



CSIS California School Information Services

July 5, 2007

Anthony M. Smith, Ph.D., Superintendent
Emery Unified School District
4727 San Pablo Avenue
Emeryville, CA 94608

Dear Superintendent Smith:

The purpose of this management letter is to summarize the assistance provided by the Fiscal Crisis and Management Assistance Team (FCMAT) to the Emery Unified School District during fieldwork on June 18 and 19, 2007 and during additional follow-up work. The district requested that FCMAT perform the following tasks:

1. Conduct a review of the district's current and future planned facility projects and provide recommendations on how the funding sources should be used and allocated among the specific projects.
2. Assist the district in planning how to set up project accounts in the financial system to appropriately track and record revenues and expenditures.

FCMAT has concluded its review of these areas, and the team's findings related to these areas are included in this letter.

Anna Yates Elementary School projects:

- Accounting for all expenditures related to this project should be completed in the (SFP) School Facilities Program (SACS fund 35).
- The capital facilities (also known as developer fees) and COP funds will record "interfund transfers out," and the SFP will reflect "interfund transfers in" to reclassify revenues that will serve as the district's matching share.
- All expenditures related to construction (e.g. architect, testing, inspection, printing, labor compliance, energy analysis, hard construction costs and contingency) should be recorded in SACS object 6200, buildings and improvements of buildings.
- All expenditures for furniture and equipment should be recorded in SACS object 4300, materials and supplies, or 4400, noncapitalized equipment.
- Processes for entering into contracts and purchase orders should be established. Approval processes for payments of invoices also must be established.

FCMAT

Joel D. Montero, Chief Executive Officer

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- Before paying an invoice, the Construction Manager and/or Architect for the project should indicate that the work being billed on the invoice is complete. Invoices of more than \$10,000 must also be approved by the chief business official (CBO). Invoices of less than \$10,000 can go directly to Accounts Payable for payment.
- The district's CBO should review expenditure activity posted to the school facilities program fund for this project monthly.
- Any expenditures incurred during fiscal year 2006-07 and 2007-08 should be reflected as "work in progress" at the end of each fiscal year. When the project is completed in 2008-09, all expenditures from each year will be totaled and recorded as the value of the capital asset to be subsequently depreciated.
- If the decision is made to have the Architect file the OPSC applications for funding, it is important to ensure the Architect has experience with this process. The district should also ensure that the filing process is identified as part of the architect's services so that the district is not required to pay an additional amount. If the Architect plans to charge an extra amount, the district should consider using School Facilities Consultants (SFC) because of the firm's expertise in this area.
- The Architect Consultant or CBO should prepare the SB50-06 form. In either case, the CBO should ensure the SB50-06 ties to general ledger activity.

Williams Improvements at Anna Yates Elementary and Emery Secondary School:

- Per the California Department of Education California School Accounting Manual (CSAM), the SACS resource for the Williams Emergency Repair Program is 6225, which can exist in fund 01, the general fund, or fund 40, the special reserve for capital projects, depending on the nature of the project.
- Noncapitalized repairs should be recorded in fund 01.
- Capitalized repairs should be recorded in fund 40.
- The district should review the deferred maintenance five-year plan to ensure all Williams projects are listed. If the state chooses not to fund the Williams projects, the district can still claim the expenditures for each project in the deferred maintenance fund (DMF).
- The district should review the activity in the general fund for 2005-06 and 2006-07 to ensure the \$15,000 for building assessment needs was not received. In other districts, the state released the funds in advance, and the district needed to report how they were expended. If the funds were not fully expended, the district may be required to return them.
- Expenditures already completed and charged in the deferred maintenance fund for Williams-related projects, costs should be transferred to either the general fund or the special reserve capital projects fund, depending on the nature of the project.
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New Construction Eligibility with OPSC

- The district should request that SFC help prepare a letter requesting an enrollment lock for submittal to the Office of Public School Construction (OPSC).
- The district should determine how to use the 261 eligible 9-12 grants before declining enrollment can have an impact. If the district will not be able to pursue the Community for Life project or does not choose to pursue this project, it would be unwise to leave the 9-12 grants on the table.

- The district should request that SFC determine whether the middle school affects district eligibility. The district should determine whether it should sell the site or whether its continued use by Alameda County Office of Education constitutes an opportunity for the middle school not to be considered when determining district eligibility.
- The district should verify with SFC that the current developer fees study is correct in assuming that no state funding (because of lack of eligibility) will be provided when it is time construct the Community for Life Center.

Fund 21 (obsolete bond account), Fund 30 (obsolete Leroy Greene account) and Fund 35 (Schools Facilities Program account)

- As soon as the atrium project at Emery Secondary School is completed, any remaining balance in fund 21 should be transferred to fund 35 as part of the district's matching share for the Anna Yates project, and fund 21 should be closed.
- All expenditures posted to fund 30 during 2006-07 should be moved to the appropriate fund since they do not belong to fund 30.
- The balance in fund 30 at the beginning of fiscal year 2006-07 should be transferred to fund 21, and fund 30 should be closed.
- For future projects undertaken by SFP, the district should maintain all correspondence with OPSC during the close-out process.

Deferred Maintenance Fund (DMF)

- The district should ensure expenditures for the heating system at Emery Secondary were included in the board-approved (and OPSC-submitted) five-year DMF plan.
- Large reserves in the DMF should be discouraged. The district should review the five-year plan to ensure all eligible items were included in the plan as early as possible.
- Painting and paving projects should be accounted for using SACS object 5600, noncapital improvements, since these do not significantly increase the life or the value of the asset and are considered general upkeep.
- Roofing and heating, ventilation and air-conditioning (HVAC) projects should be accounted for using SACS objects 6200 and 6500 (equipment replacement) since these do add to the life and value of the asset.
- The budget for the repair work at Emery Secondary is in SACS object 6200, but the actual expenditures are in SACS object 6400 and 6500. This activity should be reviewed, and either the budget or the actuals should be moved to the appropriate SACS object.

Redevelopment Fund

- If a project is related to state funding (such as the School Facilities Program, deferred maintenance and the Williams Act), the local funds should be transferred from the redevelopment fund to the appropriate state fund.
- Fully funded local projects may be accounted for directly in this fund.

- If the local project adds value or extends the life of an asset, the expenditures should be charged to the appropriate SACS 6000-6999 object. If not, they should be charged to SACS object 5600.
- A new project of more than \$5,000 (capitalization amount) should be charged to the appropriate SACS 6000-6999 object. Otherwise, it should be charged to SACS object 5600.

Other General Recommendations

- FCMAT does not foresee any problems in contracting with an architect consultant for 2007-08. Because there appears to be no need for a permanent position, a one- or two-year contract is a good short-term solution. The district must make sure the duties and responsibilities of this consultant are clearly defined in the contract. Since the position will earn \$90 an hour, duties such as filing, approving small invoices and other miscellaneous paperwork should not be included.
- There appears to be no need to hire a full-time or permanent district facilities director based on the scope of work that is currently defined.
- The district is considering using a Construction Manager for the Anna Yates project. If so, the Construction Manager should be hired at about the same time as the architect, so the two positions can work closely during the plan development phase. This should make the construction project go more smoothly and decrease change order costs.
- Building-fund expenditures should be coded more consistently. Projects should be assigned a funding source, and expenditures should be coded to the appropriate object in the identified fund. Coding to object 5600, 4300, 4400, or 6000-6999 object needs to comply with the district's capitalization policy.
- All budgets, including facility funds, should be kept current as to projected year amounts. Purchase orders are to be encumbered only if the budget has adequate funds in the specific category. Budget revisions are to be completed prior to encumbrance. If the budget is not sufficient, the entire budget should be reviewed and deemed adequate prior to revision-encumbrance.
- The CBO ultimately should be directly responsible for facility budgets, applications and project tracking. These procedures would be similar to those followed at other small school districts.
- If a project will take several years or starts late and is not completed at the end of the year, related expenditures should be included as work in progress when developing the schedule of capital assets.
- The Maintenance Supervisor should report to the CBO and not the Superintendent. This would more typically align with other small school districts in the state.
- If the district decides to proceed with the Community for Life Center project, it should consider surveying the public to gauge support for a general obligation bond (GOB). The district will be unable to complete this project without a GOB because it does not appear to be eligible for state grants (based on the developer fee study), and the availability of developer fees is uncertain in the long term. A substantial amount of redevelopment funds will be available, but not enough to complete the project without a GOB.

- The Governing Board or a board subcommittee should review monthly updates on facility projects, including total costs, and projections to date.
- The district should obtain a legal opinion supporting the levy of developer fees in the future for the Community for Life Center project. There may be no growth in the district when this project is undertaken. The project may also start far enough into the future that developer fees would not be used within the five-year time frame.
- The district should also obtain a legal opinion regarding the city hiring the Architect to conduct a master plan related to the Community for Life Center project. Any Architect hired must be DSA certified, and may require that funding be paid by the district.
- The sites being discussed for the Community for Life Center may face environmental hurdles (DTSC and EIA). Before the city expends any of the \$25 million for an Architect, a determination should be made on whether the site would be environmentally allowable for a K-12 school.
- An alternative plan for use of redevelopment funds should be made in case the district and city decide not to pursue the Community for Life Center.
- Binders or some other filing system should be established for all state-funded projects. The information in the binders should include the following:
 1. All state-required forms (SB50-01 to SB 50-06).
 2. All contracts or agreements related to the project, including: architect, inspector, contractor, testing firm, and others as necessary.
 3. Any correspondence with OPSC, in sequential date order.
 4. Any correspondence with DSA, in sequential date order (the architect generally does the original correspondence). The district will want to make sure it is provided with copies of all correspondence.
 5. Any information/agreements related to CEQA, DTSC and EIA.
 6. General ledger printouts of revenue and expenditures related to the project.
 7. All correspondence with OPSC during the close-out phase. During this phase, OPSC commonly requests items such as: information related to the process for determining the Architect (this could be the RFP notice, the makeup of the selection committee, the information submitted by the Architect, and the criteria used for making the selection), the notice to proceed, the notice of completion, a copy of the architect's agreement, a copy of the contract with the contractor, and copies of the final payment to the contractor.

The following sample documents have been provided by FCMAT for the district's information and potential future use:

- Notice of completion, including instructions on how to use the form.
- Notice to proceed, with comments on when to send to the contractor.

This management letter concludes FCMAT's work on the requested tasks. The FCMAT study team would like to thank you, Joe Frantz and the other employees interviewed for their cooperation, openness, and assistance in this review. If you have questions or require additional information about any of these issues, please do not hesitate to contact me at (415) 987-3104.

Sincerely,

Michelle Plumbtree
FCMAT Fiscal Intervention Specialist

CC: Patrick Kraft, FCMAT Facility Projects Consultant
Joel D. Montero, FCMAT Chief Executive Officer