cross-training.** More than one person should always be able to perform a job. In addition, all staff members should be encouraged to use their vacation time while another staff member performs their duties. Inadequate cross-training is often a problem in even the largest business offices.

In smaller districts, it is common to assign several functions to one position. As a result, it is critical to cross-train two people in each area of responsibility. This will ensure all functions can continue to operate efficiently when individual staff members are absent due to illness, personal necessity, vacation or other reasons. Because cross-training is time-consuming and costly, the administration should commit to allocating the human and financial resources necessary to develop skills that allow the staff to provide effective coverage.

**Use of prenumbered documents.** Checks, sales/cash receipts, purchase orders, receiving reports and tickets should be printed by an outside printer. Physical controls should be maintained over the check stock, signature plate, cash receipt books and tickets. Simply using prenumbered documents is not sufficient. A log of documents and numbers should be maintained and reconciled daily.

**Asset security.** Cash should be deposited daily, computer equipment should be secured, and only designated employees should have access to supplies, food stocks, tools and gasoline.

**Timely reconciliations.** Bank statements and account balances should be reconciled monthly by a person independent from the original transaction and recording. For example, a central office employee should reconcile ASB accounts every month, and the district office employee who reconciles the revolving checking account should not maintain the check stock.

**Comprehensive annual budget.** The annual budget should include sufficient detail regarding revenues and expenditures (by school site, department and resource) to identify variances, determine whether goals were achieved, and evaluate performance. Material variances in revenues and expenditures should be investigated promptly and thoroughly. This includes ensuring that potential revenues and expenditures for ASB funds are identified at the start of each school year.

**Inventory records.** Inventory records should be maintained and identify the items and quantities purchased and the items and quantities requisitioned or sold. In addition, a physical inventory should be performed periodically and reconciled with inventory records. Typical inventoried items include computer equipment, warehouse supplies, food service commodities, maintenance and transportation parts, and student store goods.

FCMAT reviewed audits from June 30, 2005 to June 30, 2007, and each included material findings in the related to internal controls, which are listed below. Each finding is followed by information on its implementation.

- **Student Body Accounting:** The following exceptions were noted during the testing of student body and cash receipts and cash disbursements at Emery Secondary School. Numbered cash receipts are not being used when ASB students and/or Advisors turn in money to the ASB office. The cash receipts are not being signed by the ASB student and/or advisor who turns in the money to the ASB office. There is no evidence of review on bank reconciliations.

The district should create a formal student body policy manual and provide training to personnel handling student body funds.

This audit finding from June 2005 was implemented prior to the June 2006 audit.

- **Matching Revenues and Expenditures:** Two invoices were improperly excluded from the Accounts Payable balance, which violates the matching principle and understates the expenses for fiscal year 2005-06. The district should establish procedures to review the accounts payable detail and verify proper cut-off of accounts payable at the end of the fiscal year.

This audit finding from June 2006 was implemented prior to the June 2007 audit.

- **Matching Revenues and Expenditures:** For one deposit tested at Emery High School cafeteria, the amount of money received according to deposit slip reports did not match the amount of the deposit in the bank statement. More care should be taken to ensure that the amount in the deposit slip reports agrees with the amount of the deposit to the bank.

This June 2006 audit finding was implemented prior to the June 2007 audit.

- **Federal Awards:** There was no proper documentation to support adjustments that were made to the district's historical report-daily meal count summary. The system-generated documents should be used to prepare the reimbursement claim form. If adjustments are required, supporting documentation should be maintained to support the adjustment. In addition, the reimbursement claim form should be reviewed and approved by an individual who is independent of the form's preparation.

This was a June 2007 audit finding that will again be reviewed in the upcoming June 2008 audit.

The district should continue to invest time and attention to compliance in these areas to minimize the number of audit findings. The district should continue to review audit findings and recommendations with the Governing Board and develop corrective action plans annually as required by law. Audit findings should be continually reviewed for compliance and to ensure these issues will not continue.

## Recommendations

*The district should:*

1. Segregate duties in the Business Department according to employees' functions so that no employee handles a transaction from beginning to end.
2. Identify and correct inefficient processes and implement adequate internal accounting procedures to initiate, approve, execute, record, and reconcile transactions so that the district's assets and employees are protected.
3. Ensure that employees are aware of internal accounting control expectations.
4. Implement a cross-training program that provides constant coverage for all business office functions. The district should also require all staff members to take periodic vacations while another employee performs the vacationing employee's duties.
5. Use and maintain a log of prenumbered documents, and prepare periodic reconciliations.
6. Ensure that all assets are secured safely by depositing cash daily, securing computer equipment and restricting access to supplies, food stocks, tools, and gasoline.

7. Perform monthly reconciliations for all bank statements and account balances. The district should also ensure that the employee performing the reconciliations is independent of the original transaction.
8. Use comprehensive budgeting to ensure that material variances in revenues and expenditures are investigated promptly and thoroughly.
9. Maintain inventory records that identify the items and quantities purchased and the items and quantities requisitioned or sold. The district should take periodic physical inventory and reconcile it with inventory records.
10. Continue to provide training to personnel handling student body funds so all staff members involved understand the necessity of strong internal controls and procedures related to the funds.
11. Continue to review the accounts payable detail and verify proper cut-off of accounts payable at the end of the fiscal year.
12. Ensure that the amount in the deposit slip reports agrees with the amount of the bank deposit.
13. Ensure that there is proper documentation to support adjustments made to the district's historical report-daily meal count summary. In addition, the reimbursement claim form should be reviewed and approved by an individual who is independent of the preparation of the form.
14. Continue to invest time and attention to achieve compliance and reduce the number of audit findings. Emphasis should be given to addressing recurring findings related to internal control weaknesses.





## Desk Manuals, Policies and Procedures

The district's business office lacks written desk manuals, standard operating procedures and other reference documents. Desk manuals and documented procedures are critical to ensuring internal controls and communicating the responsibilities of various positions.

The district should develop procedural manuals for all business and business-related functions. Comprehensive manuals detail the processes and procedures that are expected or needed to comply with rules, regulations and board and district policies and procedures. Updating manuals at least annually is a best practice.

Procedural manuals covering business and business-related functions can also function as a training tool for the staff, help ensure the accurate performance of job duties and provide some level of operational continuity in case of staff turnover.

Although some employees may know their jobs well enough to function without these manuals, there are drawbacks to this approach. Employees can become so accustomed to their jobs or to a certain level of productivity that change becomes difficult. A lack of documented procedures can also hinder operational continuity in the event of employee absence or turnover. The district may wish to assign each business office employee the task of developing one standard operating procedure each month until all the assigned duties for each position have associated written procedures.

A free resource called the Business Services Guide is available to help school districts implement procedures. The guide is produced by the San Diego County Office of Education and available on the Internet at <http://www.fcmat.org/bsg>. This resource can be used as a template to help the district develop specific procedures.

When developing desk manuals and reviewing current practices, the district should adhere to the California School Accounting Manual (CSAM) and Generally Accepted Accounting Principles (GAAP) as required by Education Code Section 41010. Adherence to CSAM and GAAP helps ensure that transactions are accurately recorded and financial statements are fairly presented.

GAAP requires financial reporting to be reliable and timely to serve the needs of users. Thus the timely and accurate recording of the underlying transactions (revenue and expenditures) is an essential function of the district's financial management.

## Recommendations

*The district should:*

1. Develop written desk manuals, standard operating procedures and other reference documents in the business office for all business-related functions.

2. Begin assigning each Business Department employee the task of developing one standard operating procedure per month until all the assigned duties for each position have associated written procedures.
3. Review the San Diego County Office of Education Business Services Guide and consider using it as a template as operating procedures are developed.
4. Adhere to the CSAM and GAAP as required by Education Code Section 41010 when developing desk manuals and reviewing current practices.
5. Review and update desk manuals, standard operating procedures and other reference documents in the business office as needed, at least annually.

## Training and Evaluations

Appropriate internal control expectations should be communicated to employees throughout the organization, and all employees should be held accountable for adhering to proper procedures. Proper training for all employees can provide an understanding of job responsibilities so that employees can be held accountable for their assigned duties. Desk manuals, standard operating procedures and other reference documents can be used for this training once they are developed and approved.

### Escape Financial System

Useful information is relevant, timely and accurate. To accomplish all these criteria, a modern financial system must provide decision makers with the ability to access information quickly and generate information that will provide for effective management decision making.

Throughout interviews, school and department budget managers indicated they are unable to efficiently utilize the Escape financial system and that the reporting features are not intuitive. This occurred despite the district's continued efforts to provide Escape training and make the system available to the variety of users throughout the district.

Personnel at various levels should understand the information generated by the Escape system instead of expecting this data to be provided in a simpler format. Although financial system training was provided in the past, staff members are not confident that they comprehend the system data. Administrators in particular are uncertain of the financial resources available in the budget, and they had little input on how budgets were developed or allocated to the various object codes.

It is a formidable challenge to develop a financial system that meets the many technical and financial requirements of a public school district while providing management with relevant and easy-to-use information. However, this challenge must be met if the district expects to improve student performance while maintaining its fiscal integrity.

The district's decision makers and staff members who are responsible for the management of district budgetary allocations should be trained on the appropriate use of the financial system, in particular the most efficient means to access budget information. This places the burden of responsibility on the business office staff to do the following:

- ✓ Work with the Escape staff (and/or hire a third-party consultant) to configure Escape to best meet the needs of the Emery Unified business office. All software programs, including Escape, allow for some amount of user-defined options. The business office staff needs to learn of all these capabilities and modify the system to take advantage of them.

- ✓ Work with the Escape staff to modify the system to maximize the inexperienced users' ability to access the information they need in a timely and efficient manner. Escape has a reputation for providing this access, particularly in smaller environments.
- ✓ Train budget managers on how to gain this information and hold them accountable for meeting district expectations.
- ✓ Do *not* develop any third-party software or spreadsheet applications that require extra time to download, produce and distribute. This may appear to be an easier work-around to training staff, but it significantly increases the possibility of data transfer error and is more costly in staff time in the long run.
- ✓ Provide a routine training and refresher course for both new budget managers and those who need a review.

An updated version of the Escape system with more user-friendly information will be released next year, but training on the current module should be provided for the 2008-09 fiscal year. Additional training should be provided when the updated module is available.

### **Evaluations**

Each employee's performance should be evaluated at least annually by a management-level employee with knowledge of the employee's work product. Evaluation criteria should be clearly communicated and should be measurable as much as possible. Following up on prior performance issues and establishing goals for improving future performance are essential components of proper employee evaluations.

Managers and supervisors should be held accountable for evaluating employees annually, and employees should know and understand the standards used in evaluations. Human resources departments commonly remind administrators of upcoming employee performance evaluations.

### **Professional Development**

All school district business office personnel must keep current with developing school business trends regarding their job duties and responsibilities. Change occurs often in public education finance, and continuing professional development is essential to the district's business function.

Professional development opportunities provide the staff with an understanding of these changes and new skills and knowledge. Training sessions offered by organizations such as the Alameda County Office of Education, CASBO, FCMAT and other agencies would provide the continuing staff development that is critical to maintaining existing skills and developing new ones.

Workshops and conferences on topics important to school district financial professionals are routinely offered by a variety of privately-operated consulting firms in California. The specialized knowledge necessary to succeed in the unique environment of public education can be acquired only through training sessions such as these as well as considerable on-the-job experience. Even routine operating areas, such as accounts payable, payroll and attendance accounting, require a public school emphasis to ensure relevance.

A short list of general topics for any school district financial professional includes the following:

- Accounting
- Audit
- Budget
- Finance
- Revenue limit
- Special education program management
- Categorical program management
- Associated Student Body (ASB)
- Negotiations
- Benefits management
- Retirement systems
- Maintenance, operations and transportation
- Cafeteria
- Facilities
- Relevant codes of law and regulation

The staff should be required to attend these training sessions.

A variety of programs are directed toward the development of current and aspiring chief business officials. While these programs tend to be more time-intensive and costly, participation is critical to the successful performance of any CBO.

### **Staff Development Plan**

An annual staff development plan should be implemented for personnel outside the Business Department so departments and sites are updated on changes in business procedures and the application of routine internal control processes. When manuals or other resources are developed on business and business-related items, they should explain in detail the processes and procedures that are expected and/or necessary to comply with rules and regulations, and board and district policies and procedures. These resources should be updated at least annually. The completed procedure manuals should also function as a training tool for the staff. Manuals help ensure the accurate and appropriate performance of job duties and provide some level of continuity in case of staff turnover.

Each staff in-service training session on business subjects should be geared to a specific audience, with mandatory or optional attendance as dictated by the subject matter. The topics covered should pertain to the staff members invited. Employees should be informed when the meetings are mandatory, and sign-in sheets should be maintained.

The district should communicate changes in business services policies and procedures by offering in-service training before each school year begins. This would help ensure that the staff members at sites and departments understand and properly implement changes to policies, procedures and forms. This training should be for administrators and site and departmental personnel who regularly handle business tasks. Separate training sessions may need to be developed based on employee jobs.

A work climate of mutual support should be fostered so that everyone feels free to ask questions and share information. If Business Department customers do not feel comfortable asking questions, progress will be stifled.

The district supports staff training and development. Although some district office staff members have received training, a training plan has not been established to ensure they have sufficient technical knowledge to perform their job functions effectively and efficiently. Training should cover new district policies and procedures as they are developed as well as reinforcing the information shared in past training sessions. Training should be structured to ensure and sustain minimum competency, promote the acquisition of higher levels of technical knowledge and proficiency, and prepare employees for career advancement.

The district office also has opportunities to expand training for the school site and department staffs regarding budgets, employee benefits, requisitions and purchase orders. With expanded access to budget information, site and program administrators could gain a better understanding of using available funds and develop increased accountability for operating within available resources. As staff training, information access, and district policies-and-practices updates are standardized, the number of questions directed to the district office should decrease.

## Cross Training

Assignment of duties in several functional areas is common for smaller school districts. As a result, it is necessary to provide cross-training in each area of responsibility. This will allow for coverage by two people and ensure all functions continue operating efficiently if individual staff members are absent because of illness, personal necessity, vacation or other reasons.

Past attempts to cross-train were not always successful. Coverage was often insufficient, requiring the absent staff member to address these insufficiencies when they returned. Because cross-training is time-consuming and costly in any environment, the administration should commit to allocating the human and financial resources necessary to develop skills that allow staff to provide effective coverage.

## Recommendations

*The district should:*

1. Provide training for all employees to foster a better understanding of job responsibilities. Employees should then be held accountable for fulfilling their assigned duties.
2. Work with the Escape staff to configure the Escape financial software to best meet the needs of the Emery Unified business office.
3. Work with the Escape staff to modify the system to maximize the users' ability to access the information they need in a timely and efficient manner.
4. Provide budget managers with training on how to access the appropriate information in Escape, and hold them accountable for district expectations.
5. Discontinue any plans to use third-party software or spreadsheet applications that require extra time to download, produce and distribute information already available in Escape.
6. Provide a routine Escape training and a refresher course for new budget managers and those who need a review.
7. Communicate internal control expectations to employees throughout the organization through training and other written means so that employees can be held accountable for adhering to proper procedures.
8. Ensure that each employee's performance is evaluated at least annually by a management-level employee with thorough knowledge of the employee's work product. Evaluation should include a follow-up on prior performance issues and establish goals for improving future performance.

9. Hold managers and supervisors accountable for annually evaluating all employees under their supervision and for following up with employees regarding areas that need improvement.
10. Ensure that employees know and understand the standards used to evaluate them.
11. Ensure that the Human Resources Department reminds administrators of upcoming evaluations.
12. Communicate changes in business services policies and procedures by offering in-service training to appropriate site and department personnel before each school year begins.
13. Assess staff technical skills and knowledge to develop a comprehensive training plan that provides extensive and ongoing training for the business office staff.
14. Coordinate training needs with individual job descriptions and duties so that training is based on job functions.
15. Require the business office staff to attend various staff development training sessions outside the school district.
16. Implement a cross-training program that provides constant coverage for all business office functions.



## Audit Committee

The district does not have an internal auditor or an audit committee. Internal controls can be enhanced by establishing one of these options, and either can help provide independent oversight and feedback regarding the adequacy of internal controls and the level of staff adherence to them. An internal auditor position would normally be considered only if the district were much larger, however, the use of audit committees is becoming more widespread among districts of all sizes.

Board Policy 3460, Financial Reports and Accountability, contains language stating, “The Board may establish an audit committee composed of staff knowledgeable in fiscal matters, other staff and representatives of the community. The committee shall service in an advisory capacity to the Board....”

An audit committee normally does the following:

- Oversees the independent audit and reporting process, including selection of the independent auditor.
- Ensures that timely attention is given to control and compliance weaknesses found by the annual audit and independently identified.
- Encourages legal and ethical conduct by management and employees through the audit process and the Governing Board.
- Increases confidence in the financial reporting process because of additional review and verification.
- Provides an annual report to the Governing Board and management that identifies significant issues related to the financial statements, the annual audit and internal audits.

Because communication and full disclosure and understanding were constant themes during FCMAT’s visit, establishing an audit committee may serve the district well, especially since approved board policy already sets parameters for this process.

## Recommendation

*The district should:*

1. Consider establishing an audit committee for additional internal control oversight.



## Appendices

A: Sample Budget Guidelines

B: MYFP Detail

C: Study Agreement



## Appendix A

### Sample Budget Guidelines

#### **SAMPLE Budget Guidelines**

Good budget processes and guidelines allow managers the flexibility to budget according to their site plan and goals, as well as, staying within the goals set by the board for the district as a whole.

Some budget challenges that are common throughout districts are:

- Available resources are limited.
- District enrollment is declining.
- State cost-of-living adjustment (COLA) may change after budget development
- Adjustments to allocations may be made when additional information becomes available.

#### II. **SAMPLE RESPONSIBILITY FOR BUDGET DEVELOPMENT**

- A. **Governing Board**- The ultimate responsibility for the budget lies with the Governing Board, whose primary budget development tasks include establishing budget criteria and reviewing, directing, and approving the budget and the revised budget.
- B. **Superintendent** - The Superintendent oversees and directs budget development and submits the budget and the revised budget to the Governing Board for approval.
- C. **Superintendent's Cabinet** - The Superintendent's cabinet studies and reviews budget amounts and processes, and serves as the primary decision-making unit in the allocation of funds to district components.
- D. **Assistant Superintendent, Business Services** - The Assistant Superintendent, Business Services has the primary responsibility for budget development processes, budget guidelines, and distribution of all budget documents.
- E. **Department Heads/Principals** - Department heads and principals will be responsible for developing the objectives of their programs/sites and submitting budget requests to the Assistant Superintendent, Business Services.

- F. Business Services Staff - The Business Services staff will help department heads and principals with budget development, provide required data to the Assistant Superintendent, Business Services, and communicate all budget-related matters to the appropriate instructional and support staff members. The Business Services staff is responsible for entries to the computerized budget report for a given department/school.
- G. Other District Personnel, Students and Citizens - Budget development will allow for input from representatives of the community, parents, students, bargaining units and members, and site administrators to provide the board with recommendations for budget priorities.

### III. SAMPLE BUDGET DEVELOPMENT CRITERIA

General fund budgeted expenditures will not exceed budgeted revenue and/or reserves, except by the amount of authorized funds carried over from the prior fiscal year, in accordance with board policy and state law. The district's overall fiscal situation and state reserve requirements will be considered to determine if the district can still qualify for interim financing.

The budget format will be based on the California School Accounting Manual and utilize the Standardized Account Code Structure (SACS).

The cafeteria fund operating budget will show a positive fund balance as stipulated by Education Code requirements and the Governing Board.

Projected costs of current operations will be budgeted in the general fund for the district's health and welfare program, which includes health, dental, vision care, long-term disability and life insurance programs, and for workers' compensation. Transfers will also be budgeted as needed for property and liability deductibles to the insurance funds, where disbursements will be made during the year. Actual transfers for health and welfare and workers' compensation will be based on the established contribution rates and the numbers of employees/salaries covered

A transfer to the deferred maintenance fund from the routine repair and maintenance resource will be budgeted at a level which will, at a minimum, entitle the district to the maximum amount of state matching funds and ensure our continuing eligibility for modernization and hardship funding. The funds will be expended for projects approved by the State under the district's five-year plan.

The adult education fund, as mandated by the state, will show revenues and expenditures for the adult education program. By law this fund cannot be supported through general fund monies, nor can adult education fund monies be used to support the general fund.

Funds generated from developer fees will be placed in the capital facilities fund-developer fees and expenditures will be incurred in accordance with board-approved construction/reconstruction projects.

#### IV. SAMPLE BUDGET CONCEPTS

- A. Comprehensive schools will receive the following budget allocations:
1. Teacher staffing allocation
  2. Instructional aide allocation. Bilingual aides are funded through supplemental categorical funds.
  3. Other specific personnel allocation for regular noninstructional staff
  4. An amount to provide funds for classified service exempt employees as listed on the classified salary schedule (including benefit costs), allocated to the comprehensive high schools on the basis of 200X-0X third month ending enrollment. This allocation is partially funded from supplemental monies.
  5. An allocation per comprehensive high school and each for elementary and middle school for strategic planning.
  6. The cost of International Baccalaureate membership for \_\_\_ HS.
  7. A WASC allocation
  8. An allowance to support athletics. These amounts may be adjusted for state COLA.
  9. An allowance for repair and replacement of band instruments (may be adjusted for State COLA).
  10. The district will budget to fund an allocation for the cost of replacing one classroom set of 40 student desks per school, providing the school spends a like amount for a second classroom set.
  11. Special needs allocation (optional).
  12. Community facilities allocation (HS and \_\_\_ HS)
  13. Academy for performing arts (APA)
- B. The teacher staffing allocation for comprehensive schools will be based on projected enrollment for the upcoming year.
- C. The other specific personnel allocations for four-year comprehensive schools include the allocations as required by the master plan for special education.

- D. The lump sum allocation for comprehensive schools will be determined in the following manner:

A lump sum allocation per enrollee for all non-personnel expenses at the comprehensive school level will be based on the third month's ending enrollment of the 200X-0X school year. This allocation may be increased once the state's COLA percentage is known. An adjustment will be made in December of 200X for changes in month three enrollment.

- E. A special needs allocation for the comprehensive schools will be determined by the Superintendent's cabinet in accordance with requests or program objectives submitted by each comprehensive school and the ability of the district to provide such an allocation. The total available for this purpose for all sites will be determined at a later time. The special needs allocation may include additions to any or all of the allocations previously listed. Requests for special needs allocations should be made in writing to the Superintendent's cabinet. The major criterion used in considering a request will be the *uniqueness* to a particular school of the expenditure being proposed. Special needs allocations are for one year only.
- F. All returning personnel will be budgeted at a dollar amount consistent with placement on the appropriate salary schedule. All foreseeable class and step increases in FY 200X-0X must be budgeted.
- G. New or vacant teaching positions should be budgeted at the appropriate step of the teachers' salary schedule, if known, or an agreed upon step and column if not known. Budget adjustments will be made without reward or penalty if actual salaries are less than or greater than budgeted salaries.
- H. Teacher substitutes regular will be budgeted at the school level based on 6.5 days per full-time teacher.
- I. All new or vacant classified personnel positions should be budgeted at the level of Step three of the appropriate class.
- J. No deviation from standardized classified personnel allocation may be made without prior written approval of the Superintendent.
- K. Classified substitutes and overtime will be budgeted at an appropriate percentage of eligible salaries in each category.



- L. The budget shall have an appropriation for contingencies or reserve of not less than three percent of expenditures, the minimum level recommended by the state for a district our size.

V. **SAMPLE BUDGET DEVELOPMENT CALENDAR**

The following is a sample budget development calendar, which conforms to current law and requirements of the Governing Board.

**Budget Development Calendar**

<b>Date</b>	<b>Function</b>	<b>Responsibility</b>
December	Adoption of the budget calendar	Governing Board and Superintendent
December	Approval of the budget guidelines	Governing Board
December	Distribution of budget packets to departments and sites	Business Services
December and January	Preparation of preliminary budgets by departments and sites	Department and site administrators
January	Submission of preliminary budgets to Business Services	Department and site administrators
February through April	Preparation of preliminary draft of budget	Business Services
As-needed basis	Study sessions of preliminary draft budget	Governing Board and staff
June	Public hearing on budget	Governing Board
June	Adoption of budget	Governing Board
July or before	Filing of budget at county office	Assistant Superintendent of Business
45 days after the State budget is adopted	Adoption of Revised Budget	Governing Board
After 45 day revised budget is adopted	Filing of revised budget at county office	Assistant Superintendent of Business

